

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE AIBONITO**

**AUDITORIA 2004-2005**

**30 DE JUNIO DE 2005**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO**

**Independent Auditors' Report**

**Basic Financial Statements and  
Supplemental Schedules**

**Year Ended June 30, 2005**

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**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES  
YEAR ENDED JUNE 30, 2005**

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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, 2005, 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, which statements reflect total assets of \$ 3,123,448 as of June 30, 2005, and total revenues of \$ 481,895, for the year then ended. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report 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, and the aggregate remaining fund information of the Municipality of Aibonito of the Commonwealth of Puerto Rico, as of June 30, 2005, 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 14, 2005 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, CPA  
License # 2214

December 14, 2004  
Toa Baja, Puerto Rico



Stamp NO. 2105582 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
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, 2005. Please read it in conjunction with the Municipality's financial statements.

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 \$2,660,942 during the year.

In the governmental fund financial statements, the net assets decreased by \$899,597.

The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$1,189,693.

The Municipality's Component Unit (Las Flores Apartments) reported a net asset decrease of \$122,801.

On a budgetary basis, actual revenues exceeded actual expenditures by \$4,695.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$1,429,862.

Capital expenditures for acquisition of land, vehicles, construction and improvements of recreational facilities, infrastructure, and construction in progress, amounted to \$4,683,162.

The Municipality issued bonds amounting to \$785,000 to finance capital improvements.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, decreased by \$1,156,451.

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

Other Governmental Funds, which accounts for all other special purposes funds, reported a net asset increase of \$228,756.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, decreased by \$212,071.

**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.

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

**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 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 (FmHA), 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.

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

**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 reports 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 \$25,288,515 as of June 30, 2005, while the Component Unit's combined net assets totaled \$1,837,450.

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 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 portions of the Component Unit's net assets is the amount 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

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

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  
As of June 30, 2005**

|  | Governmental<br><u>Activities</u> | Component<br><u>Unit</u> |
|--|-----------------------------------|--------------------------|
| Current assets                                     | \$ 6,096,457                      | \$ 65,565                |
| Capital assets - net                               | 25,552,925                        | 2,292,160                |
| Other assets                                       | <u>2,260,323</u>                  | <u>765,723</u>           |
| Total assets                                       | <u>33,909,705</u>                 | <u>3,123,448</u>         |
| Current liabilities                                | 3,635,608                         | 66,328                   |
| Noncurrent liabilities                             | <u>4,985,582</u>                  | <u>1,219,670</u>         |
| Total liabilities                                  | <u>8,621,190</u>                  | <u>1,285,998</u>         |
| Invested in capital assets,<br>net of related debt | 21,305,925                        | 1,038,318                |
| Unrestricted                                       | (1,306,894)                       | 50,373                   |
| Restricted   | <u>5,289,484</u>                  | <u>748,759</u>           |
| Total net assets                                   | <u>\$ 25,288,515</u>              | <u>\$ 1,837,450</u>      |

**Changes in Net Assets**

The Municipality's net assets increased by \$2,660,942. Approximately 31 percent of the Municipality's total revenue came from taxes, while 63 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6 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 \$122,801. 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 25 percent. The largest expenses were for depreciation, interest, administration and maintenance.

A summary of government-wide data is presented below.

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

**Condensed Statement of Activities  
For the year ended June 30, 2005**

**GOVERNMENTAL ACTIVITIES:**

|   |                     |
|---|---------------------|
| Program revenues:                       |                     |
| Charges for services                    | \$ 466,226          |
| Operating grants and contributions      | 2,190,602           |
| Capital grants and contributions        | 2,636,300           |
| General revenues:                       |                     |
| Property taxes                          | 2,644,512           |
| Municipal license tax                   | 1,383,063           |
| Other                                   | 348,134             |
| Grants and contributions not restricted | <u>3,294,404</u>    |
| Total revenues                          | <u>12,963,241</u>   |
| Expenses:                               |                     |
| General Administration                  | 3,937,874           |
| Housing and child care                  | 485,657             |
| Public safety                           | 433,332             |
| Sports and recreation                   | 535,675             |
| Sanitation                              | 977,219             |
| Interest on long-term debt              | 307,723             |
| Depreciation                            | 504,689             |
| Public works                            | <u>3,120,130</u>    |
| Total expenses                          | <u>10,302,299</u>   |
| Change in net assets                    | <u>\$ 2,660,942</u> |

**Condensed Statement of Activities  
COMPONENT UNIT  
For the year ended June 30, 2005**

|                            |                     |
|----------------------------|---------------------|
| Revenues:                  |                     |
| Rent                       | \$ 468,045          |
| Other                      | 13,850              |
| Total revenue              | <u>481,895</u>      |
| Expenses:                  |                     |
| Administrative             | 179,420             |
| Operating and maintenance  | 126,998             |
| Depreciation               | 179,418             |
| Interest on long-term debt | 89,398              |
| Other                      | 29,462              |
| Total expenses             | <u>604,696</u>      |
| Change in net assets       | <u>\$ (122,801)</u> |

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
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 are 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 \$5,289,484, a decrease of \$890,943 in comparison with the prior year. There are reservations of fund balance amounting to \$5,289,484. This is the fund balance that it is not available for new spending because it has already been committed (1) to pay debt service \$994,342, (2) to pay for capital projects \$2,661,006, (3) reserved for encumbrances \$82,702, and (4) for other purposes \$1,551,434. Accordingly, the unreserved fund balance reports no balance in the governmental funds, although there are other commitments such as additional encumbrances in the amount of \$200,174 and approved improvements for infrastructure of \$597,000.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has a balance of \$152,880. The fund balance of the general fund decrease by \$1,189,693. Key factors in the decrease of the fund balance are as follows:

|   |             |
|---|-------------|
| Excess revenues over expenditures       | \$ 437,752  |
| Less Transfers for capital expenditures | \$1,627,445 |

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

|                            |             |
|----------------------------|-------------|
| Decrease in total revenues | \$ 846,838  |
| Increase in expenditures   | \$1,140,250 |

Decrease of \$846,838 in total revenues was mainly due to the following reasons:

- Decrease of \$493,951 in miscellaneous revenues.
- Decrease of \$274,620 in property taxes.
- Decrease of \$73,738 in volume of business tax.
- Decrease of \$41,823 in contributions in-lien of taxes from AEE.
- Net increase of \$37,294 in all other revenue items.

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

The decrease of \$1,140,250 in expenditures is due to the following reasons:

\$128,226 increases in general administration expenditures mainly for Personnel Office, Finance Office and Mayor Office.

\$1,401,376 decreases in capital outlays, mainly for infrastructure and improvements.

\$132,895 net increases in all other expenditures categories, such as public works, safety, and sports and recreations.

The Capital Project Fund Balance, which is reserved for major capital expenditures, reflected an increase of \$1,429,862 mainly for loan proceeds and Special Communities Projects. Capital expenditures in this fund for in progress construction, improvements of buildings, recreational facilities and infrastructure, amounted to \$3,630,102.

The Joint resolutions Fund, which accounts for PR Government restricted, grants for special purposes, decreased by \$1,156,451, mainly for special assignments expenditures directed to improve infrastructure, and sports and recreational facilities.

Other Governmental Funds, which accounts for all other special purposes funds, reported a net asset increase of \$228,756 due to excess revenues over expenditures.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, decreased by \$212,071, mainly for a decrease in revenues and increase in expenditures.

**Component Unit**

Revenues of the Municipality's component unit reported \$481,895 for a decrease of 2 percent. Expenses amounted to \$604,696, including \$179,418 charge for depreciation, for an increase of 11 percent. Net assets of the component unit decreased by \$122,801.

**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 \$273,485, while actual expenditures were under budgeted amounts by \$278,180, for a net favorable variance of \$4,695. The most significant variance between budget and actual results were as follows:

Other miscellaneous revenues were \$350,445 less than budgeted amount.

Public work expenditures were \$200,473 less than budgeted amount.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's and its component unit investment in capital assets as of June 30, 2005, amounts to \$31,729,022 and \$4,496,805 respectively, with accumulated depreciation of \$6,176,097 and \$2,204,645, leaving a net book value of \$25,552,925 for the Municipality and \$2,292,160 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 \$8,349,330 for the year. This expenditure includes the construction in progress of buildings, recreational facilities improvements and infrastructure for \$8,123,031, acquisition of municipal vehicles for \$136,255, equipments for \$28,644 and land for \$61,400.

