

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN LORENZO

AUDITORIA 2004-2005

30 DE JUNIO DE 2005

RECIBO DEL COMISIONADO

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UNIDAD DE CORREO

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

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2005

(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, 2005
(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, 2005, 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.

We were unable to obtain sufficient and competent evidence to support the valuation, existence, completeness and rights applicable to certain capital assets in governmental activities and we were unable to satisfy ourselves by means of other auditing procedures.

In our opinion, except for the effects, if any, of such adjustments, as might have been determined to be necessary had we been able to obtain sufficient evidence to certain capital assets in governmental activities as explained in third paragraph, 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, 2005, 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 16, 2005 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.



INDEPENDENT AUDITORS' REPORT

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The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12, and 29 and 30, 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.

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 16, 2005



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The management of Municipality of San Lorenzo, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2005. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003. The financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The *net assets* of the Municipality exceeded its liabilities at June 30, 2005 by \$21.8 million and at June 30, 2004 by \$22 million.
- ❖ The Municipality's total net assets decreased by \$0.131 million during 2005 and increased by \$4.0 during 2004.
- ❖ As of June 30, 2005, the Municipality's governmental funds reported combined ending fund balances of \$6.0 million, a decrease of \$0.54 million from the prior year.
- ❖ At June 30, 2005, net change for the General Fund was \$1.02 million, or 10 percent of total general fund expenditures and transfers out.
- ❖ The Municipality's capital assets increase as a result of this year's operations (\$5.235 million). Capital assets as of June 30, 2005 are \$28.17 million (net of depreciation).
- ❖ The Municipality's total bonded debt increased by \$4.49 million or 68 percent during the fiscal year by new issuance of \$2.57 million for capital projects and \$1.9 million for operating expenses.
- ❖ Loans principal payments were \$.8 million and \$.7 million in 2005 and 2004, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

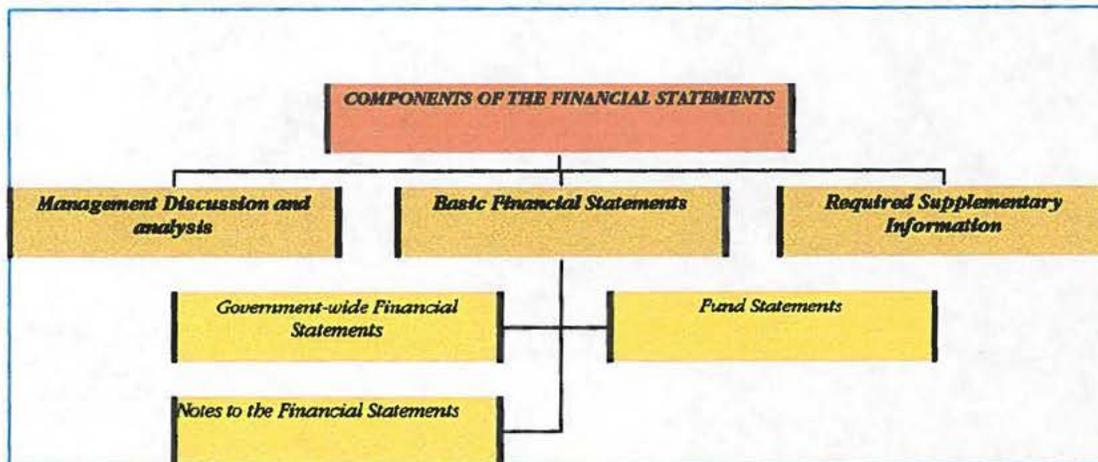
This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, human services and welfare, culture and recreation, physical environment and urban development. Property taxes, municipal license taxes, state and federal grants finance most of these activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Governmental funds.

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Basic 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$21.8 million as of June 30, 2005 versus \$21.9 million as of June 30, 2004. Our analysis below focuses on the net assets (**Table 1**) and changes in net assets of the Municipality's governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Table 1 Statement of Net Assets As of June 30,		
	2005	2004
Current and non-current assets...	\$11,062,360	\$11,583,139
Capital assets.....	<u>28,170,387</u>	<u>24,024,303</u>
Total Assets	<u>39,232,747</u>	<u>35,607,442</u>
Current liabilities	827,951	1,893,955
Deferred revenues	1,704,419	1,429,851
Long-term liabilities.....	<u>14,863,211</u>	<u>10,315,454</u>
Total Liabilities.....	<u>17,395,581</u>	<u>13,639,260</u>
Net Assets:		
Investment in capital assets	20,130,387	17,999,303
Restricted.....	8,060,366	8,837,589
Unrestricted	<u>(6,353,587)</u>	<u>(4,868,710)</u>
Total Net Assets	<u>\$21,837,166</u>	<u>\$21,968,182</u>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding (\$20.1 million). These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Municipality's net assets represents resources that are subject to external restrictions on how they may be used (\$8 million).

An additional portion of the

As of June 30, 2005 the Municipality presented unrestricted (deficit) net assets of (\$6.4 million). This balance was affected by long term obligations such as compensated absences and other debts for the amount of \$3,875,068 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, are reported as part of the unrestricted net assets section.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Governmental Activities

Governmental activities decreased the Municipality's net assets by \$131,016. Key element of this decrease is depreciation expenses for the amount of \$1,088,563 and decrease in capital grants and contributions (\$2,920,479).

