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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE AIBONITO
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Call to 5.531

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2004

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2004**

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Independent Auditors' Report

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Aibonito
Aibonito, 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 Aibonito of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Financial Statements of Las Flores Apartments, a Municipality component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Las Flores Apartments is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, the component unit and the aggregate remaining fund information of the Municipality of Aibonito of the Commonwealth of Puerto Rico, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Audit Standards, we have also issued our report dated December 28, 2004 on our consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

Our audit were performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A- 133, Audit of States, Local Governments, and Non- Profit Organizations, and

is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not required parts of the basic financial statements referred to above, but are supplementary information required by GASB. 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.

Juan A. Rivera
Juan A. Rivera, CPA
License # 2214

December 28, 2004
Toa Baja, Puerto Rico



Stamp NO.2010615 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report

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

Our discussion and analysis of the Municipality of Aibonito (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Municipality's financial statements.

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

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

FINANCIAL HIGHLIGHTS

The Municipality net assets increased by \$5,733,262 including \$4,875,531 of Capital Grants received during the year.

In the governmental fund financial statements, the net assets increased by \$910,809.

The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$152,265.

The Municipality's Component Unit (Las Flores Apartments) reported a net asset decrease of \$48,897.

On a budgetary basis, actual revenues exceeded actual expenditures by \$508,104.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected a decrease of \$9,212.

Capital expenditures for acquisition of land, vehicles, construction and improvements of recreational facilities and infrastructure, amounted to \$5,969,681, of which \$5,890,578 is reported as construction in progress until completion of the related project.

The Municipality issued bonds amounting to \$332,000 to finance capital improvements.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, increased by \$855,502, mainly for assignments directed to improve infrastructure, sports and recreational facilities.

Other Governmental Funds which accounts for all other special purposes funds, reported a net asset decrease of \$142,650. This funds includes the Special Communities Program, sponsored by the Commonwealth of PR, which expended \$1,239,109 for infrastructure under construction.

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

USING THIS ANNUAL REPORT

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

Reporting the Municipality as a Whole

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets - the difference between assets and liabilities - as one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the Municipality's roads, to assess the overall health of the Municipality.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

Governmental activities - Most of the Municipality's basic services are reported here, including the police, sanitation, public works, sports and recreation, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Proprietary business type activities - The Municipality includes in its report a separate legal entity, as a component unit, - Las Flores Apartments. Although legally separate, this entity is owned by the Municipality. This component unit is important because the Municipality is financially accountable for it.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not-the Municipality as a whole. The Municipality has two kinds of fund which are the governmental fund and proprietary fund.

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

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

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

Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds are used when the Municipality charges customers for the services it provides-whether to outside customers or to other units of the Municipality-these services are generally reported in proprietary funds, Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, but provide more detail and additional information, such as cash flows, for proprietary funds. The Municipality Component Unit – Las Flores Apartments - is reported as a proprietary fund.

Las Flores Apartments is a housing development consisting of land, buildings and improvements providing one hundred (100) dwelling units located at Aibonito, Puerto Rico, owned by the Municipality of Aibonito, Commonwealth of Puerto Rico. The housing project is designed to assist various segments of the general public in obtaining adequate and reasonably priced rental housing. The project operated with financing from Farmers Home Administration, issued under Section 515 (Rural Rental Housing) of the national Housing Act with HUD's Section 8 Housing Assistance Payment Program.

The operations of the project are carried-out by a management agent. The potential rent, including subsidies as approved by HUD is \$468,000 for the year, and is subject to annual revisions as prescribed in the Housing Assistance Payment contract with HUD.

Infrastructure Assets

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

In July 1, 2003, the Municipality commenced the prospective reporting of infrastructure assets, and retroactively report the historical costs of infrastructure assets starting from the fiscal year beginning July 1, 2002. The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial Position. The Municipality's combined net assets totaled \$22,618,919 as of June 30, 2004, while the Component Unit's combined net assets totaled \$ 1,960,251.

The largest portion of the Municipality's net assets is the investment in capital assets such as land, buildings, improvements, vehicles, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be

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

provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service and amounts restricted for capital projects, represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

One of the largest portion of the Component Unit's net assets is the amounts restricted for improvements and replacements. Under the terms of the Regulatory Agreement, the Project is required to set amounts for the replacement of property and other project expenditures as approved by HUD and FmHA. The regulations require monthly transfers of \$2,102. Disbursements from the Restricted Deposits and Funded Reserve must be made with the written consent of FmHA and HUD. Restricted funds, are held in separate accounts and generally are not available for operating purposes. The amounts of investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, represents another significant portion of the Component Unit's net assets.

**Condensed Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>	<u>Component Unit</u>
Current assets	\$ 6,867,110	\$ 150,449
Capital assets	21,374,452	2,197,353
Other assets	<u>1,949,555</u>	<u>976,384</u>
Total assets	<u>30,191,117</u>	<u>3,324,186</u>
Current liabilities	3,013,238	91,748
Noncurrent liabilities	<u>4,558,960</u>	<u>1,272,187</u>
Total liabilities	<u>7,572,198</u>	<u>1,363,935</u>
Invested in capital assets, net of related debt	17,516,452	953,048
Unrestricted	(943,631)	82,975
Restricted	<u>6,046,098</u>	<u>924,228</u>
Total net assets	<u>\$ 22,618,919</u>	<u>\$ 1,960,251</u>

Changes in Net Assets

The Municipality's net assets increased by \$5,733,262 including \$4,875,531 received in Capital Grants during the year. Approximately 27.7 percent of the Municipality's total revenue came from taxes, while 64.0 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 8.3 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government administration, sanitation, public works, sports and recreation, and depreciation.

The Component Unit's net assets decreased by \$48,897. Approximately 97 percent of the Component Unit's total revenue came from rent, while 3 percent resulted from interest and other miscellaneous sources. Expenses exceeded the total revenues by 12.9 percent. The largest expenses were for depreciation, interest, administration and maintenance.

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

A summary of government-wide data is presented below.

Condensed Statement of Activities

June 30, 2004

GOVERNMENTAL ACTIVITIES:

Program revenues:	
Charges for services	\$ 494,199
Operating grants and contributions	2,312,494
Capital grants and contributions	4,875,531
General revenues:	
Property taxes	3,050,642
Municipal license tax	1,456,801
Other	857,091
Grants and contributions not restricted	<u>3,233,357</u>
Total revenues	<u>16,280,115</u>
Expenses:	
General Administration	4,545,403
Housing and child care	672,545
Public safety	358,096
Sports and recreation	556,082
Sanitation	915,465
Interest on long-term debt	206,081
Depreciation	471,454
Public works	<u>2,821,727</u>
Total expenses	<u>10,546,853</u>
Change in net assets	<u>\$ 5,733,262</u>

Condensed Statement of Activities

COMPONENT UNIT

June 30, 2004

Revenues:	
Rent	\$ 475,962
Other	<u>14,736</u>
Total revenue	<u>490,698</u>
Expenses:	
Administrative	154,731
Operating and maintenance	85,257
Depreciation	177,408
Interest on long-term debt	94,830
Other	<u>27,369</u>
Total expenses	<u>539,595</u>
Change in net assets	<u>\$ (48,897)</u>

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$6,180,427, an increase of \$806,679 in comparison with the prior year. There are reservations of fund balance amounting to \$6,046,098. This is the fund balance that it is not available for new spending because it has already been committed (1) to pay debt service \$1,167,985, (2) to pay for capital projects \$1,841,761, (3) reserved for improvements \$600,000, (4) for other purposes \$2,436,352. Accordingly, the unreserved fund balance amounts to \$134,329 in the governmental funds.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a balance of \$1,342,573. The fund balance of the general fund increase by \$152,265. Key factors in the increase of the fund balance are as follows:

Excess revenues over expenditures	\$144,340
Transfers from debt service fund	7,925

Also the following significant variances were reported in the general fund:

Increase in total revenues	\$1,654,834
Increase in expenditures	\$2,315,679

Increase of \$1,654,834 in total revenues was mainly due to the following reasons:

- Increase of \$574,723 in miscellaneous revenues.
- Increase of \$518,553 in property taxes.
- Increase of \$289,290 in volume of business tax.
- Increase of \$106,337 in contributions in-lieu of taxes from AEE.
- Net increase of \$165,931 in all other items.

The increase of \$2,315,679 in expenditures is due to the following reasons:

- \$356,934 increase in public works expenditures mainly for construction materials and salaries.
- \$2,026,667 expended in capital outlays, mainly for infrastructure in construction process.
- \$67,922 net decrease in all other expenditures categories, such as general administration, sanitation, safety, and sports and recreations.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected a decrease of \$9,212. Capital expenditures in this fund for in progress construction and improvements of buildings, recreational facilities and infrastructure, amounted to \$2,143,829, also the amount of \$173,186 and \$426,410 of federal SBGP funds was expended for certain administrative functions, for a total expenditures of \$2,743,425.

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

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, increased by \$855,502, mainly for special assignments directed to improve infrastructure, and sports and recreational facilities. This fund also expended \$560,076 for infrastructure in construction process.

Other Governmental Funds which accounts for all other special purposes funds, reported a net asset decrease of \$142,650. This funds includes the Special Communities Program, sponsored by the Commonwealth of PR, which expended \$1,239,109 for infrastructure under construction.

Component Unit

Revenues of the Municipality's component unit reported \$490,698 for a decrease of 0.3 percent. Expenses amounted to \$539,595, including \$177,408 charge for depreciation, for a decreased of 3 percent. Net assets of the component unit decreased by \$48,897.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

In summary the general fund actual revenues were under budget by \$253,828, while actual expenditures were under budgeted amounts by \$761,932, for a net favorable variance of \$508,104. The most significant variance between budget and actual results were as follows:

Other miscellaneous revenues were \$230,536 less than budgeted amount.

Capital expenditures were \$475,927 less than budgeted amount.

Public work expenditures were \$187,989 less than budgeted amount mainly for economies in the repairs and maintenance items.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's and its component unit investment in capital assets as of June 30, 2004, amounts to \$27,034,474 and \$4,314,883 respectively, with accumulated depreciation of \$5,660,022 and \$2,117,530, leaving a net book value of \$21,374,452 for the Municipality and \$2,197,353 for its component unit. This investment in capital assets includes land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets are items that are normally irremovable and of value only to the state, such as roads, bridges, streets and sidewalks, and similar items.

Actual expenditures to purchase or construct capital assets for governmental activities were \$5,969,681 for the year. These expenditure includes the construction in progress of buildings, recreational facilities improvements and infrastructure for \$5,890,578, acquisition of municipal vehicles for \$54,052, equipments for \$14,251 and land for \$10,800.

Depreciation charges for the year totaled \$471,454 for governmental activities and \$177,408 for the component unit.