Depreciation charges for the year totaled \$504,689 for governmental activities and \$179,418 for the component unit.

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, 2005 the Municipality has \$1,181,911 of unexpended proceeds from bond issuances and \$738,707 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").

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

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, 2005 the Municipality issued bonds amounting to \$785,000 to finance capital expenditures and improvements. As of June 30, 2005 the Municipality Long Term Debt is composed of \$4,472,000 in bonds payable. Other obligations include accrued vacation pay, sick leave and related taxes for \$1,081,894.

As of June 30, 2005 the Municipality Component Unit has a mortgage loan payable in the amount of \$1,253,842. 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 2005-2006 fiscal year, which reflected a reduction in revenues and expenditures of \$783,470.

The most significant change between the budget for fiscal year 2005-2006 and the one for fiscal year 2004-2005 are as follows:

1. Mayor Office expenditures were reduced by \$350,204.
2. Public Works expenditures for 2005-06 budget were reduced by \$417,794.
3. Construction fee revenue was estimated to decrease by \$280,506.
4. Volume of Business Tax revenue was estimated to increase by \$112,928.
5. Other revenues were estimated to decrease by \$648,498.

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

**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.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

|  | <u>GOVERNMENTAL</u><br><u>ACTIVITIES</u> | <u>COMPONENT</u><br><u>UNIT</u> | <u>2005</u><br><u>TOTAL</u> | <u>2004</u><br><u>TOTAL</u> |
|--|--|---------------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                              |  |                                 |                             |                             |
| Current Assets:                            |  |                                 |                             |                             |
| Cash, including time deposits              | \$ 1,910,133                             | \$ 49,350                       | \$ 1,959,483                | \$ 4,423,482                |
| Accounts receivable:                       |  |                                 |                             |                             |
| Volume of Business Tax                     | 2,496                                    |                                 | 2,496                       | 18,827                      |
| Other                                      |  | 16,215                          | 16,215                      | 41,743                      |
| Due from other AEE                         | 49,402                                   |                                 | 649,402                     | 661,986                     |
| Due from other governments                 | <u>3,534,426</u>                         | -                               | <u>3,534,426</u>            | <u>1,871,521</u>            |
| Total current assets                       | <u>6,096,457</u>                         | <u>5,565</u>                    | <u>6,162,022</u>            | <u>7,017,559</u>            |
| Noncurrent Assets:                         |  |                                 |                             |                             |
| Cash held with fiscal agent                | 2,260,323                                |                                 | 2,260,323                   | 1,949,555                   |
| Capital Assets (net of depreciation)       | 25,552,925                               | 2,292,160                       | 27,845,085                  | 23,571,805                  |
| Reserve for replacements                   |  | 38,619                          | 738,619                     | 894,041                     |
| Other                                      | -  | 27,104                          | 27,104                      | 82,343                      |
| Total noncurrent assets                    | <u>27,813,248</u>                        | <u>3,057,883</u>                | <u>30,871,131</u>           | <u>26,497,744</u>           |
| <b>TOTAL ASSETS</b>                        | <u>33,909,705</u>                        | <u>3,123,448</u>                | <u>37,033,153</u>           | <u>33,515,303</u>           |
| <b>LIABILITIES</b>                         |  |                                 |                             |                             |
| Current Liabilities:                       |  |                                 |                             |                             |
| Accounts payable                           | 288,849                                  | 5,827                           | 304,676                     | 431,841                     |
| Due to other governmental units            | 982,587                                  |                                 | 982,587                     | 797,730                     |
| Deferred Revenues                          | 1,693,210                                | 1                               | 1,693,211                   | 1,450,085                   |
| Current portion of long term debt          | 568,312                                  | 50,500                          | 618,812                     | 425,330                     |
| Other - accrued interest                   | <u>102,650</u>                           | -                               | <u>102,650</u>              | -                           |
| Total current liabilities                  | <u>3,635,608</u>                         | <u>66,328</u>                   | <u>3,701,936</u>            | <u>3,104,986</u>            |
| Noncurrent Liabilities:                    |  |                                 |                             |                             |
| Bonds payable - construction               | 3,818,000                                | 1,203,342                       | 5,021,342                   | 4,756,967                   |
| Notes payable - operations                 | 205,000                                  |                                 | 205,000                     | 225,000                     |
| Accrued compensated absences               | 962,582                                  |                                 | 962,582                     | 832,960                     |
| Other                                      | -  | 6,328                           | 16,328                      | 16,220                      |
| Total noncurrent liabilities               | <u>4,985,582</u>                         | <u>1,219,670</u>                | <u>6,205,252</u>            | <u>5,831,147</u>            |
| <b>TOTAL LIABILITIES</b>                   | <u>8,621,190</u>                         | <u>1,285,998</u>                | <u>9,907,188</u>            | <u>8,936,133</u>            |
| <b>NET ASSETS</b>                          |  |                                 |                             |                             |
| Invested in Capital Assets, net of related | 21,305,925                               | 1,038,318                       | 22,344,243                  | 18,469,500                  |
| Restricted for Capital Projects            | 2,661,006                                | 738,619                         | 3,399,625                   | 2,755,981                   |
| Restricted for Debt Service                | 994,342                                  |                                 | 994,342                     | 1,167,985                   |
| Restricted for Other Purposes              | 1,551,434                                | 10,140                          | 1,561,574                   | 1,869,866                   |
| Reserved for Encumbrances                  | 82,702                                   |                                 | 82,702                      | 576,494                     |
| Reserved for Improvements                  |  |                                 | -                           | 600,000                     |
| Unrestricted                               | <u>(1,306,894)</u>                       | <u>50,373</u>                   | <u>(1,256,521)</u>          | <u>(860,656)</u>            |
| <b>TOTAL NET ASSETS</b>                    | <u>\$ 25,288,515</u>                     | <u>\$ 1,837,450</u>             | <u>\$ 27,125,965</u>        | <u>\$ 24,579,170</u>        |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005**