The cost of all governmental activities this year was \$17.8 million. **Table 2** presents the cost of each of the Municipality's largest programs. A visual description are presented in **Graphs 1 and 2)**

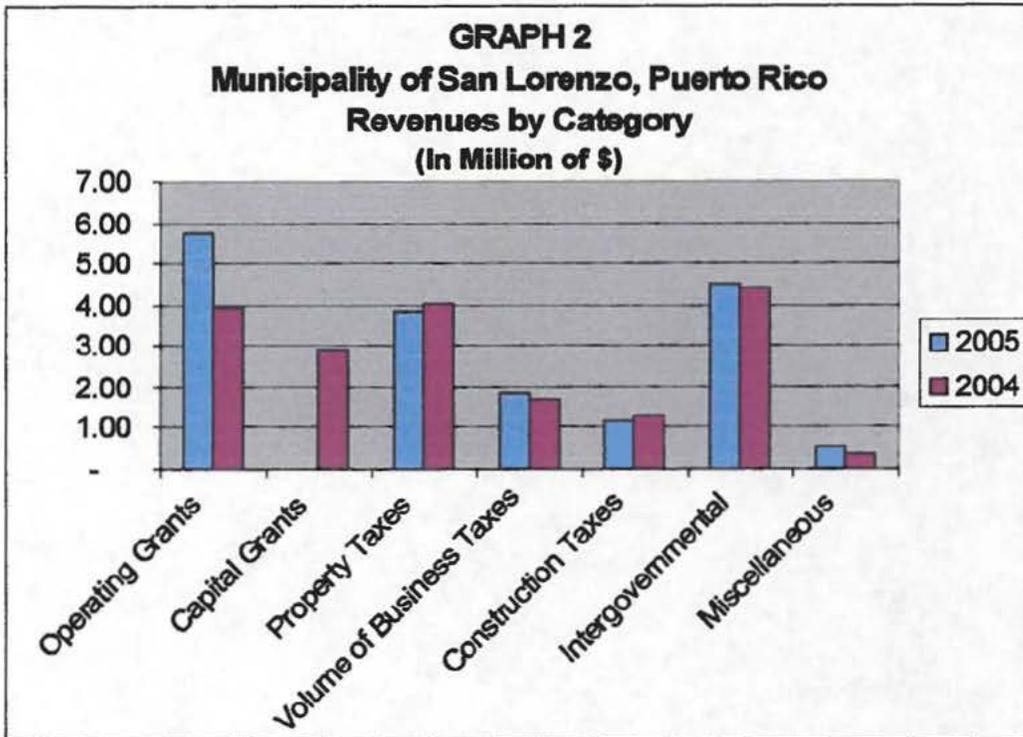
	2005	2004
Revenues:		
Program Revenues:		
Operating Grants and Contributions	\$ 5,727,308	\$ 3,934,297
Capital Grants and Contributions....	-	2,920,479
General Revenues:		
Property Taxes	3,818,162	4,034,144
Volume of Business Taxes.....	1,831,020	1,706,394
Construction Taxes	1,170,625	1,289,680
Intergovernmental	4,544,241	4,414,423
Other General Revenues	<u>539,472</u>	<u>321,362</u>
Total revenues.....	<u>17,630,828</u>	<u>18,620,779</u>
Expenses:		
General Administration.....	10,293,035	7,818,936
Public Safety	529,209	670,484
Public Works	1,246,967	1,330,921
Health and Sanitation.....	651,574	482,607
Culture and Recreation	416,741	606,004
Solid Waste Disposal	1,470,440	1,453,226
Human Services and Welfare.....	703,273	1,314,612
Urban Development	1,906,573	507,936
Interest Costs	<u>544,032</u>	<u>391,240</u>
Total expenses.....	<u>17,761,844</u>	<u>14,575,966</u>
Changes in net assets.....	(131,016)	4,044,813
Net assets – beginning, as Restated*..	<u>21,968,182</u>	<u>17,923,369</u>
Net assets – ending.....	<u>\$21,837,166</u>	<u>\$21,968,182</u>
Prior Period Adjustment for Capital Assets \$297 thousand and \$94 thousand for other expenses.		

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

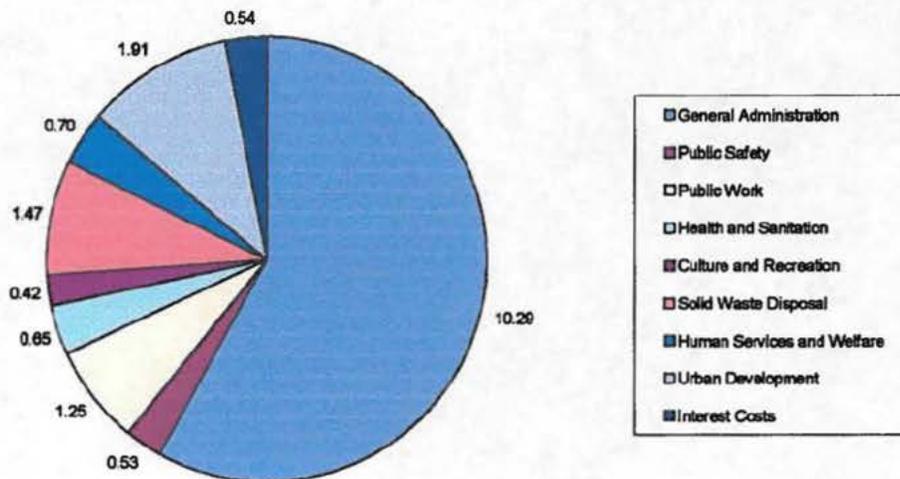
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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GRAPH 1
Municipality of San Lorenzo, Puerto Rico
2005 Expenses By Functions
(In Million of \$)



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S 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 its fiscal year. At June 30, 2005, the Municipality's governmental funds reported combined ending fund balances of \$6 million, a decrease of \$.5 million from the prior year.

Approximately 11% of the combined fund balances (\$4 million) constitutes fund balance available for spending at the government's discretion. The remainder of the balance (\$2 million) is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$1.2 million), or for other restricted purposes (\$.8 million).