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

The Municipality finances a significant portion of its construction activities through bond issuances and from Capital Grants . The proceeds from bond issuances and Capital Grants designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004 the Municipality has \$492,437 of unexpended proceeds from bond issuances and \$1,349,324 of unexpended Joint Resolutions Capital Grants, that are committed to future construction activities.

Debt Administration

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

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

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

During the year ended June 30, 2004 the Municipality issued bonds amounting to \$332,000 to finance capital expenditures and improvements. As of June 30, 2004 the Municipality Long Term Debt is composed of \$4,103,000 in bonds payable. Other obligations include accrued vacation pay and sick leave for \$832,960.

As of June 30, 2004 the Municipality Component Unit has a mortgage loan payable in the amount of \$1,304,297. This loan is guarantee with component unit real properties and secured by Federal Housing Administration.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as contributions and grants to carry out the governmental activities. Historically, property taxes, municipal taxes and PR Government contributions have been predictable. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

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

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

The most significant change between the budget for fiscal year 2004-2005 and the one for fiscal year 2003-2004 are as follows:

1. Capital expenditures for infrastructure improvements, which amounted to \$1,530,000 in the 2003-04 budget, were not included in the 2004-05 budget.
2. Public Works expenditures for 2004-05 budget were reduced \$308,400 for adquisition of materials, \$222,200 for repairs and maintenance, and 58,700 for salaries and fringes, for a total reduction of \$589,300 in relation to 2003-04 budget.
3. Construction fee revenue was estimated to decrease by \$364,900 in fiscal year 2004-05.
4. Property Tax revenue was estimated to decrease by \$477,500 in fiscal year 2004-05.
5. Other revenues were estimated to decrease by \$1,025,600 in fiscal year 2004-05.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 2004, Aibonito, Puerto Rico 00705.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF NET ASSETS
June 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT</u>	<u>2004 TOTAL</u>	<u>2003 TOTAL</u>
ASSETS				
Current Assets:				
Cash, including time deposits	\$ 4,290,330	\$ 133,152	\$ 4,423,482	\$ 6,086,900
Accounts receivable:				
Volume of Business Tax	18,827		18,827	37,591
Other	24,446	17,297	41,743	253,281
Due from other AEE	661,986		661,986	626,635
Due from other governments	<u>1,871,521</u>	<u>-</u>	<u>1,871,521</u>	<u>224,445</u>
Total current assets	<u>6,867,110</u>	<u>150,449</u>	<u>7,017,559</u>	<u>7,228,852</u>
Noncurrent Assets:				
Cash held with fiscal agent	1,949,555		1,949,555	1,081,331
Capital Assets (net of depreciation)	21,374,452	2,197,353	23,571,805	10,256,574
Reserve for replacements		894,041	894,041	1,257,645
Other	<u>-</u>	<u>82,343</u>	<u>82,343</u>	<u>16,453</u>
Total noncurrent assets	<u>23,324,007</u>	<u>3,173,737</u>	<u>26,497,744</u>	<u>12,612,003</u>
TOTAL ASSETS	<u>30,191,117</u>	<u>3,324,186</u>	<u>33,515,303</u>	<u>19,840,855</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	388,425	43,416	431,841	769,322
Due to other governmental units	797,730		797,730	679,827
Deferred Revenues	1,450,083	2	1,450,085	1,443,087
Current portion of long term debt	377,000	48,330	425,330	378,330
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>3,013,238</u>	<u>91,748</u>	<u>3,104,986</u>	<u>3,270,566</u>
Noncurrent Liabilities:				
Bonds payable - construction	3,501,000	1,255,967	4,756,967	4,839,991
Notes payable - operations	225,000		225,000	240,000
Accrued compensated absences	832,960		832,960	151,186
Other	<u>-</u>	<u>16,220</u>	<u>16,220</u>	<u>15,817</u>
Total noncurrent liabilities	<u>4,558,960</u>	<u>1,272,187</u>	<u>5,831,147</u>	<u>5,246,994</u>
TOTAL LIABILITIES	<u>7,572,198</u>	<u>1,363,935</u>	<u>8,936,133</u>	<u>8,517,560</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	17,516,452	953,048	18,469,500	5,058,253
Restricted for Capital Projects	1,841,761	914,220	2,755,981	1,759,294
Restricted for Debt Service	1,167,985		1,167,985	1,081,331
Restricted for Other Purposes	1,859,858	10,008	1,869,866	2,496,330
Reserved for Encumbrances	576,494		576,494	-
Reserved for Improvements	600,000		600,000	-
Unrestricted	<u>(943,631)</u>	<u>82,975</u>	<u>(860,656)</u>	<u>928,087</u>
TOTAL NET ASSETS	<u>\$ 22,618,919</u>	<u>\$ 1,960,251</u>	<u>\$ 24,579,170</u>	<u>\$ 11,323,295</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT	2004	2003
							TOTAL	TOTAL
GOVERNMENTAL ACTIVITIES:								
General Administration	\$ 4,545,403	\$ 494,199	\$ 661,986	\$ -	\$ (3,389,218)	\$ -	\$ (3,389,218)	\$ (2,722,035)
Public Safety	358,096				(358,096)		(358,096)	(292,810)
Sport and recreation	556,082				(556,082)		(556,082)	(520,186)
Sanitation	915,465				(915,465)		(915,465)	(992,426)
Public Work	2,821,727		977,963	2,923,509	1,079,745		1,079,745	181,435
Federal Funds	672,545		672,545	1,952,022	1,952,022		1,952,022	550,112
Interest Payment	206,081				(206,081)		(206,081)	(211,965)
Depreciation	471,454				(471,454)		(471,454)	(449,211)
Total governmental activities	10,546,853	494,199	2,312,494	4,875,531	(2,864,629)	-	(2,864,629)	(4,457,086)
COMPONENT UNIT:								
Las Flores Apartments - general	539,595	58,847	417,115			(63,633)	(63,633)	(91,990)
Las Flores Apartments - other			1,473			1,473	1,473	728
Total component unit	539,595	58,847	418,588	-	-	(62,160)	(62,160)	(91,262)
TOTAL ACTIVITIES	11,086,448	553,046	2,731,082	4,875,531	(2,864,629)	(62,160)	(2,926,789)	(4,548,348)
GENERAL REVENUES:								
Property taxes, levied for general purposes					2,446,559		2,446,559	1,928,006
Property taxes, levied for debt services					604,083		604,083	429,900
Volume of business taxes					1,456,801		1,456,801	1,167,511
Government of P.R. Contributions					3,233,357		3,233,357	3,192,002
Other					812,939		812,939	241,712
Interest					44,152	13,263	57,415	102,178
TOTAL GENERAL REVENUES					8,597,891	13,263	8,611,154	7,061,309
CHANGES IN NET ASSETS								
Net assets - beginning of period					5,733,262	(48,897)	5,684,365	2,512,961
Prior period adjustments					9,314,147	2,009,148	11,323,295	11,866,543
Net assets - ending of period					<u>7,571,510</u>	<u>-</u>	<u>7,571,510</u>	<u>(3,056,209)</u>
					<u>\$ 22,618,919</u>	<u>\$ 1,960,251</u>	<u>\$ 24,579,170</u>	<u>\$ 11,323,295</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004**

	<u>GENERAL FUND</u>	<u>JOINT RESOLUTIONS</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>2004 TOTAL GOVERNMENTAL FUNDS</u>	<u>2003 TOTAL GOVERNMENTAL FUNDS</u>
ASSETS							
Cash, including time deposits	\$ 1,122,023	\$ 2,733,672	\$ 30,281	\$ -	\$ 404,354	\$ 4,290,330	\$ 6,053,362
Cash held with fiscal agent			744,179	1,136,235	69,141	1,949,555	1,081,331
Accounts receivable:							
Volume of Business Tax	18,827					18,827	37,591
Property Taxes - CRIM	24,446					24,446	
Other							228,752
Due from AEE	661,988					661,986	626,635
Due from other governments	277,144		204,704		1,389,673	1,871,521	224,445
Due from other funds	1,959,036	206,451	82,636		129,134	2,377,257	631,246
Inventories							
TOTAL ASSETS	<u>4,063,462</u>	<u>2,940,123</u>	<u>1,061,800</u>	<u>1,136,235</u>	<u>1,992,302</u>	<u>11,193,922</u>	<u>8,881,362</u>
LIABILITIES							
Accounts payable	388,425					388,425	753,459
Due to other governmental units	797,730					797,730	679,827
Deferred Revenues	1,116,513				333,570	1,450,083	1,443,082
Due to other funds	418,221	-	569,363	-	1,389,673	2,377,257	631,246
TOTAL LIABILITIES	<u>2,720,889</u>	<u>-</u>	<u>569,363</u>	<u>-</u>	<u>1,723,243</u>	<u>5,013,495</u>	<u>3,507,614</u>
FUND BALANCES							
Reserved for:							
Capital Projects		1,349,324	492,437			1,841,761	501,649
Debt Service	31,750			1,136,235		1,167,985	1,081,331
Other Purposes		1,590,799			269,059	1,859,858	2,496,330
Encumbrances	576,494					576,494	
Improvements	600,000					600,000	
Unreserved	134,329					134,329	1,294,438
TOTAL FUND BALANCES	<u>1,342,573</u>	<u>2,940,123</u>	<u>492,437</u>	<u>1,136,235</u>	<u>269,059</u>	<u>6,180,427</u>	<u>5,373,748</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,063,462</u>	<u>\$ 2,940,123</u>	<u>\$ 1,061,800</u>	<u>\$ 1,136,235</u>	<u>\$ 1,992,302</u>		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	21,374,452	8,200,585
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(4,935,960)</u>	<u>(4,260,186)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 22,618,919</u>	<u>\$ 9,314,147</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL FUND	JOINT RESOLUTIONS	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2004 TOTAL GOVERNMENTAL FUNDS	2003 TOTAL GOVERNMENTAL FUNDS
REVENUES:							
Property taxes	\$ 2,446,559	\$ -	\$ -	\$ 604,083	\$ -	\$ 3,050,642	\$ 2,357,908
Volume of Business Taxes	1,456,801					1,456,801	1,167,511
Government of P.R. Contributions	3,233,357	2,264,330			1,637,142	7,134,829	5,053,818
Contributions in lieu of taxes	661,986					661,986	555,649
Federal Grants and contributions	-		2,377,489		246,135	2,623,624	766,868
Charges for services	494,199					494,199	358,674
Interest	11,503		24,724	7,925		44,152	74,261
Miscellaneous	812,939					812,939	241,712
TOTAL REVENUES	9,117,344	2,264,330	2,402,213	612,008	1,883,277	16,279,172	10,576,399
EXPENDITURES:							
General Administration	3,614,248		173,186	32,848	42,404	3,862,686	3,664,548
Public Safety	333,829				24,267	358,096	296,229
Sport and recreation	556,082					556,082	530,761
Sanitation	915,465					915,465	993,718
Public Work	1,498,963	848,752			474,012	2,821,727	1,636,904
Capital expenditures	2,026,667	560,076	191,807		1,239,109	4,017,659	1,045,577
Federal Funds			2,376,432		246,135	2,624,567	821,057
Principal Retirement	15,000			323,000		338,000	391,000
Interest Payment	12,750			193,331		206,081	211,965
TOTAL EXPENDITURES	8,973,004	1,408,828	2,743,425	549,179	2,025,927	15,700,363	9,591,759
EXCESS REVENUES OVER EXPENDITURES	144,340	855,502	(341,212)	62,829	(142,650)	578,809	984,640
OTHER FINANCING SOURCES (USES):							
Capital - related debt issued			332,000			332,000	450,000
Transfers	7,925			(7,925)			
TOTAL OTHER FINANCING SOURCES	7,925	-	332,000	(7,925)	-	332,000	450,000
NET CHANGES IN FUND BALANCES	152,265	855,502	(9,212)	54,904	(142,650)	910,809	1,434,640
PRIOR PERIOD ADJUSTMENTS	(104,130)					(104,130)	58,278
FUND BALANCES, BEGINNING OF YEAR	1,294,438	2,084,821	501,649	1,081,331	411,709	5,373,748	3,882,830
FUND BALANCES, END OF YEAR	\$ 1,342,573	\$ 2,940,123	\$ 492,437	\$ 1,136,235	\$ 269,059	\$ 6,180,427	\$ 5,373,748