|   | <u>PROGRAM REVENUES</u> |                                 |   |   | <u>NET (EXPENSE) REVENUE<br/>AND CHANGES IN NET ASSETS</u> |                           |                       |                       |
|---|-------------------------|---------------------------------|---|---|--|---------------------------|-----------------------|-----------------------|
|   | <u>EXPENSES</u>         | <u>CHARGES FOR<br/>SERVICES</u> | <u>OPERATING<br/>GRANTS AND<br/>CONTRIBUTIONS</u> | <u>CAPITAL<br/>GRANTS AND<br/>CONTRIBUTIONS</u> | <u>GOVERNMENTAL<br/>ACTIVITIES</u>                         | <u>COMPONENT<br/>UNIT</u> | <u>2005</u>           | <u>2004</u>           |
|   |                         |                                 |   |   |  |                           | <u>TOTAL</u>          | <u>TOTAL</u>          |
| <b>GOVERNMENTAL ACTIVITIES:</b>             |                         |                                 |   |   |  |                           |                       |                       |
| General Administration                      | \$ 3,937,874            | \$ 466,226                      | \$ 620,163  | \$ 265,951                                      | \$ (2,585,534)   | \$ -                      | \$ (2,585,534)        | \$ (3,389,218)        |
| Public Safety                               | 433,332                 |                                 |   |   | (433,332)  |                           | (433,332)             | (358,096)             |
| Sport and recreation                        | 535,675                 |                                 |   |   | (535,675)  |                           | (535,675)             | (556,082)             |
| Sanitation                                  | 977,219                 |                                 |   |   | (977,219)  |                           | (977,219)             | (915,465)             |
| Public Work                                 | 3,120,130               |                                 | 1,084,782   | 1,214,647                                       | (820,701)  |                           | (820,701)             | 1,079,745             |
| Federal Funds                               | 485,657                 |                                 | 485,657   | 1,155,702                                       | 1,155,702  |                           | 1,155,702             | 1,952,022             |
| Interest Payment                            | 307,723                 |                                 |   |   | (307,723)  |                           | (307,723)             | (206,081)             |
| Depreciation                                | 504,689                 | -                               | -   | -   | (504,689)  | -                         | (504,689)             | (471,454)             |
| Total governmental activities               | <u>10,302,299</u>       | <u>466,226</u>                  | <u>2,190,602</u>                                  | <u>2,636,300</u>                                | <u>(5,009,171)</u>   | <u>-</u>                  | <u>(5,009,171)</u>    | <u>(2,864,629)</u>    |
| <b>COMPONENT UNIT:</b>                      |                         |                                 |   |   |  |                           |                       |                       |
| Las Flores Apartments - general             | 604,696                 | 59,208                          | 408,837   |   |  | (136,651)                 | (136,651)             | (63,633)              |
| Las Flores Apartments - other               | -                       | 1,431                           | -   | -   | -  | 1,431                     | 1,431                 | 1,473                 |
| Total component unit                        | <u>604,696</u>          | <u>60,639</u>                   | <u>408,837</u>                                    | <u>-</u>  | <u>-</u>   | <u>(135,220)</u>          | <u>(135,220)</u>      | <u>(62,160)</u>       |
| <b>TOTAL ACTIVITIES</b>                     | <u>\$ 10,906,995</u>    | <u>\$ 526,865</u>               | <u>\$ 2,599,439</u>                               | <u>\$ 2,636,300</u>                             | <u>\$ (5,009,171)</u>                                      | <u>\$ (135,220)</u>       | <u>\$ (5,144,391)</u> | <u>\$ (2,926,789)</u> |
| <b>GENERAL REVENUES:</b>                    |                         |                                 |   |   |  |                           |                       |                       |
| Property taxes, levied for general purposes |                         |                                 |   |   | 2,171,939  |                           | 2,171,939             | 2,446,559             |
| Property taxes, levied for debt services    |                         |                                 |   |   | 472,573  |                           | 472,573               | 604,083               |
| Volume of business taxes                    |                         |                                 |   |   | 1,383,063  |                           | 1,383,063             | 1,456,801             |
| Government of P.R. Contributions            |                         |                                 |   |   | 3,294,404  |                           | 3,294,404             | 3,233,357             |
| Other                                       |                         |                                 |   |   | 318,988  |                           | 318,988               | 812,939               |
| Interest                                    |                         |                                 |   |   | 29,146   | 12,419                    | 41,565                | 57,415                |
| <b>TOTAL GENERAL REVENUES</b>               |                         |                                 |   |   | <u>7,670,113</u>   | <u>12,419</u>             | <u>7,682,532</u>      | <u>8,611,154</u>      |
| <b>CHANGES IN NET ASSETS</b>                |                         |                                 |   |   |  |                           |                       |                       |
| Net assets - beginning of period            |                         |                                 |   |   | 2,660,942  | (122,801)                 | 2,538,141             | 5,684,365             |
| Prior period adjustments                    |                         |                                 |   |   | 22,618,919   | 1,960,251                 | 24,579,170            | 11,323,295            |
| Net assets - ending of period               |                         |                                 |   |   | <u>8,654</u>   | <u>-</u>                  | <u>8,654</u>          | <u>7,571,510</u>      |
|   |                         |                                 |   |   | <u>\$ 25,288,515</u>                                       | <u>\$ 1,837,450</u>       | <u>\$ 27,125,965</u>  | <u>\$ 24,579,170</u>  |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
BALANCE SHEET  
JUNE 30, 2005**

|  | <u>GENERAL<br/>FUND</u> | <u>JOINT<br/>RESOLUTIONS</u> | <u>CAPITAL<br/>PROJECTS</u> | <u>DEBT<br/>SERVICES</u> | <u>OTHER<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>2005<br/>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>2004<br/>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|--|-------------------------|------------------------------|-----------------------------|--------------------------|---|--|--|
| <b>ASSETS</b>  |                         |                              |                             |                          |   |  |  |
| Cash, including time deposits  | \$ 872,060              | \$ 126,507                   | \$ 603,988                  | \$ -                     | \$ 307,578                              | \$ 1,910,133                                     | \$ 4,290,330                                     |
| Cash held with fiscal agent  |                         |                              | 1,181,911                   | 1,021,189                | 57,223                                  | 2,260,323  | 1,949,555  |
| Accounts receivable:   |                         |                              |                             |                          |   | -  | -  |
| Volume of Business Tax   | 2,496                   |                              |                             |                          |   | 2,496  | 18,827   |
| Property Taxes - CRIM  | -                       |                              |                             |                          |   | -  | 24,446   |
| Other  | -                       |                              |                             |                          |   | -  | -  |
| Due from AEE   | 649,402                 |                              |                             |                          |   | 649,402  | 661,986  |
| Due from other governments   | 123,616                 | 167,840                      | 3,033,044                   |                          | 209,926                                 | 3,534,426  | 1,871,521  |
| Due from other funds   | 2,931,676               | 1,500,687                    | 35,032                      | -                        | 316,930                                 | 4,784,325  | 2,377,257  |
| <b>TOTAL ASSETS</b>  | <u>4,579,250</u>        | <u>1,795,034</u>             | <u>4,853,975</u>            | <u>1,021,189</u>         | <u>891,657</u>                          | <u>13,141,105</u>                                | <u>11,193,922</u>                                |
| <b>LIABILITIES</b>   |                         |                              |                             |                          |   |  |  |
| Accounts payable   | 244,980                 | -                            | -                           | -                        | -                                       | 244,980  | 388,425  |
| Accounts payable-other   | 41,161                  | 2,708                        |                             |                          |   | 43,869   | -  |
| Accrued interest payable   | 5,625                   |                              |                             | 97,025                   |   | 102,650  | -  |
| Due to other governmental units  | 982,587                 |                              |                             |                          |   | 982,587  | 797,730  |
| Deferred Revenues  | 1,299,368               |                              |                             |                          | 393,842                                 | 1,693,210  | 1,450,083  |
| Due to other funds   | 1,852,649               | -                            | 2,931,676                   | -                        | -                                       | 4,784,325  | 2,377,257  |
| <b>TOTAL LIABILITIES</b>   | <u>4,426,370</u>        | <u>2,708</u>                 | <u>2,931,676</u>            | <u>97,025</u>            | <u>393,842</u>                          | <u>7,851,621</u>                                 | <u>5,013,495</u>                                 |
| <b>FUND BALANCES</b>   |                         |                              |                             |                          |   |  |  |
| Reserved for:  |                         |                              |                             |                          |   |  |  |
| Capital Projects   |                         | 738,707                      | 1,922,299                   |                          |   | 2,661,006  | 1,841,761  |
| Debt Service   | 70,178                  |                              |                             | 924,164                  |   | 994,342  | 1,167,985  |
| Other Purposes   |                         | 1,053,619                    |                             |                          | 497,815                                 | 1,551,434  | 1,859,858  |
| Encumbrances   | 82,702                  |                              |                             |                          |   | 82,702   | 576,494  |
| Improvements   | -                       |                              |                             |                          |   | -  | 600,000  |
| Unreserved   | -                       | -                            | -                           | -                        | -                                       | -  | 134,329  |
| <b>TOTAL FUND BALANCES</b>   | <u>152,880</u>          | <u>1,792,326</u>             | <u>1,922,299</u>            | <u>924,164</u>           | <u>497,815</u>                          | <u>5,289,484</u>                                 | <u>6,180,427</u>                                 |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>   | <u>\$ 4,579,250</u>     | <u>\$ 1,795,034</u>          | <u>\$ 4,853,975</u>         | <u>\$ 1,021,189</u>      | <u>\$ 891,657</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 |                         |                              |                             |                          |   | 25,552,925                                       | 21,374,452                                       |
| Long term liabilities are not due and payable in the current period and therefore are not reported in the funds        |                         |                              |                             |                          |   | (5,553,894)                                      | (4,935,980)                                      |
| <b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>   |                         |                              |                             |                          |   | <u>\$ 25,288,515</u>                             | <u>\$ 22,618,919</u>                             |