The general fund is the chief operating fund of the Municipality. At June 30, 2005, unreserved fund balance (deficit) of the general fund was (\$1.9) million and total fund balance was \$.5 million. As a measure of the general fund's liquidity, the total fund balance represents 4.6 percent of total general fund expenditures and transfers out.

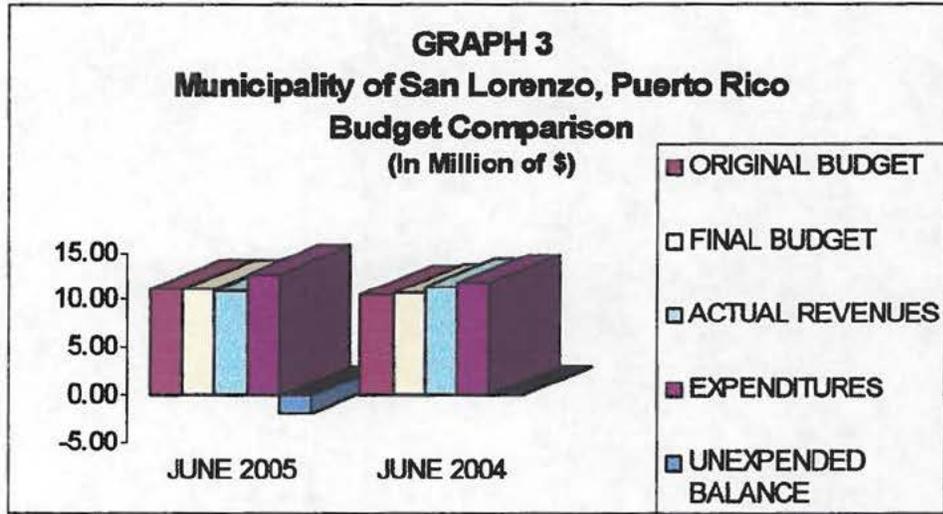
BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the *Basic Financial Statements* for the General Fund. The *Budgetary Comparison* Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds (see **Graph 3**).

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2005 budget and the final amended budget for the General Fund were relatively minor and can be related to appropriations to temperate to actual expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to \$28.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$5.2 million.

Major capital asset events during the fiscal year included Building for the amount of \$2.3 million, infrastructure for the amount of \$1.7 million and construction in progress for \$.635 million, necessary to provides services to our citizens. Table 3 present the major classes of capital assets.

Projects promoted during the year 2005 were: remodeling of Market Place, new Emergency Center, and minor infrastructures projects in the entire Municipality.

Table 3
Municipality of San Lorenzo's Capital Assets
(Net of Depreciation)
June 30,

	2005	2004
Land.....	\$ 9,831,485	\$ 9,831,485
Construction in Progress	2,573,494	1,938,244
Buildings	9,266,445	7,316,341
Infrastructure	5,337,849	3,858,866
Machinery and Equipment ...	563,024	487,085
Motor Vehicles	598,090	592,282
Total Capital Assets.....	<u>\$28,170,387</u>	<u>\$24,024,303</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Long-term Debt

At June 30, 2005 the Municipality had total of \$14.9 million in general obligations and others outstanding debts, as shown in **Table 4**. Of this amount, \$11 million comprises debt backed by the full faith and credit of the government and \$3.8 million is other obligations.

	2005	2004
General Obligations.....	\$ 8,550,000	\$ 5,980,000
Special Notes	2,438,143	597,190
Others.....	<u>3,875,068</u>	<u>3,738,264</u>
Total Long-Term Debts	<u>\$14,863,211</u>	<u>\$10,315,454</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, claims and judgments, and landfill obligation. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial

needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues. Also, new development in the center of the Municipality will promote the commerce and tourism during the next year.

All of these factors were considered in preparing the Municipality's budget for the 2005 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

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, or PO Box 1289, San Lorenzo, PR 00754.

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

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments.....	\$ 2,323,574
Cash with Fiscal Agent.....	6,119,298
Receivables (net):	
Property Taxes	127,109
Governmental Units.....	235,742
Federal Grants.....	<u>2,256,637</u>
Capital Assets (Notes 1 & 6):	
Land, Improvements, and Construction in Progress.....	12,404,979
Other Capital Assets, [Net of Depreciation].....	<u>15,765,408</u>
Total Capital Assets.....	<u>28,170,387</u>
TOTAL ASSETS.....	<u>39,232,747</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	613,522
Accrued Interest	214,429
Deferred Revenue.....	1,704,419
Long-Term Liabilities (Note 7):	
Due within One Year	1,825,406
Due in More than One Year.....	<u>13,037,805</u>
Total Liabilities.....	<u>17,395,581</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	20,130,387
Restricted for:	
Debt Service	796,278
Community Development Projects.....	3,071,900
Other Purposes.....	4,192,188
Unrestricted (Deficit).....	<u>(6,353,587)</u>
TOTAL NET ASSETS	<u>\$21,837,166</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, 2005