The accompanying notes are integral part of the financial statements. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net changes in fund balances - total governmental funds \$910,809

Reconciling items:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$5,969,681) exceed depreciation expense (\$471,454) in the current period. 5,498,227

Accrued sick leave, vacations and Christmas bonus benefits are long-term liabilities in the statement of net assets. The liquidation of such employee benefits are reported as expenditures in the governmental funds, but as a decrease in liability in the statement of net assets. This amount is the net increase in accrued employee's benefits. (681,774)

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (\$338,000) exceeded proceeds (\$332,000). 6,000

Changes in net assets of governmental activities \$5,733,262

The accompanying notes are integral part of the financial statements. See auditor's report. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2004**

**LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-12-690660096**

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets:		
Petty cash	\$ 200	\$ 200
Cash in Bank	<u>132,952</u>	<u>33,338</u>
	133,152	33,538
Accounts receivable:		
Tenants's	25,207	34,439
Due from Fm HA - rent supplement	-	-
Other	574	574
Allowance for bad debts	<u>(8,484)</u>	<u>(8,484)</u>
	<u>17,297</u>	<u>26,529</u>
Total current assets	150,449	60,067
Tenant security deposits	15,935	15,817
Reserve for replacements	894,041	1,257,645
Fixed Assets:		
Land	126,150	126,150
Land improvements	226,443	226,443
Buildings	2,656,244	2,656,244
Buildings improvements	1,064,847	753,108
Buildings equipment	166,179	164,953
Furnitures	-	-
Maintenance equipment	4,156	4,156
Guard Gate	30,000	30,000
Office equipment	34,636	28,829
Other equipment	<u>6,228</u>	<u>6,228</u>
	4,314,883	3,996,111
Accumulated depreciation	<u>(2,117,530)</u>	<u>(1,940,122)</u>
Total fixed assets	2,197,353	2,055,989
Other assets:		
Construction in progress	55,764	-
Escrow account	10,008	-
Deposits	<u>636</u>	<u>636</u>
Total other assets	<u>66,408</u>	<u>636</u>
Total assets	<u>\$ 3,324,186</u>	<u>\$ 3,390,154</u>

The accompanying notes are integral part of the financial statements. See auditor's report. See auditor's report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2004**

**LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-12-690660096**

(CONTINUED)

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current liabilities:		
Accounts payable - trade	\$ 40,757	\$ 13,566
Accounts payable - tax fee	2,659	2,297
Current portion of mortgage payable	48,330	41,330
Rent collected in advance	<u>2</u>	<u>5</u>
Total current liabilities	91,748	57,198
Deposits tenants' security	16,220	15,817
Mortgage payable, net of current portion	<u>1,255,967</u>	<u>1,307,991</u>
Total liabilities	1,363,935	1,381,006
Net assets:		
Net investment in fixed assets	953,048	706,668
Reserved for replacement	914,220	1,257,645
Reserved for other purposes	10,008	-
Unrestricted	<u>82,975</u>	<u>44,835</u>
Net assets	<u>1,960,251</u>	<u>2,009,148</u>
Total liabilities and net assets	<u>\$ 3,324,186</u>	<u>\$ 3,390,154</u>

The accompanying notes are integral part of the financial statements. See Independent Auditors' Report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2004

LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-12-690660096

	<u>2004</u>	<u>2003</u>
REVENUES:		
Rental	\$ 475,962	\$ 463,486
Financial	13,263	27,917
Other income	<u>1,473</u>	<u>728</u>
Total revenues	490,698	492,131
EXPENSES:		
Administrative	154,731	141,848
Utilities	4,061	3,637
Operating and maintenance	85,257	113,530
Taxes and insurance	23,308	20,243
Depreciation	177,408	178,029
Interest	<u>94,830</u>	<u>98,189</u>
COST OF OPERATIONS	<u>539,595</u>	<u>555,476</u>
EXCESS COSTS OVER REVENUES	(48,897)	(63,345)
Prior period adjustments	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(48,897)	(63,345)
BEGINNING NET ASSETS	<u>2,009,148</u>	<u>2,072,493</u>
ENDING NET ASSETS	<u>\$ 1,960,251</u>	<u>\$ 2,009,148</u>

The accompanying notes are integral part of the financial statements. See Independent Auditors' Report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
STATEMENT OF CASH FLOWS
COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2004**

**LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-12-690660096**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (48,897)	\$ (63,345)
Depreciation expenses	177,408	178,029
(Increase) Decrease in accounts receivable - tenants net	9,232	(10,691)
(Increase) Decrease in due from Fm HA	-	34,542
Increase (Decrease) in deposit held trust	(118)	42
Increase (Decrease) in accounts payable - trade	27,191	(2,509)
Increase (Decrease) in payable - tax fee	363	316
Increase (Decrease) in rent collected in advance	-	-
Increase (Decrease) in deposit tenants security	<u>400</u>	<u>(42)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>165,579</u>	<u>136,342</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in reserve for replacements	363,604	(72,020)
(Increase) Decrease in escrow account	(10,008)	-
(Increase) Decrease in building furniture	-	-
(Increase) Decrease in building improvement	(311,739)	(4,651)
(Increase) Decrease in building equipment	(1,227)	-
(Increase) Decrease in maintenance equipment	-	(840)
(Increase) Decrease in construction in progress	(55,764)	-
Depreciation write-off	-	(2,400)
(Increase) Decrease in office equipment	(5,807)	(544)
(Increase) Decrease in other equipment	<u>-</u>	<u>550</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,941)</u>	<u>(79,905)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in mortgage payable	<u>(45,024)</u>	<u>(41,664)</u>
NET INCREASE (DECREASE) IN CASH	99,614	14,773
CASH AT BEGINNING OF YEAR	<u>33,538</u>	<u>18,765</u>
CASH AT END OF YEAR	<u>\$ 133,152</u>	<u>\$ 33,538</u>

The accompanying notes are integral part of the financial statements. See Independent Auditors' Report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Aibonito of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1824 with full legislative, fiscal and administrative powers to operate as a government.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature (fourteen members), which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

A. New Financial Reporting Model and Component Units

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). This statement established new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below on July 1, 2002. These statements require the reporting of new financial information and restructure much of the information that governments have reported in the past. Comparability with financial statements issued prior to June 30, 2003 has been affected significantly.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the management discussion and analysis (MD&A).

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2004, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions,

(2) GASB Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments: Omnibus, (3) GASB Statement No. 38 - Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 -Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB No. 34 also requires that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 - Accounting Changes, (2) APB Opinion No. 21 - Interest on Receivables and Payables, (3) FASB Statement No. 5 - Accounting for Contingencies and (4) FASB Statement No. 16 - Prior Period Adjustments. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if - elected officials of a primary government, are, financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

Las Flores Apartments, is included in the financial statements as a discrete component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office: Las Flores Apartments
c/o G.R. Management Co.
Villa Nevares Professional Center Suite 302
San Juan, Puerto Rico 00927

B. Government-wide and fund financial statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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

**COMMONWEALTH OF PUERTO RICO
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segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Capital Project Fund – is used to account for the financial resources allocated for the acquisition or construction of infrastructure and other major capital facilities.

Joint Resolutions Fund – is used to account for Commonwealth of Puerto Rico appropriations for specific purposes.

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

C. Financial reporting presentation

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

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

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

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

Capital Projects Funds – Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

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Proprietary Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes Las Flores Apartments.

D. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

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

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

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

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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

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reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in the Capital Project fund consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

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

As of June 30, 2004 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$ 614,814
PR Treasury Department	10,967
FSE Wornen compensation	51,151
PR Telephone Company	81,610
PR Sewer and Sanitary Authority	8,026
Commonwealth of PR Retirement System	21,431
Commonwealth of PR Department of Labor	4,870
Commonwealth of PR General Services	<u>4,861</u>
	\$ 797,730

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes.

3. Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings	50
Infrastructure	15
Building and site improvements	25
Vehicles	10
Furniture and fixtures	7
Machinery and equipment	7

4. Long-term obligations – The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long term liabilities, such as vacation, sick leave, litigation.

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

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

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

6. Claims and judgments - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

7. Reservations of fund balance - Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. Capital Projects - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. Advances and Other Specified Purposes - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.
- d. Debt Service Fund - Represents net assets available to finance future debt service payments.

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e. Improvements - Represents net assets legally segregated for municipal facilities and infrastructure improvements.

f. Other - Represents net assets legally segregated for other specific future use.

8. Interfund and intra-entity transactions - The Municipality has the following types of transactions among funds:

a. Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

b. Intra-Entity Transactions - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

9. Risk financing – The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to \$194,833. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$176,530 for workers compensation insurance covering all municipal employees.

NOTE 2. DEPOSITS AND INVESTMENTS

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

The Municipality's bank balances in commercial banks of \$1,122,023 in the general fund (including a certificate of deposit of \$200,000 at 1.3% due in June 30, 2004) were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of \$2,733,672 and \$434,635, respectively, that were fully collateralized.

The deposits at GDB of \$744,179 that are restricted principally for capital projects, the \$69,141 in the other governmental funds, and the \$1,136,235 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3. RECEIVABLES

a. **Municipal License Tax** – The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

Financial business – 1.5% of gross revenues

Other organizations – 0.5% for annual revenues

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This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectibles.