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

**MUNICIPALITY OF AIBONITO**  
**COMMONWEALTH OF PUERTO RICO**  
**STATEMENT OF REVENUES, EXPEDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

|  | <u>GENERAL<br/>FUND</u> | <u>JOINT<br/>RESOLUTIONS</u> | <u>CAPITAL<br/>PROJECTS</u> | <u>DEBT<br/>SERVICES</u> | <u>OTHER<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>2005<br/>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>2004<br/>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|--|-------------------------|------------------------------|-----------------------------|--------------------------|---|--|--|
| <b>REVENUES:</b>                             |                         |                              |                             |                          |   |  |  |
| Property taxes                               | \$ 2,171,939            | \$ -                         | \$ -                        | \$ 472,573               | \$ -                                    | \$ 2,644,512                                     | \$ 3,050,642                                     |
| Volume of Business Taxes                     | 1,383,063               |                              |                             |                          |   | 1,383,063  | 1,456,801  |
| Government of P.R. Contributions             | 3,294,404               | 1,292,173                    | 1,214,647                   |                          | 1,001,845                               | 6,803,069  | 7,134,829  |
| Contributions in lieu of taxes               | 620,163                 |                              |                             |                          |   | 620,163  | 661,986  |
| Grant AEE                                    | -                       |                              | 265,951                     |                          |   | 265,951  | -  |
| Federal Grants and contributions             | -                       |                              | 1,155,702                   |                          | 485,657                                 | 1,641,359  | 2,623,624  |
| Charges for services                         | 466,226                 |                              |                             |                          |   | 466,226  | 494,199  |
| Interest                                     | 15,723                  |                              |                             | 13,423                   |   | 29,146   | 44,152   |
| Miscellaneous                                | 318,988                 | -                            | -                           | -                        | -                                       | 318,988  | 812,939  |
| <b>TOTAL REVENUES</b>                        | <u>8,270,506</u>        | <u>1,292,173</u>             | <u>2,636,300</u>            | <u>485,996</u>           | <u>1,487,502</u>                        | <u>14,172,477</u>                                | <u>16,279,172</u>                                |
| <b>EXPENDITURES:</b>                         |                         |                              |                             |                          |   |  |  |
| General Administration                       | 3,742,474               |                              |                             |                          |   | 3,742,474  | 3,862,686  |
| Public Safety                                | 360,997                 |                              |                             |                          | 72,335                                  | 433,332  | 358,096  |
| Sport and recreation                         | 535,675                 |                              |                             |                          |   | 535,675  | 556,082  |
| Sanitation                                   | 953,045                 |                              |                             |                          | 24,174                                  | 977,219  | 915,465  |
| Public Work                                  | 1,578,392               | 865,158                      |                             |                          | 676,580                                 | 3,120,130  | 2,821,727  |
| Capital expenditures                         | 625,296                 | 1,583,466                    | 2,474,400                   |                          |   | 4,683,162  | 4,017,659  |
| Federal Funds                                | -                       |                              | 1,155,702                   |                          | 485,657                                 | 1,641,359  | 2,624,567  |
| Principal Retirement                         | 20,000                  |                              |                             | 396,000                  |   | 416,000  | 338,000  |
| Interest Payment                             | 16,875                  | -                            | -                           | 290,848                  | -                                       | 307,723  | 206,081  |
| <b>TOTAL EXPENDITURES</b>                    | <u>7,832,754</u>        | <u>2,448,624</u>             | <u>3,630,102</u>            | <u>686,848</u>           | <u>1,258,746</u>                        | <u>15,857,074</u>                                | <u>15,700,363</u>                                |
| <b>EXCESS REVENUES OVER<br/>EXPENDITURES</b> | <u>437,752</u>          | <u>(1,156,451)</u>           | <u>(993,802)</u>            | <u>(200,852)</u>         | <u>228,756</u>                          | <u>(1,684,597)</u>                               | <u>578,809</u>                                   |
| <b>OTHER FINANCING SOURCES (USES):</b>       |                         |                              |                             |                          |   |  |  |
| Capital - related debt issued                | -                       | -                            | 785,000                     | -                        | -                                       | 785,000  | 332,000  |
| Transfers                                    | (1,627,445)             | -                            | 1,638,664                   | (11,219)                 | -                                       | -  | -  |
| <b>TOTAL OTHER FINANCING SOURCES</b>         | <u>(1,627,445)</u>      | <u>-</u>                     | <u>2,423,664</u>            | <u>(11,219)</u>          | <u>-</u>                                | <u>785,000</u>                                   | <u>332,000</u>                                   |
| <b>NET CHANGES IN FUND BALANCES</b>          | (1,189,693)             | (1,156,451)                  | 1,429,862                   | (212,071)                | 228,756                                 | (899,597)  | 910,809  |
| <b>PRIOR PERIOD ADJUSTMENTS</b>              | -                       | 8,654                        | -                           | -                        | -                                       | 8,654  | (104,130)  |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>      | 1,342,573               | 2,940,123                    | 492,437                     | 1,136,235                | 269,059                                 | 6,180,427  | 5,373,748  |
| <b>FUND BALANCES, END OF YEAR</b>            | <u>\$ 152,880</u>       | <u>\$ 1,792,326</u>          | <u>\$ 1,922,299</u>         | <u>\$ 924,164</u>        | <u>\$ 497,815</u>                       | <u>\$ 5,289,484</u>                              | <u>\$ 6,180,427</u>                              |

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

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 06/23/2006

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

|   |                        | <u>2004<br/>TOTAL</u>  |
|---|------------------------|------------------------|
| Net changes in fund balances - total governmental funds   | \$ (899,597)           | \$ 910,809             |
| <br>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 (\$4,683,162) exceed depreciation expense (\$504,689) in the current period.   | 4,178,473              | 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.   | (248,934)              | (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 proceeds (\$785,000) exceeded repayments (\$416,000). | <u>(369,000)</u>       | <u>6,000</u>           |
| <br>Changes in net assets of governmental activities  | <br><u>\$2,660,942</u> | <br><u>\$5,733,262</u> |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
STATEMENT OF NET ASSETS  
COMPONENT UNIT  
JUNE 30, 2005 AND 2004**

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

|  | <u>2005</u>         | <u>2004</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>                            |                     |                     |
| Current Assets:                          |                     |                     |
| Petty cash                               | \$ 200              | \$ 200              |
| Cash in Bank                             | <u>49,150</u>       | <u>132,952</u>      |
|  | 49,350              | 133,152             |
| Accounts receivable:                     |                     |                     |
| Tenants's                                | 34,699              | 25,207              |
| Other                                    | -                   | 574                 |
| Allowance for bad debts                  | <u>(18,484)</u>     | <u>(8,484)</u>      |
|  | <u>16,215</u>       | <u>17,297</u>       |
| Total current assets                     | 65,565              | 150,449             |
| Tenant security deposits                 | 16,328              | 15,935              |
| Reserve for replacements                 | 738,619             | 894,041             |
| Fixed Assets:                            |                     |                     |
| Land                                     | 126,150             | 126,150             |
| Land improvements                        | 226,443             | 226,443             |
| Buildings                                | 2,656,244           | 2,656,244           |
| Buildings improvements                   | 1,220,313           | 1,064,847           |
| Buildings equipment                      | 169,368             | 166,179             |
| Maintenance equipment                    | 6,441               | 4,156               |
| Guard Gate                               | 50,232              | 30,000              |
| Office equipment                         | 35,386              | 34,636              |
| Other equipment                          | <u>6,228</u>        | <u>6,228</u>        |
|  | 4,496,805           | 4,314,883           |
| Accumulated depreciation                 | <u>(2,204,645)</u>  | <u>(2,117,530)</u>  |
| Total fixed assets                       | 2,292,160           | 2,197,353           |
| Other assets:                            |                     |                     |
| Construction in progress                 | -                   | 55,764              |
| Escrow account                           | 10,140              | 10,008              |
| Deposits                                 | <u>636</u>          | <u>636</u>          |
| Total other assets                       | <u>10,776</u>       | <u>66,408</u>       |
| Total assets                             | <u>\$ 3,123,448</u> | <u>\$ 3,324,186</u> |
| <b>LIABILITIES AND NET ASSETS</b>        |                     |                     |
| Current liabilities:                     |                     |                     |
| Accounts payable - trade                 | \$ 13,198           | \$ 40,757           |
| Accounts payable - tax fee               | 2,629               | 2,659               |
| Current portion of mortgage payable      | 50,500              | 48,330              |
| Rent collected in advance                | <u>1</u>            | <u>2</u>            |
| Total current liabilities                | 66,328              | 91,748              |
| Deposits tenants' security               | 16,328              | 16,220              |
| Mortgage payable, net of current portion | <u>1,203,342</u>    | <u>1,255,967</u>    |
| Total liabilities                        | 1,285,998           | 1,363,935           |
| Net assets:                              |                     |                     |
| Net investment in fixed assets           | 1,038,318           | 953,048             |
| Reserved for replacement                 | 738,619             | 914,220             |
| Reserved for other purposes              | 10,140              | 10,008              |
| Unrestricted                             | <u>50,373</u>       | <u>82,975</u>       |
| Net assets                               | <u>1,837,450</u>    | <u>1,960,251</u>    |
| Total liabilities and net assets         | <u>\$ 3,123,448</u> | <u>\$ 3,324,186</u> |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
COMPONENT UNIT  
FOR YEARS ENDED JUNE 30, 2005 AND 2004**