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.....	\$ 1,038,212	\$ -	\$ -	\$ -	(\$ 1,038,212)
General Government.....	9,254,823	-	3,137,193	-	(6,117,630)
Public Safety.....	529,209	-	29,046	-	(500,163)
Public Works.....	1,246,967	-	-	-	(1,246,967)
Culture and Recreation.....	416,741	-	-	-	(416,741)
Health and Sanitation.....	651,574	-	-	-	(651,574)
Human Services and Welfare.....	703,273	-	1,252,783	-	549,510
Urban Development.....	1,906,573	-	1,308,286	-	(598,287)
Solid Waste Disposal.....	1,470,440	-	-	-	(1,470,440)
Interest on Long-Term Debt.....	544,032	-	-	-	(544,032)
Total Governmental Activities.....	<u>\$17,761,844</u>	<u>\$ -</u>	<u>\$ 5,727,308</u>	<u>\$ -</u>	<u>(12,034,536)</u>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					2,926,260
Property Taxes, levied for Debt Service.....					891,902
Volume of Business Taxes.....					1,831,020
Construction Taxes.....					1,170,625
Intergovernmental.....					4,544,241
Miscellaneous.....					<u>539,472</u>
Total General Revenues.....					<u>11,903,520</u>
CHANGE IN NET ASSETS.....					(131,016)
Net Assets – Beginning of Year, As Restated.....					<u>21,968,182</u>
NET ASSETS – ENDING OF YEAR.....					<u>\$21,837,166</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	SBGP FUND	DEBT SERVICE FUND	STATE ASSIGNMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Investments (Note 1).....	\$ 1,509,076	\$ 23	\$ -	\$ 413,888	\$ 400,587	\$ 2,323,574
Cash with Fiscal Agent	1,256,733	-	1,378,318	-	3,484,247	6,119,298
Receivables:						
Property Taxes	12,608	-	114,501	-	-	127,109
Federal Grants.....	-	2,075,821	-	-	180,216	2,256,637
Due from Governmental Units.....	82,070	-	-	-	153,672	235,742
Due from Other Funds.....	705,072	-	-	-	884,293	1,589,365
Total Assets	\$ 3,565,559	\$ 2,075,844	\$ 1,492,819	\$ 413,888	\$ 5,103,615	\$12,651,725
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable.....	\$ 350,446	\$ 13,230	\$ 480,000	\$ -	\$ 71,976	\$ 915,652
Accrued Interest.....	-	-	214,429	-	-	214,429
Due to Governmental Units	13,730	-	-	-	-	13,730
Due to Other Funds	863,408	34,237	7,442	4,020	680,258	1,589,365
Deferred Revenues:						
Volume of Business Tax.....	1,704,419	-	-	-	-	1,704,419
Christmas Bonus	82,070	-	-	-	-	82,070
Local Grants	12,608	-	-	-	-	12,608
Federal Grants.....	-	2,028,377	-	-	112,077	2,140,454
Total Liabilities	3,026,681	2,075,844	701,871	4,020	864,311	6,672,727
Fund Balances:						
Reserve For:						
Encumbrances.....	1,172,225	-	-	-	-	1,172,225
Debt Service.....	-	-	790,948	-	-	790,948
Future Expenditures	1,256,733	-	-	409,868	4,239,304	5,905,905
Unreserved (Deficit).....	(1,890,080)	-	-	-	-	(1,890,080)
Total Fund Balances.....	538,878	-	790,948	409,868	4,239,304	5,978,998
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,565,559	\$ 2,075,844	\$ 1,492,819	\$ 413,888	\$ 5,103,615	\$12,651,725

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, 2005

Total Fund Balances – Governmental Funds (Page 15) \$ 5,978,998

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 13)
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	\$12,404,979	
Depreciable Capital Assets	15,938,823	
Infrastructure Assets	5,801,262	
Accumulated Depreciation	<u>(5,974,677)</u>	
Total Capital Assets		28,170,387

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:

SBGP	2,028,377	
Child Care	112,077	
Property Taxes	12,608	
Christmas Bonus	<u>82,070</u>	
Total Deferred Revenues		2,235,132

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

General and Special Bonds	(10,508,143)	
Solid Waste Disposal	(181,222)	
Compensated Absences	(1,009,456)	
LIMS Debt	(282,807)	
Claims and Judgments	(1,255,097)	
Christmas Bonus	(164,140)	
Property Taxes	<u>(1,146,486)</u>	
Total Long-Term Liabilities		<u>(14,547,351)</u>

Total Net Assets of Governmental Activities (Page 13)..... \$21,837,166

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

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>GENERAL</u>	<u>SBGP FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE ASSIGNMENTS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES						
Property Taxes	\$ 2,913,652	\$ -	\$ -	\$ 891,902	\$ -	\$ 3,805,554
Volume of Business Taxes	1,831,020	-	-	-	-	1,831,020
Federal Assistance	-	968,066	-	-	1,239,235	2,207,301
Intergovernmental	4,556,240	-	914,643	-	2,222,550	7,693,433
Licenses and Permits	1,170,625	-	-	-	-	1,170,625
Miscellaneous	539,472	-	-	-	-	539,472
Total Revenues	<u>11,011,009</u>	<u>968,066</u>	<u>914,643</u>	<u>891,902</u>	<u>3,461,785</u>	<u>17,247,405</u>
EXPENDITURES						
Current:						
General Government	1,140,652	-	-	-	-	1,140,652
General Government	5,369,237	-	-	-	3,085,797	8,455,034
Public Safety	768,899	-	-	-	37,965	806,864
Public Works	1,880,118	-	-	-	10,593	1,890,711
Health and Sanitation	624,038	-	-	-	27,536	651,574
Culture and Recreation	634,840	-	-	-	-	634,840
Solid Waste Disposal	1,470,440	-	-	-	-	1,470,440
Human Services and Welfare	-	-	-	-	1,202,740	1,202,740
Urban Development	-	1,264,246	-	-	1,336,901	2,601,147
Capital Outlay	14,512	-	2,038,406	-	-	2,052,918
Debt Service:						
Principal	-	-	-	821,813	-	821,813
Interest and Other Charges	-	-	-	544,032	-	544,032
Total Expenditures	<u>11,902,736</u>	<u>1,264,246</u>	<u>2,038,406</u>	<u>1,365,845</u>	<u>5,701,532</u>	<u>22,272,765</u>
OTHER FINANCING SOURCES (USES)						
Proceed of Note	1,915,000	-	-	-	2,570,000	4,485,000
Transfers – In	851,402	-	-	474,670	907,130	2,233,202
Transfers – Out	(851,610)	-	(938,860)	-	(442,712)	(2,233,202)
Total Other Financing Sources and Uses	<u>1,914,792</u>	<u>-</u>	<u>(938,860)</u>	<u>474,670</u>	<u>3,034,418</u>	<u>4,485,000</u>
Net Change in Fund Balances	1,023,065	(296,180)	(2,062,643)	727	794,671	(540,360)
Fund Balance – Beginning (Deficit)	(484,187)	296,180	2,472,511	790,221	3,444,633	6,519,358
FUND BALANCES – ENDING	<u>\$ 538,878</u>	<u>\$ -</u>	<u>\$ 409,868</u>	<u>\$ 790,948</u>	<u>\$ 4,239,304</u>	<u>\$ 5,978,998</u>