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

b. Intergovernmental Receivables - Intergovernmental receivable in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA"). This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes.

Other Intergovernmental receivable represents expenditures incurred not yet reimbursed by the Federal Government and PR governmental agencies. Following is a detail of the other intergovernmental receivable:

<u>Program – Description</u>	<u>Total Amount</u>	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>Other Funds</u>
Head Start – (rent)	\$ 86,000	\$ 86,000		
Community Service Block Grant – (operations)	141,144	141,144		
US Department of Agriculture – Rural Development	204,704		\$204,704	
PR Government – Special Communities Program	1,239,109			\$1,239,109
PR Government – Department of Labor	119,000			119,009
PR Government – Department of Family	31,555			31,555
PR Governmental agencies – (utilities)	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
	<u>\$1,871,521</u>	<u>\$277,144</u>	<u>\$204,704</u>	<u>\$1,389,673</u>

c. Other - Other accounts receivable as of June 30, 2004 are as follows:

	<u>General Fund</u>	<u>Component Unit</u>
Rent	\$ -	\$ 25,207
Property Taxes – CRIM	24,446	
Other	<u>-</u>	<u>574</u>
Gross receivable		25,781
Less allowance for uncollectibles		<u>(8,484)</u>
Net total other receivables	\$ 24,446	\$ 17,297

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NOTE 4. INTERFUND TRANSACTIONS

Interfund -receivables and payables at June 30, 2004 are summarized as follows:

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 1,959,036	\$ 418,221
Joint Resolutions	206,451	
Other Governmental	129,134	1,389,673
Capital Project	<u>82,636</u>	<u>569,363</u>
Total	\$2,377,257	\$2,377,257

NOTE 5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes for infrastructure and construction in-progress pursuant to the implementation of GASB Statement No. 34, follows. Land are not subject to depreciation:

Capital Assets Summary

Governmental Activities:	Balance July, 2003	Additions	Retirements	Balance June 2004
Capital asset, not being depreciated:				
Land	\$ 3,612,272	\$ 7,686,440	\$ -	\$ 11,298,712
Construction in progress	<u>100,000</u>	5,890,578		<u>5,990,578</u>
Total capital assets not being depreciated	<u>3,712,272</u>			<u>17,289,290</u>
Capital assets, being depreciated:				
Buildings and building improvements	4,578,347			4,578,347
Infrastructure	2,251,095			2,251,095
Equipment	467,166	14,251		481,417
Vehicles	<u>2,380,273</u>	54,052		<u>2,434,325</u>
Total capital assets being depreciated	<u>9,676,881</u>			<u>9,745,184</u>
Less accumulated depreciation for:				
Buildings and building improvements	2,178,322	158,908		2,337,230
Infrastructure	1,275,620	150,074		1,425,694
Equipment	339,666	27,502		367,168
Vehicles	<u>1,394,960</u>	134,970		<u>1,529,930</u>
Total accumulated depreciation	<u>5,188,568</u>			<u>5,660,022</u>
Net capital assets being depreciated,	<u>4,488,313</u>			<u>4,085,162</u>
Governmental activities capital assets, net	<u>\$ 8,200,585</u>			<u>\$ 21,374,452</u>

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Component Unit:	Balance July, 2003	Additions	Retirements	Balance June 2004
Capital asset, not being depreciated:				
Land	\$ <u>126,150</u>			\$ <u>126,150</u>
Capital assets, being depreciated:				
Buildings and building improvements	3,635,795	\$ 311,739		3,947,534
Equipment	<u>234,166</u>	7,033		<u>241,199</u>
Total capital assets being depreciated	3,869,961			4,188,733
Less accumulated depreciation	<u>1,940,122</u>	177,408		<u>2,117,530</u>
Total capital assets being depreciated, net	<u>1,929,839</u>			<u>2,071,203</u>
Component Unit capital assets, net	<u>\$ 2,055,989</u>			<u>\$ 2,197,353</u>

NOTE 6. PROPERTY TAXES

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

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2003-04 is 8.28% for real property and 6.28% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund,

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A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

NOTE 7. DEFERRED REVENUES

a. Municipal License Tax - The deferred revenues of \$1,116,513 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

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

Program Description

HUD Section 8 Housing "Red de Hogares"	\$ 139,041
UDAG	13,711
UMTA	7,128
Local Law Enforcement	1,248
FEMA	74,122
FHA	613
Child Care	499
	<u>97,208</u>
Total	\$ 333,570

NOTE 8. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2004, was as follows:

<u>GOVERNMENTAL FUND</u>	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due within One year
Bonds payable					
Capital facilities	\$ 3,849,000	\$ 332,000	\$ 323,000	\$3,858,000	\$ 357,000
Operational	260,000		15,000	245,000	20,000
	<u>4,109,000</u>	<u>332,000</u>	<u>338,000</u>	<u>4,103,000</u>	<u>377,000</u>
Compensated absences	<u>151,186</u>	681,774		<u>832,960</u>	
Total	\$ 4,260,186			\$4,935,960	
<u>COMPONENT UNIT</u>	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due within One year
Mortgage loan	\$ 1,349,321	\$ -	\$ 45,024	\$1,304,297	\$ 48,330

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Bonds payable - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities and operational purposes. During the current year, the Municipality issued bonds for \$332,000. Bonds payable outstanding at June 30, 2004 are as follows:

	<u>Outstanding Amount</u>
Issued for capital facilities:	
\$420,000; 1993 serial bonds due in annual installments of \$15,000 to \$50,000, through July 1, 2007; with interest ranging from 5.0% to 7.5%	\$ 175,000
\$1,120,000; 1991 serial bonds due in annual installments of \$45,000 to \$135,000, through July 1, 2005; with interest ranging from 3.26% to 6.31%	260,000
\$572,000; 1991 serial bonds due in annual installments of \$14,000 to \$41,000, through July 1, 2016; with interest at 5.0% (FMHA)	377,000
\$870,000; 2000 serial bonds due in annual installments of \$40,000 to \$100,000, through July 1, 2011; with interest ranging from 6.0% to 7.5%	630,000
\$1,040,000; 1996 serial bonds due in annual installments of \$15,000 to \$90,000, through July 1, 2020; with interest ranging from 4.7% to 6.5%	900,000
\$350,000; 1999 serial bonds due in annual installments of \$30,000 to \$50,000, through July 1, 2008; with interest ranging from 7.0% to 7.5%	220,000
\$575,000; 2001 serial bonds due in annual installments of \$10,000 to \$50,000, through July 1, 2026; with interest at 6.5%	555,000
\$145,000; general obligations note due in annual installments of \$15,000 to \$25,000, through July 1, 2008; with interest at 8.0%	110,000
\$310,000; 2002 serial bonds due in annual installments of \$5,000 to \$10,000, through July 1, 2027, with interest at 5.0%	305,000
\$332,000; 1996 serial bonds due in annual installments of \$6,000 to \$20,000, through January 1, 2028, with interest at 4.5%	<u>326,000</u>
	<u>3,858,000</u>

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	<u>Outstanding Amount</u>
Issued for operations:	
\$160,000; 1999 serial bonds due in annual installments of \$10,000 to \$25,000, through July 1, 2009; with interest ranging from 7.0% to 8.0%	110,000
\$140,000; 2002 serial bonds due in annual installments of \$5,000 to \$30,000, through July 1, 2027; with interest at 5.0%	<u>135,000</u>
	<u>245,000</u>
Total	\$ 4,103,000

The bonds issued for capital facilities are payable from the ad valorem property tax of 1.67% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. Bonds issued for operations are payable from the general fund.

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

<u>Year Ending June 30,</u>	Capital facilities bonds		Operational bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 357,000	\$ 190,151	\$ 20,000	\$ 11,750
2006	378,000	176,334	20,000	15,288
2007	260,000	160,942	20,000	13,763
2008	281,000	148,349	25,000	12,038
2009	243,000	136,312	25,000	10,112
Thereafter	<u>2,339,000</u>	<u>992,241</u>	<u>135,000</u>	<u>76,723</u>
Total	\$3,858,000	\$1,804,329	\$ 245,000	\$ 139,674

Mortgage loan – Las Flores Apartments mortgage loan payable to the federal government bears interest at 7.0% through 2019 and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest in the amount of \$11,654 are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

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Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of June 30, 2004, are as follows:

Year Ending	Amount
June 30,	
2005	\$ 139,848
2006	139,848
2007	139,848
2008	139,848
2009	138,848
Thereafter	<u>1,323,470</u>
Total	2,022,710
Less amount representing interest	<u>718,413</u>
	<u>\$ 1,304,297</u>

Compensated absences - The government-wide statement of net assets includes \$420,900 of accrued sick leave benefits, \$240,000 of accrued vacation benefits, and Christmas bonus of \$172,060 representing the Municipality's commitment to fund such costs from future operations.

NOTE 9. PENSION PLAN

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employer contributions during the year ended June 30, 2004 amounted to \$108,831.

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

NOTE 10. RISK MANAGEMENT

The Finance Department of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

NOTE 11. COMMITMENTS

a. Operating Leases - The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2004, amounted to \$119,057. Management believes that the summary of the future minimum rental commitments under non cancelable real property and equipment lease with terms exceeding one year is not significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

NOTE 12. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2004, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. At June 30, 2004, the Municipality has not recorded a liability in the government-wide financial statements for possible disallowances costs.