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

|                                   | <u>2005</u>         | <u>2004</u>         |
|-----------------------------------|---------------------|---------------------|
| <b>REVENUES:</b>                  |                     |                     |
| Rental                            | \$ 468,045          | \$ 475,962          |
| Financial                         | 12,419              | 13,263              |
| Other income                      | <u>1,431</u>        | <u>1,473</u>        |
| Total revenues                    | 481,895             | 490,698             |
| <b>EXPENSES:</b>                  |                     |                     |
| Administrative                    | 179,420             | 154,731             |
| Utilities                         | 4,952               | 4,061               |
| Operating and maintenance         | 126,998             | 85,257              |
| Taxes and insurance               | 24,510              | 23,308              |
| Depreciation                      | 179,418             | 177,408             |
| Interest                          | <u>89,398</u>       | <u>94,830</u>       |
| <b>COST OF OPERATIONS</b>         | <u>604,696</u>      | <u>539,595</u>      |
| <b>EXCESS COSTS OVER REVENUES</b> | (122,801)           | (48,897)            |
| Prior period adjustments          | <u>-</u>            | <u>-</u>            |
| <b>CHANGE IN NET ASSETS</b>       | (122,801)           | (48,897)            |
| <b>BEGINNING NET ASSETS</b>       | <u>1,960,251</u>    | <u>2,009,148</u>    |
| <b>ENDING NET ASSETS</b>          | <u>\$ 1,837,450</u> | <u>\$ 1,960,251</u> |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
STATEMENT OF CASH FLOWS  
COMPONENT UNIT  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

|  | <u>2005</u>      | <u>2004</u>       |
|--|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |                  |                   |
| Changes in net assets                                    | \$ (122,801)     | \$ (48,897)       |
| Depreciation expenses                                    | 179,418          | 177,408           |
| (Increase) Decrease in accounts receivable - tenants net | 508              | 9,232             |
| (Increase) Decrease in due from Fm HA                    | 574              | -                 |
| Increase (Decrease) in deposit held trust                | (393)            | (118)             |
| Increase (Decrease) in accounts payable - trade          | (27,559)         | 27,191            |
| Increase (Decrease) in payable - tax fee                 | (30)             | 363               |
| Increase (Decrease) in rent collected in advance         | (1)              | -                 |
| Increase (Decrease) in deposit tenants security          | <u>108</u>       | <u>400</u>        |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>         | <u>29,824</u>    | <u>165,579</u>    |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>          |                  |                   |
| (Increase) Decrease in reserve for replacements          | 155,422          | 363,604           |
| (Increase) Decrease in escrow account                    | (132)            | (10,008)          |
| (Increase) Decrease in building improvement              | (155,466)        | (311,739)         |
| (Increase) Decrease in building equipment                | (3,189)          | (1,227)           |
| (Increase) Decrease in maintenance equipment             | (2,285)          | -                 |
| (Increase) Decrease in construction in progress          | 55,764           | (55,764)          |
| Depreciation write-off                                   | (92,303)         | -                 |
| (Increase) Decrease in office equipment                  | (750)            | (5,807)           |
| (Increase) Decrease in other equipment                   | <u>(20,232)</u>  | <u>-</u>          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>             | <u>(63,171)</u>  | <u>(20,941)</u>   |
| <br><b>CASH FLOWS FROM FINANCING ACTIVITIES</b>          |                  |                   |
| Decrease in mortgage payable                             | <u>(50,455)</u>  | <u>(45,024)</u>   |
| <br><b>NET INCREASE (DECREASE) IN CASH</b>               | <b>(83,802)</b>  | <b>99,614</b>     |
| <br><b>CASH AT BEGINNING OF YEAR</b>                     | <u>133,152</u>   | <u>33,538</u>     |
| <br><b>CASH AT END OF YEAR</b>                           | <u>\$ 49,350</u> | <u>\$ 133,152</u> |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**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, 2005, 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, 2005, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The

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COMMONWEALTH OF PUERTO RICO  
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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, 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.

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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 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.

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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.

**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.

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COMMONWEALTH OF PUERTO RICO  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**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.

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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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 inter-fund loans) or "advances to/from other funds"

As of June 30, 2005 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

|  |                   |
|--|-------------------|
| PR Electric Power Authority            | \$ 681,967        |
| PR Treasury Department                 | 68,259            |
| PR Telephone Company                   | 5,123             |
| PR Sewer and Sanitary Authority        | 13,318            |
| Commonwealth of PR Retirement System   | 39,509            |
| Commonwealth of PR Department of Labor | 43,347            |
| Commonwealth of PR General Services    | 1,131             |
| Commonwealth of PR – CRIM              | <u>129,933</u>    |
|  | <u>\$ 982,587</u> |

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic

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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.

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

| <b>Description</b>             | <b>Years</b> |
|--------------------------------|--------------|
| 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.

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COMMONWEALTH OF PUERTO RICO  
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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.
  - e. Improvements - Represents net assets legally segregated for municipal facilities and infrastructure improvements.
  - f. Other - Represent net assets legally segregated for other specific future use.
8. Inter-fund 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, 2005 amounted to \$150,436. The current insurance policies have not been cancelled

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or terminated. The CRIM also deducted \$200,478 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 \$872,060 in the general fund (including a certificate of deposit of \$4,671 at 1.3% due in June 30, 2005) were fully collateralized at June 30, 2005. In the other governmental funds there were deposits with commercial banks of \$126,507, \$603,988 and \$307,578, respectively, that were fully collateralized.

The deposits at GDB of \$1,181,911 that are restricted principally for capital projects, the \$57,223 in the other governmental funds, and the \$1,021,189 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, 2005, the tax rates were as follows:

Financial business – 1.5% of gross revenues

Other organizations – 0.5% for annual revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2005, net of allowance for uncollectables.

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

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**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>JR Fund</u>   | <u>General Fund</u> | <u>Capital Project Funds</u> | <u>Other Funds</u> |
|--|------------------|---------------------|------------------------------|--------------------|
| Head Start – (rent)                              |                  | \$ 36,000           |                              |                    |
| Community Service Block Grant – (operations)     |                  | 64,250              |                              |                    |
| US Department of Agriculture – Rural Development |                  |                     | \$ 260,564                   |                    |
| PR Government – Special Communities Program      |                  |                     | 2,772,480                    |                    |
| PR Government – Joint Resolutions                | \$167,840        |                     |                              |                    |
| PR Government – Department of Labor (L52)        |                  |                     |                              | \$119,009          |
| PR Government – Department of Family             |                  |                     |                              | 90,917             |
| PR Governmental agencies – (utilities)           | -                | 23,366              | -                            | -                  |
|  | <u>\$167,840</u> | <u>\$ 123,616</u>   | <u>\$3,033,044</u>           | <u>\$209,926</u>   |

**c. Other** - Other accounts receivable as of June 30, 2005 are as follows:

| <u>Component</u>                  | <u>General Fund</u> | <u>Unit</u>      |
|-----------------------------------|---------------------|------------------|
| Rent                              | \$ -                | \$ 34,699        |
| Other                             | -                   | -                |
| Gross receivable                  |                     | 34,699           |
| Less allowance for uncollectables |                     | (18,484)         |
| Net total other receivables       | <u>\$ -</u>         | <u>\$ 16,215</u> |

**NOTE 4. INTERFUND TRANSACTIONS**

Inter-fund -receivables and payables at June 30, 2005 are summarized as follows:

| <u>FUND</u>        | <u>RECEIVABLE</u>   | <u>PAYABLE</u>      |
|--------------------|---------------------|---------------------|
| General            | \$ 2,931,676        | \$ 1,852,649        |
| Joint Resolutions  | 1,500,687           |                     |
| Other Governmental | 316,930             |                     |
| Capital Project    | 35,032              | 2,931,676           |
| Total              | <u>\$ 4,784,325</u> | <u>\$ 4,784,325</u> |