[Handwritten signature and date: 6/30/05]

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, 2005

Net Change in Fund Balances – Total Governmental Funds (Page 17) (\$ 540,360)

Amounts reported for Governmental Activities in the Statement of Activities (Page 14)
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	\$ 5,234,647	
Depreciation Expense	<u>(1,088,563)</u>	
Excess of Capital Outlay over Depreciation Expense		4,146,084

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		1,657,138
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Revenues in the Statement of Revenues, Expenditures, and Changes in Fund Balance that correspond to prior year resources are not recorded as revenues in the Statement of Activities. ...		(925,119)
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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.		766,813
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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 Property Taxes Advance – Law No. 42	(78,777)	
Decrease in Property Taxes Advance – PR Treasury Department	32,881	
Decrease in Property Taxes Advance – Law No. 146	155,415	
Decrease in Christmas Bonus	23,998	
Increase in Bonds	(5,177,766)	
Increase in LIMS Debt	(282,807)	
Decrease in Debt Service Expenses	55,000	
Decrease in Solid Waste Disposal	72,000	
Increase in Compensated Absences	<u>(35,516)</u>	<u>(5,235,572)</u>

Change in Net Assets of Governmental Activities (Page 14) (\$ 131,016)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 (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. The following is a summary of the more significant of such policies.

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, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

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

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the

economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Municipality's** balance; and discrete – presentation of the component unit's financial data in column separate from the **Municipality's** balances and transactions.

The relative importance of each criterion 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, 2005, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. 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 are normally supported by taxes and intergovernmental revenues.

Business-type activities, which rely to a significant extent on fees and charges for support, are not reported seen the **Municipality** don't have such activities.

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:

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Financial Statement Presentation (continuation)

- *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* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Governmental Fund Financial Statements

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

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. 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.

Required Supplementary Information

Required supplementary information consists of the Management Discussion and Analysis – a narrative introduction and analytical overview of the **Municipality's** financial activities. Also consists of the Budgetary Comparison Schedule – General Fund (see Section D of Note 1) as required by GASB.

C. 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 imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when susceptible to accrual; as soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period.

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, money 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.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Measurement Focus and Basis of Accounting (continuation)

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due.

Property taxes, volume of business taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major funds:

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.

SBGP Fund – This is the fund used to account for all the transactions of the State Block Grant Program. The primary 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.

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

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

The non-major funds are combined in a single column in the fund financial statements.

D. Budgetary Data

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts 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. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

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. Payments of encumbrances of prior year are recorded as expenditures under GAAP but not under the budgetary basis.
3. Interfund transactions of the General 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.

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

E. Cash 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 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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

D. Budgetary Data (continuation)

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 and is not collateralized.

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

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

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

TABLE 1	
CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infrastructure	40
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).

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:

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Interfund Transactions (continuation)

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.

Fund Deficit in the General Fund is primarily attributable to decrease in revenues. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

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. 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 AND INVESTMENTS

Investments consist of certificates of deposit. The **Municipality's** cash 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.

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2005, there are not certificates of deposit outstanding.

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2005, the **Municipality's** custodial credit risk was approximately \$6.8 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDV). These deposits are exempt from the collateral requirement established by the Commonwealth.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDV, the **Municipality** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

NOTE 4 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS				TABLE 2
SOURCES	TRANSFER TO	AMOUNT	PURPOSE	
General Fund	Debt Service Fund	\$ 474,670	Debt payment	
General Fund	Other Fund	376,940	Specific project funding	
State Assignment	General Fund	408,690	Specific project funding	
State Assignment	Other Fund	530,190	Specific project funding	
Other Fund	General Fund	<u>442,712</u>	Specific project funding	
Total		<u>\$2,233,202</u>		

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 2)

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows: (See Table 3)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT	TABLE 3
General Fund	Debt Service Fund	\$ 7,442	
General Fund	SBGP Fund	34,237	
General Fund	State Assignment Fund	4,020	
General Fund	Other Fund	659,373	
Other Fund	General Fund	863,408	
Other Fund (Voucher)	Other Fund (Portability)	<u>20,885</u>	
TOTAL		<u>\$1,589,365</u>	

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 DUE TO GOVERNMENTAL UNITS

As of June 30, 2005, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 4)

TABLE 4	AMOUNT
General Service Administration.....	\$ 8,143
Retirement System Administration.....	2,061
AEELA.....	<u>3,526</u>
Total Due to Governmental Units.....	<u>\$13,730</u>

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 6)

TABLE 6	AMOUNT
Mayor and Municipal Legislature.....	\$ 455,787
General Government.....	66,723
Public Safety.....	130,628
Public Works.....	272,140
Urban Development.....	65,314
Culture and Recreation.....	87,085
Health and Welfare.....	<u>10,886</u>
Total Depreciation Expenses.....	<u>\$1,088,563</u>

NOTE 6 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows (See Table 5)