NOTE 13. SUBSEQUENT EVENTS

After June 30, 2004 the Municipality approved and processed an inter-fund loan of \$1,000,000 from the Joint Resolutions funds to the General Fund.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were required to convert June 30, 2003 Financial Statements Fund Balances of the Municipality of Aibonito to an estimated GASB-34 basis of accounting as of this date. Major effects were caused by unrecorded capital assets, unrecorded accumulated depreciation, fund balances reclassifications and write-offs, as follows:

	Governmental <u>Activities</u>	Component <u>Unit</u>
Unrecorded Capital Assets – Infrastructure land	\$ 7,675,640	\$ -0-
Cancellation of receivables	(136,685)	
Other items – net	<u>32,555</u>	
Total	\$ 7,571,510	\$ -0-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET Positive(Negative)
RESOURCES (Inflows):				
Property Taxes	\$ 1,824,344	\$ 2,446,559	\$ 2,446,559	\$ -
Volume of Business Taxes	1,359,162	1,479,473	1,456,801	(22,672)
Government of P.R. Contributions	3,206,029	3,233,357	3,233,357	-
Contributions in lieu of taxes	672,897	672,897	661,986	(10,911)
Charges for services	88,601	467,231	494,199	26,968
Interest	16,403	28,180	11,503	(16,677)
Other	19,750	1,051,400	820,864	(230,536)
	<u>7,187,186</u>	<u>9,379,097</u>	<u>9,125,269</u>	<u>(253,828)</u>
Amounts available for appropriations				
CHARGES TO APPROPRIATIONS (out flows):				
Mayor Office	779,412	1,106,371	1,085,858	20,513
Municipality Assembly	162,034	145,621	133,762	11,859
Finance	2,280,952	2,337,482	2,313,216	24,266
Administration Federal Award	134,281	123,281	120,273	3,008
Personnel	211,501	222,342	216,073	6,269
Municipal Secretary	53,170	49,346	47,835	1,511
Internal Auditor	57,886	45,935	37,474	8,461
Public Safety	489,438	340,938	333,829	7,109
Sport and recreation	540,878	577,702	568,455	9,247
Sanitation	987,623	922,449	916,676	5,773
Public Works	1,323,430	1,977,234	1,789,245	187,989
Capital Expenditures	166,581	1,530,396	1,054,469	475,927
	<u>7,187,186</u>	<u>9,379,097</u>	<u>8,617,165</u>	<u>761,932</u>
Total charges to appropriations				
Excess (deficiency) resources over charges	\$ -	\$ -	\$ 508,104	\$ 508,104

The accompanying notes are integral part of the financial statements. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET Positive(Negative)
RESOURCES (Inflows):				
Property Taxes	\$ 575,143	\$ 575,143	\$ 604,083	\$ 28,940
Interest	-	-	7,925	7,925
Other	-	-	-	-
Amounts available for appropriations	<u>575,143</u>	<u>575,143</u>	<u>612,008</u>	<u>36,865</u>
CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization	347,000	342,847	323,000	19,847
Interest on long term debt	189,178	193,331	193,331	-
Other	<u>38,965</u>	<u>38,965</u>	<u>40,773</u>	<u>(1,808)</u>
Total charges to appropriations	<u>575,143</u>	<u>575,143</u>	<u>557,104</u>	<u>18,039</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,904</u>	<u>\$ 54,904</u>

The accompanying notes are integral part of the financial statements. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2004**

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR / PASS THROUGH GRANTOR	FEDERAL CFDA		2004	2003
<u>PROGRAM TITLE</u>	<u>NUMBER</u>		<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Section 8 Vouchers and Portability	14.871		\$ 169,074	\$ 151,786
Indirect Program:				
Passed through PR Office of Municipal Affairs				
State Block Grant Program (SBGP)	14.228	MP	<u>1,464,968</u>	<u>604,301</u>
			<u>1,634,042</u>	<u>756,087</u>
US DEPARTMENT OF AGRICULTURE				
Rural Business Enterprises Grant	10.769	MP	<u>709,760</u>	<u>-</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Commonwealth of PR				
Child Care and development Block Grant	93.575			<u>24,546</u>
			<u>77,061</u>	<u>24,546</u>
US DEPARTMENT OF JUSTICE				
Passed through Commonwealth of PR Department of Justice				
Local Law Enforcement Block Grant:	16.710		<u>-</u>	<u>40,424</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 2,420,863</u>	<u>\$ 821,057</u>

MP = Major Program

The accompanying notes are integral part of the financial statements. See auditor's report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004.**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Aibonito, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund.

NOTE 3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.


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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Aibonito
Aibonito, Puerto Rico

Compliance

We have audited the compliance of Municipality of Aibonito with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The Municipality of Aibonito major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Aibonito management. Our responsibility is to express an opinion on the Municipality of Aibonito compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental 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 of Aibonito compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not include a legal determination of the Municipality of Aibonito compliance with those requirements.

As described in item Section III in the accompanying schedule of findings and questioned costs, the Municipality of Aibonito did not comply with requirements regarding administrative requirements that are applicable to its Section 8 Program and SBGP Program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Aibonito to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Aibonito complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

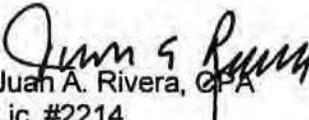
Internal Control Over Compliance

The management of the Municipality of Aibonito is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Aibonito 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.

Our noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality of Aibonito ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs in Section II and III.

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 the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe that none of the reportable conditions described above is a material weakness. This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is not intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214



December 28, 2004
Toa Baja, Puerto Rico

NOTE: Stamp No. 2010616 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.


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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Aibonito
Aibonito, Puerto Rico

We have audited the financial statements of the Municipality of Aibonito as of and for the year ended June 30, 2004, and have issued our report thereon dated December 28, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Aibonito financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, We do not express such as an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs Section III.

Internal Control Over Financial Reporting

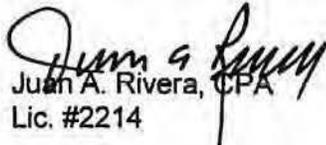
In planning and performing our audit, we considered the Municipality of Aibonito internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the Municipality of Aibonito ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs Section III.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities and not is intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214



December 28, 2004
Toa Baja, Puerto Rico

Stamp NO. 2010617 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Section II – Schedule of Financial Statements Findings and Questioned Costs

FINDING NUMBER 04-01

Personnel

Condition In our internal control system revision of the personnel files, the following exception was encountered:

➤ Missing documents		
Evidence of sexual harassment law delivered to employees	17/17	100%
Employees do not have all agencies certifications	12/17	71%
Good Standing Certificate	8/17	47%
Birth Certificate	7/17	41%
Health Certificate	5/17	29%
Assistance Cards	3/17	18%
Job application	2/17	12%
Retention Form 499-R	1/17	6%
Social Security evidence	1/17	6%
Evidence of drugs and alcoholic beverage law delivered to employees	1/17	6%
➤ Documents without the required sign		
Form I-9	14/17	82%
Naming oath	9/17	53%
➤ The naming do not established the salary to be paid to the employee	12/17	71%
➤ The human resources office does not evaluate employees yearly	15/17	88%

Criteria

As established in the Autonomus Municipalities' Law # 81, Chapter 223, § 4557, employees shall comply with the following requirements:

- Phisically and mentally competent
- United States citizen
- Not use drugs and alcoholic beverage
- Not bring false information
- Has not been incompetent by destitution
- Has not been committed illegal acts and shame conducts
- And other elements that the Municipality consider

To obtain assurance of the compliance with those requirements the § 4572 sustain that the Municipality will keep a file with all information about its employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

FINDING NUMBER 04-01

Personnel-(Cont.)

The Municipality should implement an evaluation system of the performance of its employees as establish in the § 4560 of the Autonomous Municipalities' Law.

Cause

Not request sufficient information that would suggest that everything is in accordance with the Autonomous Municipalities' Law.

Effect

You could be dealing with employees who are not meeting the requirements stated by law.

Recommendation

Do a purge of all personnel files, regardless of the year, in order to evidence employee's good standing.

FINDING NUMBER 04-02

Disbursement Test

Condition

In our test of the vouchers to observed the compliance with good disbursement procedures we discovered the following:

	<u>Checking Account</u>	<u>"Resoluciones Conjuntas"</u>
Voucher not dated when the payment was approved	20/20 or 100%	6/6 or 100%

Criteria

Good internal control requires that each voucher must have the information and the documents necessary to support the disbursement and the preinterventor must verified the completeness as establish in the Municipalities' regulation # 5262 § IV-7.

Cause

The documents necessary are not being requested and the information in the vouchers and purchase order has been completed partially.

Effect

The supporting documents of the payments are incompletes.

Recommendation

Follow the procedures necessary to attach all the information require to have a good internal control and to comply with the regulation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

FINDING NUMBER 04-03
Accounting and Reporting
System

Condition

During the performance of my audit procedures the following exceptions were noted:

- a. The Municipality's accounting system provides only for the recording of revenues, expenditures and other limited transactions. In addition, the accounting records are not integrated and do not provide for, a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and changes therein. Additionally, we noted that certain records in use were not adequately maintained.
- b. There are no adequate accounting controls and accountability for assets, in order to ascertain the amount of the Municipality's general fixed assets.
- c. Accounting records do not provide for segregation between expenditures and encumbrances.

Criteria

A municipality's accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America and determine and demonstrate compliance with finance, legal and contractual provisions as established in the Autonomous Municipalities' Law Chapter 215§ 4360.

Cause

The Municipality of Aibonito has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with accounting principles generally accepted in the United States of America, the governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB), and the related grant agreements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

**FINDING NUMBER 04-03
Accounting and Reporting
System-(Cont.)**

Effect

Due to the deficiencies mentioned above, the examination of the general-purpose financial statements for the year ended June 30, 2004, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designed to provide the information as it is presented in the financial statements, was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records, which are not integrated. This situation can cause the financial statements not to present all the assets, liabilities, revenues and expenditures of the Municipality.

Recommendation

In order to streamline the accounting and reporting systems and provide proper closing of records and adequate and timely information, we recommend the Municipality to consider the acquisition of new accounting systems.

The Municipality should implement a new accounting system that allows the preparation of monthly and year-end financial statements in accordance with accounting principles generally accepted in the United States of America applicable to government entities. This plan should provide for the following:

- a. Adequate training to all accounting personnel in order to improve the understanding of the system.
- b. The implementation of a double entry accounting system and the integration of all subsidiary ledgers.
- c. The preparation of periodic financial reports to be submitted to the Finance Director, the Mayor and the Municipal Assembly.
- d. Reconciliation of financial with the reports prepared and submitted to the Federal government, and The preparation of the general purpose financial statements in accordance to Accounting principles generally accepted in the United State of America.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

**FINDING NUMBER 04-04
Year End Budget Liquidation**

Condition	The following control deficiencies in year end budget liquidation were noted: Some disbursements were not posted and appear as economies.
Criteria	The Municipality must maintain adequate controls as require in the Autonomous Municipalities' Law Chapter 215 § 4360 in order to produce reliable information to be use as basis in the preparation and justification of the budget needs.
Cause	The Municipality did mistakes when made the year end budget liquidation.
Effect	The information provided in the year end budget liquidation is incorrect.
Recommendation	Verify the information presented in order to have a proper and reliable report.

**FINDING NUMBER 04-05
Volume of Business Tax**

Condition	During of the Volume of Business Tax (Patente) test we noted the following exception:		
<ul style="list-style-type: none"> ➤ Others 			
Wrong calculation of tax	5/22		23%
Taxpayers do not present evidence of his/her tax return	5/22		23%
Taxpayers do not file volume of business tax	5/22		23%

Criteria	Every taxpayer should submit the volume of business declaration or request an exception, if apply. (Municipalities' Regulation #5262 § IX-6) The Autonomus Municipalities' Law Chapter 71 § 651i establish that when the volume of business is less than one million dollars the taxpayer should submit a copy of the schedule where the revenues and expense were presented.
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

**FINDING NUMBER 04-05
Volume of Business Tax-(Cont.)**

Also the law establish that a volume of business declaration without this law requirement is consider as a not tax filing.