**NOTE 5. CAPITAL ASSETS**

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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 2005, 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:

|  | Balance<br>June 2004 | Additions<br>(Retirements) | Balance<br>June 2005 |
|--|----------------------|----------------------------|----------------------|
| <b>Governmental Activities:</b>                    |                      |                            |                      |
| Capital asset, not being depreciated:              |                      |                            |                      |
| Land   | \$ 11,298,712        | \$ 297,825                 | \$ 11,596,537        |
| Construction in progress                           | <u>5,990,578</u>     | <u>(1,869,027)</u>         | <u>4,121,551</u>     |
| Total capital assets not being depreciated         | <u>17,289,290</u>    | <u>(1,571,202)</u>         | <u>15,718,088</u>    |
| Capital assets, being depreciated:                 |                      |                            |                      |
| Buildings and building improvements                | 4,578,347            | 2,347,352                  | 6,925,699            |
| Infrastructure                                     | 2,251,095            | 3,741,522                  | 5,992,617            |
| Equipment  | 481,417              | 40,470                     | 521,887              |
| Vehicles   | <u>2,434,325</u>     | <u>136,406</u>             | <u>2,570,731</u>     |
| Total capital assets being depreciated             | <u>9,745,184</u>     | <u>6,265,750</u>           | <u>16,010,934</u>    |
| Less accumulated depreciation for:                 |                      |                            |                      |
| Buildings and building improvements                | 2,337,230            | 183,538                    | 2,520,768            |
| Infrastructure                                     | 1,425,694            | 150,073                    | 1,575,767            |
| Equipment  | 367,168              | 32,074                     | 399,242              |
| Vehicles   | <u>1,529,930</u>     | <u>150,390</u>             | <u>1,680,320</u>     |
| Total accumulated depreciation                     | <u>5,660,022</u>     | <u>516,075</u>             | <u>6,176,097</u>     |
| Total capital assets being depreciated, net        | <u>4,085,162</u>     | <u>5,749,675</u>           | <u>9,834,837</u>     |
| <b>Governmental activities capital assets, net</b> | <u>\$ 21,374,452</u> | <u>\$ 4,178,473</u>        | <u>\$ 25,552,925</u> |
| <b>Business Type Activity:</b>                     |                      |                            |                      |
| Capital asset, not being depreciated:              |                      |                            |                      |
| Land   | \$ 126,150           | \$ -                       | \$ 126,150           |
| Capital assets, being depreciated:                 |                      |                            |                      |
| Buildings and building improvements                | 3,947,534            | 155,466                    | 4,103,000            |
| Equipment  | <u>241,199</u>       | <u>26,456</u>              | <u>267,655</u>       |
| Total capital assets being depreciated             | <u>4,188,733</u>     | <u>181,922</u>             | <u>4,370,655</u>     |
| Less accumulated depreciation                      | <u>2,117,530</u>     | <u>87,115</u>              | <u>2,204,645</u>     |
| Total capital assets being depreciated, net        | <u>2,071,203</u>     | <u>94,807</u>              | <u>2,166,010</u>     |
| <b>Business Type Activity Capital assets, net</b>  | <u>\$ 2,197,353</u>  | <u>\$ 94,807</u>           | <u>\$ 2,292,160</u>  |
| <b>Total Municipality Capital assets, net</b>      | <u>\$ 23,571,805</u> | <u>\$ 4,273,280</u>        | <u>\$ 27,845,085</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

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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 2004-05 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. 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 \$1,299,368 in the general fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

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**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 | \$ 145,403            |
| "Red de Hogares"      | 82,487                |
| "Ama de Llaves"       | 3,071                 |
| UDAG                  | 7,131                 |
| UMTA                  | 1,248                 |
| Local Law Enforcement | 74,298                |
| FEMA                  | (17,505)              |
| FHA                   | 499                   |
| Child Care            | <u>97,210</u>         |
| <br>Total             | <br><u>\$ 393,842</u> |

**NOTE 8. LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2005, was as follows:

| <u>GOVERNMENTAL FUND</u> | Beginning<br>Balance | Borrowings<br>or<br>Additions | Payments<br>or<br>Deductions | Ending<br>Balance  | Due within<br>One year |
|--------------------------|----------------------|-------------------------------|------------------------------|--------------------|------------------------|
| Bonds payable            |                      |                               |                              |                    |                        |
| Capital facilities       | \$ 3,858,000         | \$ 785,000                    | \$ 396,000                   | \$4,247,000        | \$ 429,000             |
| Operational              | <u>245,000</u>       |                               | <u>20,000</u>                | <u>225,000</u>     | <u>20,000</u>          |
|                          | 4,103,000            | 785,000                       | 416,000                      | 4,472,000          | 449,000                |
| Compensated absences     | <u>832,960</u>       | <u>248,934</u>                |                              | <u>1,081,894</u>   | <u>119,312</u>         |
| Total                    | <u>\$ 4,935,960</u>  |                               |                              | <u>\$5,553,894</u> | <u>\$ 568,312</u>      |

| <u>COMPONENT UNIT</u> | Beginning<br>Balance | Borrowings<br>or<br>Additions | Payments<br>or<br>Deductions | Ending<br>Balance | Due within<br>One year |
|-----------------------|----------------------|-------------------------------|------------------------------|-------------------|------------------------|
| Mortgage loan         | \$ 1,304,297         | \$ -                          | \$ 50,455                    | \$1,253,842       | \$ 50,500              |

**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 \$785,000. Bonds payable outstanding at June 30, 2005 are as follows:

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|  | <u>Outstanding<br/>Amount</u> |
|--|-------------------------------|
| <b>Issued for capital facilities:</b>  |                               |
| <b>\$420,000;</b> 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%      | \$135,000                     |
| <b>\$1,120,000;</b> 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% | 135,000                       |
| <b>\$572,000;</b> 1991 serial bonds due in annual installments of \$14,000 to \$41,000, through July 1, 2016; with interest at 5.0% (FMHA)                 | 353,000                       |
| <b>\$870,000;</b> 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%     | 570,000                       |
| <b>\$1,040,000;</b> 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%    | 875,000                       |
| <b>\$350,000;</b> 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%      | 180,000                       |
| <b>\$575,000;</b> 2001 serial bonds due in annual installments of \$10,000 to \$50,000, through July 1, 2026; with interest at 6.5%                        | 545,000                       |
| <b>\$145,000;</b> general obligations note due in annual installments of \$15,000 to \$25,000, through July 1, 2008; with interest at 8.0%                 | 90,000                        |
| <b>\$310,000;</b> 2002 serial bonds due in annual installments of \$5,000 to \$10,000, through July 1, 2027, with interest at 5.0%                         | 300,000                       |
| <b>\$332,000;</b> 1996 serial bonds due in annual installments of \$6,000 to \$20,000, through January 1, 2028, with interest at 4.5%                      | 18,000                        |
| <b>\$465,000;</b> 2005 serial bonds due in annual installments of \$10,000 to \$35,000, through July 1, 2029, with interest at 5.0%                        | 465,000                       |
| <b>\$320,000;</b> Municipal General Obligations Note due in annual installments of \$ 39,000 to \$52,000, through January 1, 2011, with interest at 4.5%   | <u>281,000</u>                |
|  | <b><u>\$ 4,247,000</u></b>    |
|  | Outstanding                   |

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COMMONWEALTH OF PUERTO RICO  
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|   | <u>Amount</u>             |
|---|---------------------------|
| <b>Issued for operations:</b>   |                           |
| <b>\$160,000;</b> 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% | 95,000                    |
| <b>\$140,000;</b> 2002 serial bonds due in annual installments of \$5,000 to \$30,000, through July 1, 2027; with interest at 5.0%                    | <u>130,000</u>            |
|   | <u>225,000</u>            |
| <b>Total</b>  | <u><u>\$4,472,000</u></u> |

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<br/>June 30,</u> | <b>Capital facilities bonds</b> |                    | <b>Operational bonds</b> |                   |
|---------------------------------|---------------------------------|--------------------|--------------------------|-------------------|
|                                 | <u>Principal</u>                | <u>Interest</u>    | <u>Principal</u>         | <u>Interest</u>   |
| 2006                            | \$ 429,000                      | \$ 200,325         | \$ 20,000                | \$ 10,750         |
| 2007                            | 314,000                         | 194,242            | 20,000                   | 13,763            |
| 2008                            | 337,000                         | 179,169            | 25,000                   | 12,037            |
| 2009                            | 301,000                         | 164,562            | 25,000                   | 10,112            |
| 2010                            | 250,000                         | 151,998            | 30,000                   | 7,987             |
| Thereafter                      | <u>2,616,000</u>                | <u>1,112,298</u>   | <u>105,000</u>           | <u>68,736</u>     |
| <b>Total</b>                    | <b>\$4,247,000</b>              | <b>\$2,002,594</b> | <b>\$ 225,000</b>        | <b>\$ 123,385</b> |

**Mortgage loan** – Las Flores Apartments mortgage loan payable to the federal government bear 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 \$1,253,842 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.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of June 30, 2005, are as follows:

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COMMONWEALTH OF PUERTO RICO  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

| <b>Year Ending</b>                | <b>Amount</b>       |
|-----------------------------------|---------------------|
| <b>June 30,</b>                   |                     |
| 2006                              | \$ 139,848          |
| 2007                              | 139,848             |
| 2008                              | 139,848             |
| 2009                              | 139,848             |
| 2010                              | 139,848             |
| Thereafter                        | <u>1,183,622</u>    |
| Total                             | 1,882,862           |
| Less amount representing interest | <u>629,020</u>      |
|                                   | <u>\$ 1,253,842</u> |

**Compensated absences** - The government-wide statement of net assets includes \$619,031 of accrued sick leave benefits, \$343,551 of accrued vacation benefits, and \$119,312 of Christmas Bonus representing the Municipality's commitment and related payroll taxes 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.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employer contributions during the year ended June 30, 2005 amounted to \$205,081.