TABLE 5	BALANCE JULY 1, 2004	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:					
Land.....	\$ 9,831,485	\$ -	\$ -	\$ -	\$ 9,831,485
Construction in Progress.....	<u>2,207,059</u>	<u>(268,815)</u>	<u>635,250</u>	<u>-</u>	<u>2,573,494</u>
Total Non-Depreciable Capital Assets.....	<u>12,038,544</u>	<u>(268,815)</u>	<u>635,250</u>	<u>-</u>	<u>12,404,979</u>
Depreciable Capital Assets:					
Buildings.....	9,604,435	290,558	2,328,309	-	12,223,302
Infrastructure.....	4,066,559	6,501	1,728,202	-	5,801,262
Machinery and Equipment.....	1,971,641	(292,866)	298,508	-	1,977,283
Motor Vehicles.....	<u>1,528,355</u>	<u>(34,495)</u>	<u>244,378</u>	<u>-</u>	<u>1,738,238</u>
Total Depreciable Capital Assets.....	<u>17,170,990</u>	<u>(30,302)</u>	<u>4,599,397</u>	<u>-</u>	<u>21,740,085</u>
Less Accumulated Depreciation:					
Buildings.....	(2,253,962)	(324,690)	(378,205)	-	(2,956,857)
Infrastructure.....	(214,194)	-	(249,219)	-	(463,413)
Machinery and Equipment.....	(1,517,848)	326,158	(222,569)	-	(1,414,259)
Motor Vehicles.....	<u>(901,578)</u>	<u>-</u>	<u>(238,570)</u>	<u>-</u>	<u>(1,140,148)</u>
Total Accumulated Depreciation.....	<u>(4,887,582)</u>	<u>1,468</u>	<u>(1,088,563)</u>	<u>-</u>	<u>(5,974,677)</u>
Total Depreciable Capital Assets (Net)....	<u>12,283,408</u>	<u>(28,834)</u>	<u>3,510,834</u>	<u>-</u>	<u>15,765,408</u>
CAPITAL ASSETS, NET.....	<u>\$24,321,952</u>	<u>(\$ 297,649)</u>	<u>\$ 4,146,084</u>	<u>\$ -</u>	<u>\$28,170,387</u>

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

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

General obligations bonds and notes payable as of June 30, 2005, 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	\$ 1,300,000
\$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 from \$140,000 to \$310,000, excluding interests at 5.00%, until July 1, 2027; (paid through CDBG Funds).....	3,885,000
\$2,015,000, Series 2004, for construction purposes, payable in semiannual installments ranging from \$90,000 to \$185,000, excluding interests from 3.27% to 5.00%, until July 1, 2019.....	2,015,000
\$555,000, Series 2004, for operational purposes, payable in semiannual installments ranging from \$70,000 to \$90,000, excluding interests from 3.27% to 5.00%, until July 1, 2019.....	555,000
Total General Obligations Bonds.....	<u>8,550,000</u>
Special Obligations Notes:	
\$221,269, Series 1988, for operational purposes, payable in quarterly installments of \$2,766 excluding interests at 5.00%, through July 1, 2007.	24,893
\$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 5.00%, until July 1, 2015	513,250

\$1,915,000, Series 2004, for operational purposes, payable in semiannual installments ranging from \$55,000 to \$145,000, excluding interests at 6.00%, until July 1, 2024.....	1,855,000
Total Special Obligations Notes.....	<u>2,438,143</u>
Total General and Special Obligations.....	<u>\$10,988,143</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, 2005 are as follows (See Table 7):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TABLE 7 TOTAL PAYMENT
2006	\$ 750,313	\$ 544,170	\$ 1,294,483
2007	855,063	530,346	1,385,409
2008	427,767	495,251	923,018
2009	435,000	472,240	907,240
2010	460,000	448,546	908,546
2011-2015	2,395,000	1,860,629	4,255,629
2016-2020	2,740,000	1,169,288	3,909,288
2021-2025	2,050,000	487,870	2,537,870
2026-2027	875,000	67,375	942,375
TOTAL	<u>\$10,988,143</u>	<u>\$ 6,075,715</u>	<u>\$17,063,858</u>

B. OTHER LONG-TERM DEBTS

Following are the Other Long-Term Debts (See Table 8):

TABLE 8 DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
Property Taxes - MRCC.....	\$ 563,770	\$ -	\$ 78,777	\$ 642,547
Property Taxes - Treasury.	169,826	-	(32,881)	136,945
Claims and Judgments	1,255,097	-	-	1,255,097
Property Taxes - Law 146..	522,409	-	(155,415)	366,994
Solid Waste Disposal.....	253,222	-	(72,000)	181,222
LIMS Debt.....	-	317,523	(34,716)	282,807
Compensated Absences.....	973,940	35,516	-	1,009,456
TOTAL	<u>\$ 3,738,264</u>	<u>\$ 353,039</u>	<u>(\$ 216,235)</u>	<u>\$ 3,875,068</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, 2005: (See Table 9)

TABLE 9 DESCRIPTION	BALANCE JULY 1, 2004	New ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 5,980,000	\$ 2,570,000	\$ -	\$ 8,550,000	\$ 480,000	\$ 8,070,000
Special.....	597,190	1,915,000	(74,047)	2,438,143	270,313	2,167,830
Others Debts .	3,738,264	353,039	(216,235)	3,875,068	1,075,093	2,799,975
TOTAL.....	<u>\$10,315,454</u>	<u>\$ 4,839,039</u>	<u>(\$ 290,282)</u>	<u>\$14,863,211</u>	<u>\$ 1,825,406</u>	<u>\$13,037,805</u>

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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.

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 Municipal 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, 2005, the Debt Service Fund presented a receivable of \$114,501 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 15 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.

continue

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 invest 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.

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 10):

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 10
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 2005 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.

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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, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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 total pension expenditures recorded in the category of administration for the current and the previous years are as follows: (See Table 11)

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, 2005. 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.