In order to maintain a good internal control the Municipality should verify that all information is correct and to be alert to collect the correct amount from the taxpayers.

Cause	Fail to follow the procedures established in the Autonomus Municipalities' Law, Municipalities' Regulation #5262 and a good internal control.
Effect	The Municipality do not protects its economic interest.
Recommendation	The Municipality must establish the necessary procedures to comply with the law, regulation, and internal control mentioned above.

**FINDING NUMBER 04-06
Contracts**

Condition During the test of contracts we noted the following deficiencies:

Contract registration late in OCPR- 9/15

Criteria The Municipality must comply with of the Puerto Rico's Comptroller Office Circular in accordance with the requirements for contracts.

Cause The contract settle in the Puerto Rico's Comptroller Office are late.

Effect The Municipality delays the commencement of the contract until its settlement in OCPR.

Recommendation The Municipality's Secretary must encourage the promptly settle of contracts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

III. Federal Awards Findings and Questioned Costs

Compliance findings:

Our examination of compliance with federal requirements for the Municipality of Rio Grande for the year ended June 30, 2004, disclosed that grants funds were generally administered in a satisfactory manner, except for the following situations:

Housing Choice Voucher Program- CFDA 14.871

Documents and information required in the Municipality Administrative Plan (voucher program) met all requirements except for the following:

FINDING NUMBER 04-07
Schedule of Utility

Condition	The files were incomplete due to the lack of schedule of utility.
Criteria	HUD reference 24 CFR 982.517 requires that an updated utility allowance schedule with data be obtained within 12 months.
Cause	Section 8 Housing should check changes in utility fees within 12 months. There were files that were without change for many years.
Effect	The Municipality does not compliance with HUD regulations.
Recommendation	All files for tenants should be revised annually to insure that changes in utilities were kept and if there are no changes, a new calculation sheet should be made in the calculation of rent for the period mentioned above. For people who have more than one file, a copy of the schedule should be kept in the most recent file.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

FINDING NUMBER 04-08

Cash Management

Condition	The Section 8 has a large balance in its bank account as of the fiscal year ended June 30, 2004.
Criteria	The 24 CFR Part 985.156,157,158; Part 5, Subpart H, Part 44 HUD Handbook 7420.6 and 7420.10G Chapter 20 of the Housing Voucher Program Guide Book establish that 90 days before the fiscal year ended the Municipality should submit Form 52663 when the amount of advances are in excess of five percent of the annual contributions required for the current budget. Also the Municipality should invest the five percent of the annual contribution in a HUD interest bearing accounts and report interest in Form 52681.
Cause	The Municipality is not paying all the vouchers approved in the proposal submitted to Housing and Urban Development Agency.
Effect	The Municipality does not comply with the law referred above.
Recommendation	Comment this problem with HUD office about the amount in the Section 8 bank account and request a solution for this situation.

FINDING NUMBER 04-09

High Quality Standars

Condition	During the audit we observed that the written procedures of housing quality standards (HQS) exist but not implemented followed.
Criteria	Code of Federal Regulation requires (24 CFR 982.404) that any cited life-threatening HQS deficiencies are corrected within 24 hours from the inspection and all the other cited deficiencies are corrected within no more than 30 calendar days from the inspection or any PHA-approved extension.
Cause	The Municipality does not give the proper attention of HQS procedures to comply with federal regulations.
Effect	The Municipality does not have the assurance that the units are secure and comply with the standards of safe place.
Recommendation	The Municipality should improve the HQS procedures in order to comply with federal regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

State Block Grant Program - CFDA 14.228

Documents and information required except for the following:

FINDING NUMBER 04-12

Disbursement

Condition

During the disbursement test we observed the following exception:

- Voucher not dated when the payment was approved

Criteria

The Circular A-133 requires that the program implement good internal controls.

Cause

Fail to follow the procedures to comply with good internal control.

Effect

Documents accompanying the disbursements are incomplete and may pay incorrectly.

Recommendation

Maintain the documents required to support the disbursement in file and follow the procedures to have a good internal control.

FINDING NUMBER 04-13

Davis Bacon Act

Condition

During the compliance test we observed that the Municipality does not comply with the Davis Bacon Act.

Criteria

The Department of Labor establish that all laborers or mechanics employed by contractors or subcontractors to work in construction in excess of \$ 2,000 financed by Federal assistance funds must be paid wages not in less than those established for the locality of the project. The requirements are listed in 29 CFR Part 5.

Cause

The Municipality is not requesting to the contractors comply with the Davis Bacon Act and it is not verifying payroll submit by contractors.

Effect

The amount receive by laborers or mechanics employed by contractors or subcontractors could be less than require by law.

Recommendation

Establish in each construction contract financed by Federal assistance funds the requirements to comply with Davis Bacon Act and start to verify the payroll submit by contractors.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AIBONITO
SCHEDULE OF PRIOR YEAR FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

<u>FINDING</u>		<u>Status</u>
<u>NUMBER 03-01</u> Disbursement Test	Condition: ➤ Disbursement do not include bids	Corrected
<u>NUMBER 03-02</u> Disbursement Test	➤ Disbursement without requisition.	Corrected
<u>NUMBER 03-03</u> Disbursement Test	➤ Undated invoice.	Corrected
<u>NUMBER 03-04</u> Personnel	Condition: ➤ Lack of documents in personnel files.	Still Prevail
<u>NUMBER 03-05</u> Hot Water Regulation Section 8	Condition: ➤ Not in compliance with hot water regulation.	Still Prevail
<u>NUMBER 03-06</u> HQS Inspection	Condition: HUD inspectors are not carrying out periodical inspections of the houses under Municipal contract.	Still Prevail
<u>NUMBER 92-93.1</u> Prior Year Findings	Condition: The Municipality did not correct the prior year findings.	Still Prevail



*Estado Libre Asociado de Puerto Rico
Departamento de Finanzas
Municipio de Aibonito
Aibonito, Puerto Rico 00705*

Tel 787-735-8802 Ext. 236

Fax 787-735-3237

January 20, 2005

*CPA Juan A. Rivera
Levitown, Puerto Rico*

The Municipality of Aibonito respectfully submits the following corrective action plan for the year ended June 30, 2004.

A Period: Fiscal year ended June 30, 2004

Mr. Rivera:

The findings are numbered consistently with the number assigned in the schedule.

Finding – Schedule of financial statements findings and question cost

Finding 04-01 : PERSONNEL

Reportable condition: See condition 04-01

Recommendation: Do a purge of all personnel files, regardless of the year in order to evidence employee's good standing.

Action Taken: We accept your recommendation, the Municipality should finish collecting all the evidence and filing them by June 30, 2005.

Finding 04-02: Disbursement Test

Reportable Condition: See condition 04 – 02

Recommendation: Follow the procedures necessary to attach all information require to have a good internal control and to comply with the regulation.

Action Taken: Instructions were given to everyone who signs the vouchers to write the date on it.

Finding 04-03: Accounting and reporting system

Reportable Condition: See condition 04-03

Recommendation: See recommendation 04-03

Action Taken: The accounting system is not updated and the ending balance in balance sheet are not real. Personnel will be train in the preparation of financial statements and reporting. This will be accomplish by June 30, 2005.

Finding 04-04: Budget Year and Liquidation

Reportable Condition: See condition 04-04

Recommendation: See recommendation 04-04

Action Taken: Special funds disbursements will be included in the year end liquidation.

Finding 04-05: Volume of Business Tax

Reportable Condition: See condition 04-05

Recommendation: See recommendation 04-05

Action Taken: Calculation of taxes will be done properly. All mistakes will be corrected and invoices will be sent to taxpayer immediately. Volume of business declaration incomplete will be returned to the taxpayer. Tax collectors will visit taxpayers and prepare tax invoices.

Finding 04-06: Contracts

Reportable Condition: See condition 04-06

Recommendation: See Recommendation 04-06

Action Taken: We accept your recommendation

Finding 04-07 Utility Schedule

Reportable Condition: See condition 04-07

Recommendation: All tenant files should be revised annually to insure that changes in utilities were kept and if there are changes, a new calculation sheet should be made for the period mentioned above. For people who have more than one copy of the schedule should be kept in the most recent file.

Action taken: We accept the recommendations and have given specific instructions to the Section 8 staff to purge all the tenant files, up-date and verify the Utility Schedule computation to reflect any reported changes. Also to verify the information with the HUD-50058, in order to up-date both documents any file that may be incomplete. This procedure shall be done in the next 60 days and a report shall be submitted to the Director of the Federal Programs Office.

Finding 04-08 Cash Management

Reportable Condition ; See condition 04-08

Recommendation : Comment this problem with HUD office about the amount in the Section 8 bank account and request a solution for this situation.

Action taken : We accept your recommendations , furthermore the staff of the Section 8 Program have been instructed as to the establishment of written communication with Mr. Jose M. Díaz – HUD San Juan Office and Ms. Sylvia Boyle –Financial Management Center, reporting this situation and requesting technical assistance in order to proceed with the correction and compliance of HUD requirements . As soon as we receive the reply, our staff shall correct the situation and inform the results .We shall do our best to comply.

Finding 04-09 Housing Quality Standards

Reportable Condition : 04-09

Recommendation : The Municipality should improve the HQS procedures in order to comply with federal regulations.

Action taken : We accept your recommendations, additionally the Coordinator of the Section 8 program has been instructed to comply and update the following procedures established in our administrative plan, this shall aid in the improvement of HQS internal and HUD required procedures ;

- 1) Purge all tenant files in order to verify that the inspections are being done as the established Inspection Schedule , prepared for that purpose.*
- 2) Determine if the inspections are being conducted in the 60 to 90 days prior to the expiration of the HAP Contract.*
- 3) Verify the inspection date on the HUD-50058 and the HUD-52581 .*
- 4) If necessary up-date the Inspection Schedule.*
- 5) Prepare and up-date the 24 hour emergency report , for HQS conditions that need be repaired in 24, 48 or 72 hours , as may apply.*
- 6) Obtain up-dated information in order to comply with the Hot Water regulation, by establishing an inspection schedule to verify compliance with the Hot Water regulations in all the units under actual HAP contracts.*
- 7) Continue with the 10% Quality Control of HQS inspections.*
- 8) Prepare a monthly report of HQS inspections conducted and units that did not comply with the minimum HQS and the date of total compliance.*
- 9) Prepare an emergency report including specific information related with the date the situation was reported and corrected , a copy of the report shall be included in the tenant file along with the required HUD form .*

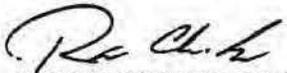
Finding 04-12 Disbursement

Reportable Conditions : 04-12

Recommendation : Maintain the documents required to support the disbursement in file , and follow the procedures to have a good internal control.