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, 2005, 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

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COMMONWEALTH OF PUERTO RICO  
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YEAR ENDED JUNE 30, 2005**

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, 2005, amounted to \$104,297. 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.

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. As of June 30, 2005 the Municipality has a total of \$282,876 in encumbrances, of which \$82,702 are presented in the balance sheet as a reserve from available fund balance; the remaining balance of \$200,174 will exceed available fund balance.

c. Improvements - The Municipality has approved the amount of \$597,000 for communities improvements, such as sidewalks, pluvial systems and other infrastructure. The funding for these projects will be obtained from future revenues and economies.

**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, 2005, 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, 2005, the Municipality has not recorded a liability in the government-wide financial statements for possible disallowances costs.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
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**NOTE 13. PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were required to convert June 30, 2004 Financial Statements Fund Balances of the Municipality of Aibonito to an estimated GASB-34 basis of accounting as of this date. No major effects were reported.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005.**

|   | BUDGETED AMOUNTS |                  | ACTUAL<br>AMOUNTS | VARIANCE WITH<br>FINAL BUDGET |
|---|------------------|------------------|-------------------|-------------------------------|
|   | <u>ORIGINAL</u>  | <u>FINAL</u>     |                   | <u>Positive(Negative)</u>     |
| <b>RESOURCES (inflows):</b>                   |                  |                  |                   |                               |
| Property Taxes                                | \$ 2,171,939     | \$ 2,171,939     | \$ 2,171,939      | \$ -                          |
| Volume of Business Taxes                      | 1,341,223        | 1,341,223        | 1,380,567         | 39,344                        |
| Government of P.R. Contributions              | 3,277,655        | 3,277,655        | 3,294,404         | 16,749                        |
| Contributions in lieu of taxes                | 674,790          | 674,790          | 645,551           | (29,239)                      |
| Charges for services                          | 416,268          | 416,268          | 466,226           | 49,958                        |
| Interest                                      | 15,575           | 15,575           | 15,723            | 148                           |
| Other   | 669,433          | 669,433          | 318,988           | (350,445)                     |
| Amounts available for appropriations          | <u>8,566,883</u> | <u>8,566,883</u> | <u>8,293,398</u>  | <u>(273,485)</u>              |
| <b>CHARGES TO APPROPRIATIONS (out flows):</b> |                  |                  |                   |                               |
| Mayor Office                                  | 883,223          | 1,173,619        | 1,160,432         | 13,187                        |
| Municipality Assembly                         | 169,234          | 152,701          | 146,113           | 6,588                         |
| Finance                                       | 2,490,966        | 2,368,520        | 2,355,161         | 13,359                        |
| Personnel                                     | 263,916          | 275,655          | 268,877           | 6,778                         |
| Municipal Secretary                           | 54,331           | 54,131           | 50,809            | 3,322                         |
| Internal Auditor                              | 60,234           | 56,834           | 54,851            | 1,983                         |
| Public Safety                                 | 556,260          | 374,789          | 367,764           | 7,025                         |
| Sport and recreation                          | 533,941          | 555,027          | 543,460           | 11,567                        |
| Sanitation                                    | 1,258,029        | 966,943          | 953,045           | 13,898                        |
| Public Works                                  | 1,610,415        | 1,786,865        | 1,586,392         | 200,473                       |
| Capital Expenditures - transfer               | 686,334          | 801,799          | 801,799           | -                             |
| Total charges to appropriations               | <u>8,566,883</u> | <u>8,566,883</u> | <u>8,288,703</u>  | <u>278,180</u>                |
| Excess (deficiency) resources over charges    | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 4,695</u>   | <u>\$ 4,695</u>               |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE  
FOR THE YEAR ENDED JUNE 30, 2005.**

|   | BUDGETED AMOUNTS |                | ACTUAL<br>AMOUNTS   | VARIANCE WITH<br>FINAL BUDGET<br>Positive(Negative) |
|---|------------------|----------------|---------------------|---|
|   | ORIGINAL         | FINAL          |                     |   |
| <b>RESOURCES (inflows):</b>                   |                  |                |                     |   |
| Property Taxes                                | \$ 618,911       | \$ 618,911     | \$ 472,573          | (146,338)   |
| Interest                                      | -                | -              | 13,423              | 13,423  |
| Other   | -                | -              | -                   | -   |
| Amounts available for appropriations          | <u>618,911</u>   | <u>618,911</u> | <u>485,996</u>      | <u>(132,915)</u>                                    |
| <b>CHARGES TO APPROPRIATIONS (out flows):</b> |                  |                |                     |   |
| Long term loan amortization                   | 377,000          | 377,000        | 396,000             | (19,000)  |
| Interest on long term debt                    | 186,622          | 186,622        | 290,848             | (104,226)   |
| Other   | <u>55,289</u>    | <u>55,289</u>  | <u>11,219</u>       | <u>44,070</u>                                       |
| Total charges to appropriations               | <u>618,911</u>   | <u>618,911</u> | <u>698,067</u>      | <u>(79,156)</u>                                     |
| Excess (deficiency) resources over charges    | <u>\$ -</u>      | <u>\$ -</u>    | <u>\$ (212,071)</u> | <u>\$ (212,071)</u>                                 |

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED JUNE 30, 2005.**

**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.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

| FEDERAL GRANTOR / PASS THROUGH GRANTOR                | FEDERAL<br>CFDA |    | 2005                | 2004                |
|---|-----------------|----|---------------------|---------------------|
| <u>PROGRAM TITLE</u>                                  | <u>NUMBER</u>   |    | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| <b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> |                 |    |                     |                     |
| Direct Programs:                                      |                 |    |                     |                     |
| Section 8 Vouchers and Portability                    | 14.871          | MP | \$ 169,242          | \$ 169,074          |
| Indirect Program:                                     |                 |    |                     |                     |
| Passed through PR Office of Municipal Affairs         |                 |    |                     |                     |
| State Block Grant Program (SBGP)                      | 14.228          | MP | 697,114             | 1,464,968           |
| "Ama de llaves"                                       | 14.228          | MP | <u>32,858</u>       | -                   |
| Total SBGP  |                 |    | <u>729,972</u>      | <u>1,464,968</u>    |
|   |                 |    | <u>899,214</u>      | <u>1,634,042</u>    |
| <b>US DEPARTMENT OF AGRICULTURE</b>                   |                 |    |                     |                     |
| Direct Programs:                                      |                 |    |                     |                     |
| Rural Development Grant                               | 10.769          |    | <u>458,588</u>      | <u>913,464</u>      |
| <b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>     |                 |    |                     |                     |
| Indirect Program:                                     |                 |    |                     |                     |
| Passed through PR Family Department (ACUDEN)          |                 |    |                     |                     |
| Child Care and Development Block Grant                | 93.575          |    | <u>104,953</u>      | <u>77,061</u>       |
|   |                 |    | <u>104,953</u>      | <u>77,061</u>       |
| <b>US DEPARTMENT OF HOMELAND SECURITY</b>             |                 |    |                     |                     |
| Direct Programs:                                      |                 |    |                     |                     |
| Public Disaster Assistance                            | 97.036          |    | <u>178,604</u>      | -                   |
| <b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>             |                 |    | <u>\$ 1,641,359</u> | <u>\$ 2,624,567</u> |

MP =  
Major Program

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

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005**

**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.

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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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, 2005, and have issued our report thereon dated December 14, 2005. 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 II.

**Internal Control Over Financial Reporting**

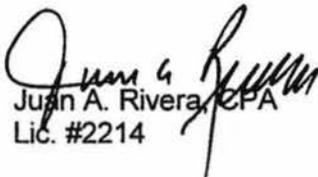
In planning and performing our audit, we considered the Municipality of Aibonito internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial 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 in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of

Aibonito those reportable condition that affect the internal control of the Municipality operations in a separate letter.