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2005	<u>\$112,260</u>	<u>\$197,538</u>
2004	<u>\$103,760</u>	<u>\$109,552</u>

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.

B. FEDERAL GRANTS

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

NOTE 14 NET ASSETS RESTATEMENT

Table 12 reconciles the June 30, 2004 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2004.

	Table 12
Net Assets, as Previously Reported, At June 30, 2004	\$22,359,900
Adjustment Due from Treasury Department	94,069
Adjustment Due to Christmas Bonus	(188,138)
Adjustment to Capital Assets	<u>(297,649)</u>
Beginning Net Assets, Restated, At July 1, 2004.....	<u>\$21,968,182</u>

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; and GASBS No. 46, *Net Assets Restricted by Enabling Legislation*, which is effective for period beginning after June 15, 2005. Early application is encouraged. The **Municipality** has not adopted the requirement of these statements. The following are other pronouncements issued that does not apply to the **Municipality**:

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Period beginning after December 15, 2006)

GASBS No. 44, *Economic Condition Reporting: The Statistical Section* (Period beginning after June 15, 2005)

GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension* (Period beginning after December 15, 2007)

GASBS No. 47, *Accounting for Termination Benefit* (Period beginning after June 15, 2005)

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, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2004.....	(\$ 160,988)	(\$ 160,988)	(\$ 160,988)	\$ -
Resources (Inflows):				
Property Taxes.....	2,828,024	2,828,024	2,913,652	85,628
Volume of Business Taxes.....	1,707,250	1,707,250	1,831,020	123,770
Intergovernmental Revenues.....	4,579,546	4,579,546	4,556,240	(23,306)
License and Permits.....	1,796,082	1,796,082	1,170,625	(625,457)
Miscellaneous.....	<u>127,053</u>	<u>127,053</u>	<u>539,472</u>	<u>412,419</u>
Total Resources (Inflows).....	<u>11,037,955</u>	<u>11,037,955</u>	<u>11,011,009</u>	<u>(26,946)</u>
Amounts Available for Appropriation.....	<u>10,876,967</u>	<u>10,876,967</u>	<u>10,850,021</u>	<u>(26,946)</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	1,264,286	1,214,997	1,204,319	10,678
General Government.....	4,450,685	4,225,765	5,217,567	(991,802)
Public Safety.....	811,932	774,462	773,121	1,341
Public Works.....	1,467,970	1,436,756	1,725,284	(288,528)
Culture and Recreation.....	591,292	647,521	645,842	1,679
Health and Sanitation.....	624,038	624,038	624,038	-
Solid Waste Disposal.....	1,490,000	1,637,948	1,637,948	-
Capital Outlays.....	19,175	15,599	14,512	1,087
Transfer to Other Funds.....	<u>318,577</u>	<u>460,869</u>	<u>851,610</u>	<u>(390,741)</u>
Total Charges to Appropriations.....	<u>11,037,955</u>	<u>11,037,955</u>	<u>12,694,241</u>	<u>(1,656,286)</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005.....	(\$ 160,988)	(\$ 160,988)	(\$ 1,844,220)	(\$ 1,683,232)

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, 2005

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 29).....	\$10,850,021
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.	<u>160,988</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$11,011,009</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 29).....	\$12,694,241
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes.	397,629
Expenditures non budget.....	748,270
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.	(1,085,794)
Transfers to other funds are outflows of budgetary resources but are not <i>expenditures</i> for financial reporting purposes.	<u>(851,610)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$11,902,736</u>

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

Budgetary Fund Balance, June 30, 2005 (See Page 29).....	(\$ 1,844,220)
Timing Differences:	
Net Change in Encumbrances.....	(161,719)
Non-budgetary Items	<u>115,859</u>
Unrestricted (Deficit) Fund Balance, June 30, 2005 (See Page 15).....	<u>(\$ 1,890,080)</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, 2005**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through State – Administration of Families and Children			
Child and Adult Care Food Program.....	10.558	N/AV	\$ 4,162
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers Program	14.871	RQ037VO	546,522
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP)	14.228	04-AF-FD-58 03-AF-FD-58 02-AF-FD-58 01-FD-FC-58 00-FD-FC-58 98-FD-58 97-FD-58	<u>1,264,246</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,810,768</u>
U.S. Department of Justice:			
Public Safety Partnership and Community			
Policing Grants.....	16.710		20,155
Local Law Enforcement Block Grant.....	16.592		<u>22</u>
Total U.S. Department of Justice.....			<u>20,177</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant.....	83.544	FEMA1552DR-PR FEMA1501DR-PR FEMA1396DR-PR	<u>227,001</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>344,548</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,406,656</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, 2005

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, 2005, which collectively comprise the **Municipality's** basic financial statements and has issued our qualified report thereon dated December 16, 2005. The report was qualified because we been able to obtain sufficient evidence to certain capital assets in governmental activities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. However, we noted certain matter involving internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-II-01.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weakness. However, of the reportable condition described above, we consider item 2005-II-01 to be a 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.

CPA Diaz-Martinez, PSC
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
December 16, 2005





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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, 2005. 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.

In our opinion, **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, 2005. However, the results of our auditing procedures disclosed some 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 05-III-01 through 05-III-03.

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.



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

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 05-III-01 and 05-III-02.