Action taken : We accept your recommendations, furthermore all those who sign the vouchers have been instructed to also include the date on the document.

Cordially,



RAMON COLON LOPEZ

Finance Director

RCL/lhc



Estado Libre Asociado de Puerto Rico
Unidad de Auditoría Interna
Municipio de Aibonito
Apartado 2004
Aibonito, Puerto Rico 00705

Tel. 735-2175

Fax. 735-3237

RECIBIDO
UNIDAD DE AUDITORIA
OCT-4 AM 10:19

Carta No 12515

30 de septiembre de 2005

Sra. Elsie Ramírez Dros
Comisionada Auxiliar
Área de Reglamentación e Intervención
Oficina del Comisionado de Asuntos Municipales
San Juan, Puerto Rico

RECIBIDO
UNIDAD DE AUDITORIA
OCT-4 PM 1:41
COMISIONADO DE ASUNTOS MUNICIPALES
E INTERVENCION

Señora Ramírez:

Mediante la carta del 22 de agosto de 2005, nos solicita evidencia suficiente para la corrección de los hallazgos señalados en la Auditoría Sencilla al 30 de junio de 2004, de nuestro Municipio.

En respuesta a su solicitud adjunto la siguiente evidencia:

Finding 04-12 - Disbursement

- Cartas enviadas a los funcionarios y empleados autorizados a firmar los comprobantes de desembolso.- **Anejo I**

Finding 04-13 - Davis Bacon Act

- Carta a la Secretaria Municipal - **Anejo II**

Prior Year Finding

- Carta de la Directora de Recursos Humanos a los empleados de la Oficina de Programas Federales.- **Anejo III**

De tener alguna duda, favor de comunicarse a mi oficina.

Cordialmente,

Nitza Rodríguez Martínez

Nitza Rodríguez Martínez
Auditora

**Corrective Action Plan
for Single Audit Report
At year ended in June 30, 2004**

■ **Anejo I**



Estado Libre Asociado de Puerto Rico
Unidad de Auditoria Interna
Municipio de Aibonito
Apartado 2004
Aibonito, Puerto Rico 00705



Tel. 735-2175

Fax. 735-3237

19 de septiembre de 2005.

Sra. Marilyn Mendoza Cruz
Oficial de Pre-intervenciones
Municipio de Aibonito

Señora Mendoza:

Anteriormente se le informó verbalmente, que al preintervenir los comprobantes de desembolsos estos deben poseer todas las firmas y fechas además, de todos sus justificantes antes de ser enviado para imprimir los cheques.

No obstante, le recuerdo que mantenga esta práctica para evitar señalamientos en las auditorías realizadas.

Cualquier duda, favor de comunicarse a mi oficina.

Estoy a su disposición para mejorar el servicio a nuestra ciudadanía.

Cordialmente,

Nitza Rodriguez Martinez
Nitza Rodriguez Martinez
Auditor I

RECEIVED
SEP 22 2005
BY: *Imma*



Estado Libre Asociado de Puerto Rico
Unidad De Auditoría Interna
Apartado 2004
Aibonito, Puerto Rico 00705



Tel. 735-2175

Fax. 735-3237

19 de septiembre de 2005.

Sra. Lymari Aguirre Negrón
Directora de Finanzas
Municipio de Aibonito

Señora Aguirre:

Anteriormente se le informó verbalmente, al anterior Director de Finanzas, que al certificar un desembolso el comprobante debe poseer su firma y la fecha en que certifica el mismo.

No obstante, le recuerdo que mantenga esta práctica para evitar posibles señalamientos en las auditorías realizadas.

Cualquier duda, favor de comunicarse a mi oficina.

Estoy a su disposición para mejorar el servicio a nuestra ciudadanía.

Cordialmente,

Nitza Rodríguez Martínez
Nitza Rodríguez Martínez
Auditor I





*Estado Libre Asociado de Puerto Rico
Unidad de Auditoría Interna
Municipio de Aibonito
Aparlado 2004
Aibonito, Puerto Rico 00705*



Tel. 735-2475

Fax. 735-3237

19 de septiembre de 2005.

Sra. Gladys Y. Marrero Sáez
Directora de Programas Federales
Municipio de Aibonito

Señora Marrero:

Anteriormente se le informó verbalmente, que al certificar un desembolso el comprobante debe poseer su firma y la fecha en que certifica el mismo.

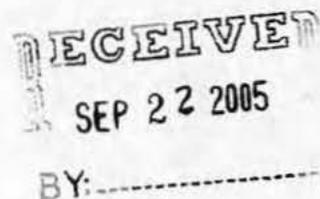
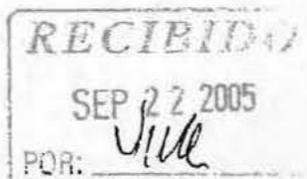
No obstante, le recuerdo que mantenga esta práctica para evitar posibles señalamientos en las auditorías realizadas.

Cualquier duda, favor de comunicarse a mi oficina.

Estoy a su disposición para mejorar el servicio a nuestra ciudadanía.

Cordialmente,

Nitza Rodríguez Martínez
Nitza Rodríguez Martínez
Auditor I





Estado Libre Asociado de Puerto Rico
Unidad de Auditoría Interna
Municipio de Aibonito
Apartado 2004
Aibonito, Puerto Rico 00705



Tel. 735-2175

Fax. 735-3237

19 de septiembre de 2005.

Sra. Yolanda Hernández Rivera
Pagadora Oficial
Municipio de Aibonito

Señora Hernández:

Anteriormente se le informó verbalmente, que al efectuar un pago el comprobante de desembolso debe poseer su firma y la fecha en que efectúa el mismo.

No obstante, le recuerdo que mantenga esta práctica para evitar posibles señalamientos en las auditorías realizadas.

Cualquier duda, favor de comunicarse a mi oficina.

Estoy a su disposición para mejorar el servicio a nuestra ciudadanía.

Cordialmente,

Nitza Rodríguez Martínez
Nitza Rodríguez Martínez
Auditor I

RECEIVED

SEP 22 2005

BY: *Yolanda H.R.*

**Corrective Action Plan
for Single Audit Report
At year ended in June 30, 2004**

■ **Anejo II**



Hon. José Alberto Díaz Robles - Alcalde

27 de septiembre de 2005

SRA. ROSALIA HERNANDEZ
Secretaria Municipal
Departamento de Secretaría
Municipio de Abonito

Estimada señora Hernández:

Le estoy haciendo llegar el "Federal Labor Standards Provisions" el cual deberá formar parte de todos los contratos de Programas Federales para el fiel cumplimiento de la Ley de HUD.

Además de anexar este documento adjunto, se deberá incluir la siguiente cláusula en los contratos: Para el cumplimiento del "Davis Bacon Act", el cual requiere el que un trabajador reciba una paga no menor a la escala salarial correspondiente a su categoría. Todo contratista deberá entregar copia de la nómina semanal del proyecto.

Agradeceremos su atención a este asunto, para evitar incumplimientos a la Ley..

Cordialmente


GLADYS Y. MARRERO SAEZ
Directora

Rec. Rosalia Hernandez

Applicability

The Project or Program to which the construction work covered by this contract pertains is being assisted by the United States of America and the following Federal Labor Standards Provisions are included in this Contract pursuant to the provisions applicable to such Federal assistance.

A. 1. (i) Minimum Wages. All laborers and mechanics employed or working upon the site of the work will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR Part 3), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics. Contributions made or costs reasonably anticipated for bona fide fringe benefits under Section I(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of 29 CFR 5.5(a)(1)(iv); also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs, which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period.

Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the wage determination for the classification of work actually performed, without regard to skill, except as provided in 29 CFR 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided, That the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under 29 CFR 5.5(a)(1)(ii) and the Davis-Bacon poster (WH-1321) shall be posted at all times by the contractor and its subcontractors at the site of the work in a prominent and accessible, place where it can be easily seen by the workers.

(ii) (a) Any class of laborers or mechanics which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination. HUD shall approve an additional classification and wage rate and fringe benefits therefor only when the following criteria have been met:

(1) The work to be performed by the classification requested is not performed by a classification in the wage determination; and

(2) The classification is utilized in the area by the construction industry; and

(3) The proposed wage rate, including any bona fide fringe benefits, bears a reasonable relationship to the wage rates contained in the wage determination.

(b) If the contractor and the laborers and mechanics to be employed in the classification (if known), or their representatives, and HUD or its designee agree on the classification and wage rate (including the amount designated for fringe benefits where

appropriate), a report of the action taken shall be sent by HUD or its designee to the Administrator of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Washington, D.C. 20210. The Administrator, or an authorized representative, will approve, modify, or disapprove every additional classification action within 30 days of receipt and so advise HUD or its designee or will notify HUD or its designee within the 30-day period that additional time is necessary. (Approved by the Office of Management and Budget under OMB control number 1215-0140.)

(c) In the event the contractor, the laborers or mechanics to be employed in the classification or their representatives, and HUD or its designee do not agree on the proposed classification and wage rate (including the amount designated for fringe benefits, where appropriate), HUD or its designee shall refer the questions, including the views of all interested parties and the recommendation of HUD or its designee, to the Administrator for determination. The Administrator, or an authorized representative, will issue a determination within 30 days of receipt and so advise HUD or its designee or will notify HUD or its designee within the 30-day period that additional time is necessary. (Approved by the Office of Management and Budget under OMB Control Number 1215-0140.)

(d) The wage rate (including fringe benefits where appropriate) determined pursuant to subparagraphs (1)(ii)(b) or (c) of this paragraph, shall be paid to all workers performing work in the classification under this contract from the first day on which work is performed in the classification.

(iii) Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.

(iv) If the contractor does not make payments to a trustee or other third person, the contractor may consider as part of the wages of any laborer or mechanic the amount of any costs reasonably anticipated in providing bona fide fringe benefits under a plan or program, Provided, That the Secretary of Labor has found, upon the written request of the contractor, that the applicable standards of the Davis-Bacon Act have been met. The Secretary of Labor may require the contractor to set aside in a separate account assets for the meeting of obligations under the plan or program. (Approved by the Office of Management and Budget under OMB Control Number 1215-0140.)

2. Withholding. HUD or its designee shall upon its own action or upon written request of an authorized representative of the Department of Labor withhold or cause to be withheld from the contractor under this contract or any other Federal contract with the same prime contractor, or any other Federally-assisted contract subject to Davis-Bacon prevailing wage requirements, which is held by the same prime contractor so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics, including apprentices, trainees and helpers, employed by the contractor or any subcontractor the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic, including any apprentice, trainee or helper, employed or working on the site of the work, all or part

of the wages required by the contract, HUD or its designee may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased. HUD or its designee may, after written notice to the contractor, disburse such amounts withheld for and on account of the contractor or subcontractor to the respective employees to whom they are due. The Comptroller General shall make such disbursements in the case of direct Davis-Bacon Act contracts.