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 14, 2004  
Toa Baja, Puerto Rico



Stamp NO.2105583 of the Puerto Rico Society of Certified Public Accountants was affixed to the original report.

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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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 conducted our audit of compliance in accordance with generally accepted auditing standards. 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, 2005. 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.

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 II 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 are necessary for the Municipality of Aibonito to comply with the federal regulations.

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, 2005.

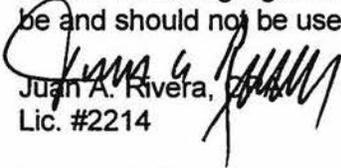
### Internal Control Over Compliance

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.

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,  
Lic. #2214

December 14, 2005  
Toa Baja, Puerto Rico



NOTE: Stamp No. 2105584 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original report.



**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2005**

**Section II. Federal Awards Findings and Questioned Costs**

Compliance findings:

Our examination of compliance with federal requirements for the Municipality of Aibonito for the year ended June 30, 2005, 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 05-01**

**Schedule of Utility Allowance**

**Condition**

During the audit we observed that the files were incomplete due to lack of the utility allowance schedule.(1/10 or 10%).

**Criteria**

Code of Federal Regulation (24 CFR 982.517) requires Municipality maintains files with an updated utility allowance schedule.

**Cause**

The Municipality is not filing the update of utility allowance schedule as required by Federal Regulation.

**Effect**

The Municipality does not compliance with Federal Regulations.

**Recommendation**

A new calculation sheet should be made in the calculation of rent every year and must be include in the tenants file.

**FINDING NUMBER 05-02**

**Cash Management**

**Condition**

The Section 8 has a large balance in its bank account as of the fiscal year ended June 30, 2005.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2005**

**FINDING NUMBER 05-02**  
**Cash Management (Cont.)**

**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 transfer amounts in reserve account and existing Section 8 account increasing the bank balance. Also HUD does not recapture all the amount reported as a surplus.

**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 05-03**  
**Eligibility**

**Condition**

During the audit we observed that some tenant files have missing the good behavior certificate. 2/10 or 20%

**Criteria**

Code of Federal Regulation requires (24 CFR 5.230,5.609 and 982.516) establish that the Municipality has to require the tenant to provide necessary information or documentation to evaluate his/her eligibility.

**Cause**

The Municipality does not assure that the person who going to receive the voucher has bring all the information required.

**Effect**

The Municipality could give the voucher to a person does not qualify for the help.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2005**

**FINDING NUMBER 05-03**

**Elegibility (Cont.)**

**Recommendation**

The Municipality must have all the documentation before the they make the examination or reexamination.

**State Block Grant Program - CFDA 14.219**

Documents and information required o for the test the Compliance of SBGP Program met all requirements except for the following:

**FINDING NUMBER 05-04**

**Special Test and Provision - Rehabilitation**

**Condition**

During the audit we test rehabilitation beneficiaries files and observed that the final evaluation do not include the date when the inspector determined the works in houses were completed:

**Criteria**

The Code of Federal Regulation (24 CFR 570.506) establish that the Municipality must assure that the works did for rehabilitation were properly complete.

**Cause**

Fail to follow the procedures to comply with federal regulation.

**Effect**

The Municipality are uncertain about if the works were performed and when were properly completed.

**Recommendation**

Establish a procedures to ensure the compliance with the federal regulation.

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2005**

| <b><u>FINDING</u></b>  | <b><u>Condition:</u></b>   | <b><u>Status</u></b>   |
|--|--|------------------------|
| <b><u>NUMBER 04-01</u></b><br>Personnel  | Lack of documents in personnel files<br>Employees were not evaluated<br>Documents without the required sign  | Still<br>Prevail       |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-02</u></b><br>Disbursement<br>Test              | <b><u>Condition:</u></b><br>Vouchers not dated when the payment was<br>approved  | Corrected              |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-03</u></b><br>Accounting<br>Reporting<br>System | <b><u>Condition:</u></b><br>Accounting System provides only for recording<br>of limited transactions<br>Adequate control for fixed assets<br>Accounting records does not present a segregation<br>for expenditures and encumbrance | Still<br>Prevail       |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-04</u></b><br>Year End Budget<br>Liquidation    | <b><u>Condition:</u></b><br>Some disbursement were not posted and appears<br>as economies  | Corrected              |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-05</u></b><br>Volume of<br>Bussines Tax         | <b><u>Condition:</u></b><br>Tax payer do not present evidence of tax return,<br>did not file the volume of business tax and the<br>Municipality did mistake in calculate tax   | Partially<br>Corrected |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-06</u></b><br>Schedule of<br>Utilities          | <b><u>Condition:</u></b><br>Contrats were registered late in OCPR  | Still<br>Prevail       |
| <b><u>FINDING</u></b><br><b><u>NUMBER 04-07</u></b><br>Schedule of<br>Utilities          | <b><u>Condition:</u></b><br>Files does not have schedule of utility  | Still<br>Prevail       |

**MUNICIPALITY OF AIBONITO  
COMMONWEALTH OF PUERTO RICO  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2005**

|   |  |                        |
|---|--|------------------------|
| <b><u>FINDING</u><br/>NUMBER 04-08<br/>Section 8<br/>Cash<br/>Management</b>      | <b>Condition:</b><br>The bank account has a large balance at the end of fiscal year  | Still<br>Prevail       |
| <b><u>FINDING</u><br/>NUMBER 04-09<br/>HQS</b>                                    | <b>Condition:</b><br>Eventhough written procedures were observed in order to comply with HQS, the follows up to the condition were missing | Corrected              |
| <b><u>FINDING</u><br/>NUMBER 04-10<br/>Disburment<br/>SBGP</b>                    | <b>Condition:</b><br>Voucher without date when payment was approved  | Corrected              |
| <b><u>FINDING</u><br/>NUMBER 04-11<br/>Davis Bacon<br/>Account</b>                | <b>Condition:</b><br>Municipality is not in compliance with Davis Bacon Account  | Corrected              |
| <b><u>FINDING</u><br/>NUMBER 92-93.1<br/>PriorYear<br/>Finding</b>                | <b>Condition:</b><br>The Municipality did not correct the prior year findings.   | Partially<br>Corrected |
| <b><u>FINDING</u><br/>NUMBER 03-04<br/>Personnel</b>                              | <b>Condition:</b><br>Lack of documents in personnel files  | Still<br>Prevail       |
| <b><u>FINDING</u><br/>NUMBER 03-05<br/>Hot Water<br/>Regulation<br/>Section 8</b> | <b>Condition:</b><br>Not in compliance with hot water regulation   | Corrected              |
| <b><u>FINDING</u><br/>NUMBER 03-06<br/>HQS Inspection</b>                         | <b>Condition:</b><br>HUD inspectors are not carrying out periodical inspections of the houses under Municipal contract.                    | Corrected              |



December 23, 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, 2005

A . Period: Fiscal Year ended June 30 ,2005

Mr. Rivera:

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

Finding – Schedule of financial statement findings and question cost

Finding 05-01: Schedule of Utility Allowance

Reportable condition : See condition 05-01

Recommendation: A new calculation sheet should be made in the calculation of rent every year and must be include in the tenants file.

Action Taken: We accept the recommendation and have given specific instruction 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 update 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 Program Office.

**Finding 05-02: Cash Management**

**Reportable condition:** See condition 05-02

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

**Action Taken:** We required the assistance of Ms. Ana Colón of the San Juan HUD office. Ms. Colón referred us to the Voucher Program Accounting Handbook. Furthermore, on November 11, 2005 the certificate of Deposit was processed for the amount of \$100,000.00.

**Finding 05-03: Eligibility**

**Reportable condition:** See condition 05-03

**Recommendation:** The Municipality must have all the documentation before the date make the examination or reexamination.

**Action Taken:** We accept the recommendation and have given specific instruction to the Section 8 staff to proceed with the requirements. A memorandum was send to owners and families informing that all documents should be in our office 30 days before the expiration of the contract.

**Finding 05-04: Special Test and provision – Rehabilitation**

**Reportable condition:** See condition 05-04

**Recommendation:** Establish a procedures to ensure the compliance with the federal regulation.

**Action Taken:** We accept the recommendation and have given specific instruction to the SBGP staff to verify and complete all items in the file of beneficiaries.

Cordiality,

  
Lyndy Aguirre Negron  
Finance Director