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, none of the reportable conditions described above we consider being 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 16, 2005



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, 2005

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
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, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 2005-II-01
CONDITION	It was noted in our tests of property and equipment records that the Municipality did not follow policies and procedures in order to account for capital assets and to maintain adequate and updated inventory records. An undeterminable number of municipal roads, equipment, land, and other capital assets have not been identified, incorrectly capitalized, segregated and valued by the Municipality .
CRITERIA	Accounting principles generally accepted in the United States of America require capital assets to be properly identified, valued and recorded in the Municipality's accounting records and accordingly, reported in the basic financial statements.
CAUSE	Municipality has not established adequate internal controls to assure that infrastructure inventory records are complete and that valuation of such assets is accurate.
EFFECT	Municipality is not presenting all capital assets fairly for financial statement purposes since infrastructure is not complete and is not properly valued.
RECOMMENDATION	We recommend Municipality to take the necessary steps to properly identify and value all municipal roads and complete its infrastructure inventory records, to present accurate amounts of all capital assets.
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, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-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	EARMARKING
CONDITION	During our earmarking tests, we noticed that the Municipality exceeded the limits on administrative costs per contracts in program years SBGP-98 and SBGP-00.
CRITERIA	Code of Federal Conduct, Subpart I, 24 CFR, Section 570.503 (a) (1), states that before disbursing any SBGP funds to a sub-recipient, the recipient shall sign a written agreement with the sub-recipient. The agreement shall remain in effect during any period that the sub-recipient has control over SBGP funds, including program income.
CAUSE	Municipality failed to implement procedures to ensure that administration costs did not exceed the limits established by the grant agreement.
EFFECT	Municipality is not in compliance with 24 CFR, Section 570.503 (a) (1), which requires the recipient of SBGP funds to comply with all the terms and dispositions set forth by the grant agreement.
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, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-02
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	CASH MANAGEMENT – DAYS ELAPSED
CONDITION	Municipality sometimes requested federal financial assistance and did not use it to cover immediate expenditures incurred.
CRITERIA	Code of Federal Conduct, Subpart I, 24 CFR, Section 570.489 (c) (1), states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities, according with Treasury Circular 1075.
CAUSE	Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	Municipality is not in compliance with 24 CFR, Section 570.489 (c) (1), and held excess amounts of funds on its bank accounts.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations, and ensure that funds are only requested to cover immediate needs.
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, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-03 N/A
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our waiting list test we noticed that the list did not contain the required information to assure that the selection of new tenants admitted to the program where in accordance with the Public Housing Agency tenant selection policies. There was no evidence that a particular list order was followed in selecting participants to the program. <i>This is a prior year audit finding.</i>
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (b) states 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 establish controls to ensure that the waiting list is being managed according to regulation in order to guarantee the correct selection of applicants.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart E, Section 982.204 (b), and could be admitting participants to the program at any given time where another participant (with a higher priority status) might have been selected if the established protocols were followed.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations, and ensure that the process of selection and admission of participants is performed according to said regulations and requirements.
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, 2005

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

FISCAL YEAR 2004

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

CFDA Number 14.228

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 04-III-02 **Eligibility Test**
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 System and procedures were corrected.

Finding Number 04-III-03 **Eligibility Test**
HUD- approved release and consent forms submitted by the family.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 04-III-05 **Procurement, Suspension and Debarment**
Missing contract clauses.

CFDA Number 14.228

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 04-III-06 **Procurement, Suspension and Debarment**
Tenant's files did not contain all contracts required. Some of the contracts were not the required HUD's word-to-word form.

CFDA Number 14.871

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, 2005

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

Finding Number 04-III-07 **Reporting**
Municipality did not maintain a current and complete general ledger for the Child Care Program funds for the Fiscal Year 2003-2004.

CFDA Number 93.575

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 04-III-09 **Special Tests and Provisions**
No evidence of an initial unit inspection report.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were 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 System and procedures were corrected.

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 System and procedures were corrected.

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 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, 2005

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

Finding Number 03-III-05 **Procurement Standards**
Missing contracts' clauses.

CFDA Number 14.228

Questioned Cost None

Auditee Comments System and procedures were corrected.

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 System and procedures were corrected.

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

FISCAL YEAR 2004

Finding Number 04-III-04 **Period of Availability of Funds**
Municipality did not liquidate current obligations as required by the pass-through entity.

CFDA Number 93.575

Questioned Cost None

Auditee Comments Pending liquidation.

Finding Number 04-III-08 **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 04-III-10 **Special Test and Provisions**
There was no evidence of reasonable rent determination on the participant's files.

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.

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, 2005

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

FISCAL YEAR 2003

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.

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

NONE

(4) Audit findings is no longer valid:

FISCAL YEAR 2002

Finding Number	02-III-02	Davis- Bacon Act Municipality did not develop a monitoring system to the contractors.
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CFDA Number 14.288

Questioned Cost None

Auditee Comments Two years or more are passed without federal agency action.

Finding Number	02-III-03	Eligibility HUD- approved release and consent forms submitted by the family.
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CFDA Number 14.871

Questioned Cost None

Auditee Comments Two years or more are passed without federal agency action.

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 Two years or more are passed without federal agency action.

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, 2005

(4) Audit findings is no longer valid: (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		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.

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, 2005

(4) **Audit findings is no longer valid: (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	Two years or more are passed without federal agency action.	
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	Two years or more are passed without federal agency action.	
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	Two years or more are passed without federal agency action.	
Finding Number	01-III-11	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments	Two years or more are passed without federal agency action.	
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	Two years or more are passed without federal agency action.	

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, 2005

(4) Audit findings is no longer valid: (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 Two years or more are passed without federal agency action.

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 Two years or more are passed without federal agency action.

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 Two years or more are passed without federal agency action.

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 Two years or more are passed without federal agency action.

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 Two years or more are passed without federal agency action.

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, 2005

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

Finding Number	00-III-10	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.
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		Two years or more are passed without federal agency action.
Finding Number	99-III-04	Procurement Standards Missing contracts' clauses.
CFDA Number	14.228	
Questioned Cost	None	
Auditee Comments		Two years or more are passed without federal agency action.

END OF SCHEDULE