3. (i) Payrolls and basic records. Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in Section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5 (a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in Section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that the commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs. (Approved by the Office of Management and Budget under OMB Control Numbers 1215-0140 and 1215-0017.)

(ii) (a) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to HUD or its designee if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant sponsor, or owner, as the case may be, for transmission to HUD or its designee. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i). This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. (Approved by the Office of Management and Budget under OMB Control Number 1215-0149.)

(b) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be maintained under 29 CFR 5.5 (a)(3)(i) and that such information is correct and complete;

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll

period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in 29 CFR Part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

(c) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by subparagraph A.3.(ii)(b).

(d) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under Section 1001 of Title 18 and Section 231 of Title 31 of the United States Code.

(iii) The contractor or subcontractor shall make the records required under subparagraph A.3.(i) available for inspection, copying, or transcription by authorized representatives of HUD or its designee or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, HUD or its designee may, after written notice to the contractor, sponsor, applicant or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR 5.12.

4. Apprentices and Trainees.

(i) Apprentices. Apprentices will be permitted to work at less than the predetermined rate for the work they performed when they are employed pursuant to and individually registered in a bona fide apprenticeship program registered with the U.S. Department of Labor, Employment and Training Administration, Office of Apprenticeship Training, Employer and Labor Services, or with a State Apprenticeship Agency recognized by the Office, or if a person is employed in his or her first 90 days of probationary employment as an apprentice in such an apprenticeship program, who is not individually registered in the program, but who has been certified by the Office of Apprenticeship Training, Employer and Labor Services or a State Apprenticeship Agency (where appropriate) to be eligible for probationary employment as an apprentice. The allowable ratio of apprentices to journeymen on the job site in any craft classification shall not be greater than the ratio permitted to the contractor as to the entire work force under the registered program. Any worker listed on a payroll at an apprentice wage rate, who is not registered or otherwise employed as stated above, shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any apprentice performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. Where a contractor is performing construction on a project in a locality other than that in which its program is registered, the ratios and wage rates (expressed in percentages of the journeyman's hourly rate) specified in the contractor's or subcontractor's registered program shall be observed. Every apprentice must be paid at not less than the rate specified in the registered program for the apprentice's level of progress, expressed as a percentage of the

journeymen hourly rate specified in the applicable wage determination. Apprentices shall be paid fringe benefits in accordance with the provisions of the apprenticeship program. If the apprenticeship program does not specify fringe benefits, apprentices must be paid the full amount of fringe benefits listed on the wage determination for the applicable classification. If the Administrator determines that a different practice prevails for the applicable apprentice classification, fringes shall be paid in accordance with that determination. In the event the Office of Apprenticeship Training, Employer and Labor Services, or a State Apprenticeship Agency recognized by the Office, withdraws approval of an apprenticeship program, the contractor will no longer be permitted to utilize apprentices at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(ii) **Trainees.** Except as provided in 29 CFR 5.16, trainees will not be permitted to work at less than the predetermined rate for the work performed unless they are employed pursuant to and individually registered in a program which has received prior approval, evidenced by formal certification by the U.S. Department of Labor, Employment and Training Administration. The ratio of trainees to journeymen on the job site shall not be greater than permitted under the plan approved by the Employment and Training Administration. Every trainee must be paid at not less than the rate specified in the approved program for the trainee's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Trainees shall be paid fringe benefits in accordance with the provisions of the trainee program. If the trainee program does not mention fringe benefits, trainees shall be paid the full amount of fringe benefits listed on the wage determination unless the Administrator of the Wage and Hour Division determines that there is an apprenticeship program associated with the corresponding journeyman wage rate on the wage determination which provides for less than full fringe benefits for apprentices. Any employee listed on the payroll at a trainee rate who is not registered and participating in a training plan approved by the Employment and Training Administration shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In addition, any trainee performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In the event the Employment and Training Administration withdraws approval of a training program, the contractor will no longer be permitted to utilize trainees at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(iii) **Equal employment opportunity.** The utilization of apprentices, trainees and journeymen under 29 CFR Part 5 shall be in conformity with the equal employment opportunity requirements of Executive Order 11246, as amended, and 29 CFR Part 30.

5. Compliance with Copeland Act requirements. The contractor shall comply with the requirements of 29 CFR Part 3 which are incorporated by reference in this contract

6. Subcontracts. The contractor or subcontractor will insert in any subcontracts the clauses contained in subparagraphs 1 through 11 of this paragraph A and such other clauses as HUD or its designee may by appropriate instructions require, and a copy of the applicable prevailing wage decision, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in this paragraph.

7. Contract termination; debarment. A breach of the contract clauses in 29 CFR 5.5 may be grounds for termination of the contract and for debarment as a contractor and a subcontractor as provided in 29 CFR 5.12.

8. Compliance with Davis-Bacon and Related Act Requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR Parts 1, 3, and 5 are herein incorporated by reference in this contract

9. Disputes concerning labor standards. Disputes arising out of the labor standards provisions of this contract shall not be subject to the general disputes clause of this contract. Such disputes shall be resolved in accordance with the procedures of the Department of Labor set forth in 29 CFR Parts 5, 6, and 7. Disputes within the meaning of this clause include disputes between the contractor (or any of its subcontractors) and HUD or its designee, the U.S. Department of Labor, or the employees or their representatives.

10. (i) Certification of Eligibility. By entering into this contract the contractor certifies that neither it (nor he or she) nor any person or firm who has an interest in the contractor's firm is a person or firm ineligible to be awarded Government contracts by virtue of Section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1) or to be awarded HUD contracts or participate in HUD programs pursuant to 24 CFR Part 24.

(ii) No part of this contract shall be subcontracted to any person or firm ineligible for award of a Government contract by virtue of Section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1) or to be awarded HUD contracts or participate in HUD programs pursuant to 24 CFR Part 24.

(iii) The penalty for making false statements is prescribed in the U.S. Criminal Code, 18 U.S.C. 1001. Additionally, U.S. Criminal Code, Section 1 01 0, Title 18, U.S.C., "Federal Housing Administration transactions", provides in part: "Whoever, for the purpose of . . . influencing in any way the action of such Administration . . . makes, utters or publishes any statement knowing the same to be false . . . shall be fined not more than \$5,000 or imprisoned not more than two years, or both."

11. Complaints, Proceedings, or Testimony by Employees. No laborer or mechanic to whom the wage, salary, or other labor standards provisions of this Contract are applicable shall be discharged or in any other manner discriminated against by the Contractor or any subcontractor because such employee has filed any complaint or instituted or caused to be instituted any proceeding or has testified or is about to testify in any proceeding under or relating to the labor standards applicable under this Contract to his employer.

B. Contract Work Hours and Safety Standards Act. The provisions of this paragraph B are applicable only where the amount of the prime contract exceeds \$100,000. As used in this paragraph, the terms "laborers" and "mechanics" include watchmen and guards.

(1) **Overtime requirements.** No contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any such laborer or mechanic in any workweek in which he or she is employed on such work to work in excess of 40 hours in such workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times the basic rate of pay for all hours worked in excess of 40 hours in such workweek.

(2) **Violation; liability for unpaid wages; liquidated damages.** In the event of any violation of the clause set forth in subpara-

graph (1) of this paragraph, the contractor and any subcontractor responsible therefor shall be liable for the unpaid wages. In addition, such contractor and subcontractor shall be liable to the United States (in the case of work done under contract for the District of Columbia or a territory, to such District or to such territory), for liquidated damages. Such liquidated damages shall be computed with respect to each individual laborer or mechanic, including watchmen and guards, employed in violation of the clause set forth in subparagraph (1) of this paragraph, in the sum of \$10 for each calendar day on which such individual was required or permitted to work in excess of the standard workweek of 40 hours without payment of the overtime wages required by the clause set forth in sub paragraph (1) of this paragraph.

(3) Withholding for unpaid wages and liquidated damages. HUD or its designee shall upon its own action or upon written request of an authorized representative of the Department of Labor withhold or cause to be withheld, from any moneys payable on account of work performed by the contractor or subcontractor under any such contract or any other Federal contract with the same prime contract, or any other Federally-assisted contract subject to the Contract Work Hours and Safety Standards Act which is held by the same prime contractor such sums as may be determined to be necessary to satisfy any liabilities of such contractor or subcontractor for unpaid wages and liquidated damages as provided in the clause set forth in subparagraph (2) of this paragraph.

(4) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses set forth in subparagraph (1) through (4) of this paragraph and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for compliance by any subcontractor or lower tier subcontractor with the clauses set forth in subparagraphs (1) through (4) of this paragraph.

C. Health and Safety. The provisions of this paragraph C are applicable only where the amount of the prime contract exceeds \$100,000.

(1) No laborer or mechanic shall be required to work in surroundings or under working conditions which are unsanitary, hazardous, or dangerous to his health and safety as determined under construction safety and health standards promulgated by the Secretary of Labor by regulation.

(2) The Contractor shall comply with all regulations issued by the Secretary of Labor pursuant to Title 29 Part 1926 and failure to comply may result in imposition of sanctions pursuant to the Contract Work Hours and Safety Standards Act, 40 USC 3701 et seq.

(3) The Contractor shall include the provisions of this paragraph in every subcontract so that such provisions will be binding on each subcontractor. The Contractor shall take such action with respect to any subcontract as the Secretary of Housing and Urban Development or the Secretary of Labor shall direct as a means of enforcing such provisions.

**Corrective Action Plan
for Single Audit Report
At year ended in June 30, 2004**

■ **Anejo III**



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29 de septiembre de 2005

Sra. Gladys Y. Marrero
Programas Federales
Municipio de Aibonito

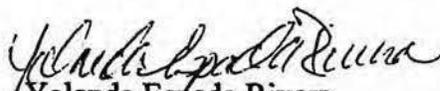
Señora Marrero:

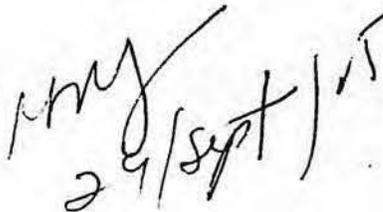
Luego de haber verificado los expedientes de los empleados de su oficina le informo sobre los documentos que aún no han sido entregados por estos para mantener al día los expedientes.

Los documentos solicitados deberán ser entregados a la oficina de Recursos Humanos no más tarde del 7 de octubre de 2005.

Agradeceré su pronta atención.

Cordialmente,


Yolanda Espada Rivera
Directora Recursos Humanos


29/sept/05