

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE FAJARDO

AUDITORIA 2004-2005

30 DE JUNIO DE 2005

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DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2005

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Fajardo, 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 Fajardo, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2005, which collectively comprise the **Municipality's** basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these basic combined financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2005, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 28 and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



INDEPENDENT AUDITORS' REPORT

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Caguas, Puerto Rico
December 9, 2005



MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Municipality of Fajardo, we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- ✦ The assets of the Municipality of Fajardo exceeded its liabilities at the close of the most recent fiscal year by \$45,304,825 (*net assets*). Of this amount, \$1,495,986 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ✦ The Municipality's net assets increase as a result of this year's operations. Net assets as of June 30, 2005 are \$45,304,825, as compared to \$43,299,894 for the year ended June 30, 2004, for .05% of increase.
- ✦ As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$26,760,376, a decrease of \$2,806,994 in comparison with the prior year. Approximately 18 percent of this total amount, \$4,756,125, is *available for spending* at the government's discretion (*unreserved fund balance*).
- ✦ The investment in capital assets for this year is \$33,486,426.
- ✦ The Municipality's total long term debt decreased by \$829,370 (4 percent) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's basic financial statements. The Municipality of Fajardo basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

MUNICIPALITY OF FAJARDO, PUERTO RICO
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*).

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both 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*.

The Municipality maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and three other funds that are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

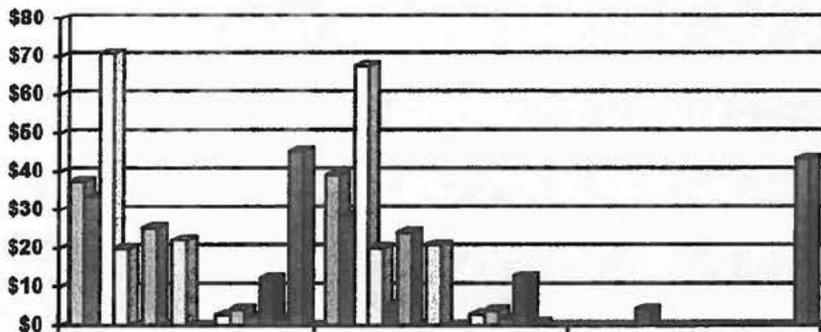
MUNICIPALITY OF FAJARDO, PUERTO RICO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2005

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality of Fajardo, assets exceeded liabilities by \$45,304,825 at the close of the most recent fiscal year. (Table 1)

Table 1
 NET ASSETS
 GOVERNMENTAL ACTIVITIES

	2005	2004
Current and other assets	\$37,353,907	\$39,219,918
Capital assets	33,486,426	28,460,245
Total assets	70,840,333	67,680,163
Long Term Debt outstanding	20,005,738	20,192,856
Other liabilities	5,529,770	4,187,413
Total liabilities	25,535,508	24,380,269
Net assets:		
Invested in capital assets, net of related debt	22,262,426	20,965,893
Restricted for:		
Head Start	2,799,708	2,888,648
Debt Services	4,290,618	3,921,930
Community Development Block Grant Program	2,306,878	1,822,859
Other purposes	12,149,209	12,796,195
Unrestricted	1,495,986	904,369
Net Assets	\$45,304,825	\$43,299,894



□ Current and other assets	■ Capital assets
□ Total assets	□ Long Term Debt outstanding
■ Other liabilities	□ Total liabilities
□ Net assets:	□ Invested in capital assets,
■ net of related debt	■ Restricted for:
□ Head Start	□ Debt Services
■ Community Development Block Grant Program	■ Other purposes
□ Unrestricted	■ Net Assets

MUNICIPALITY OF FAJARDO, PUERTO RICO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2005

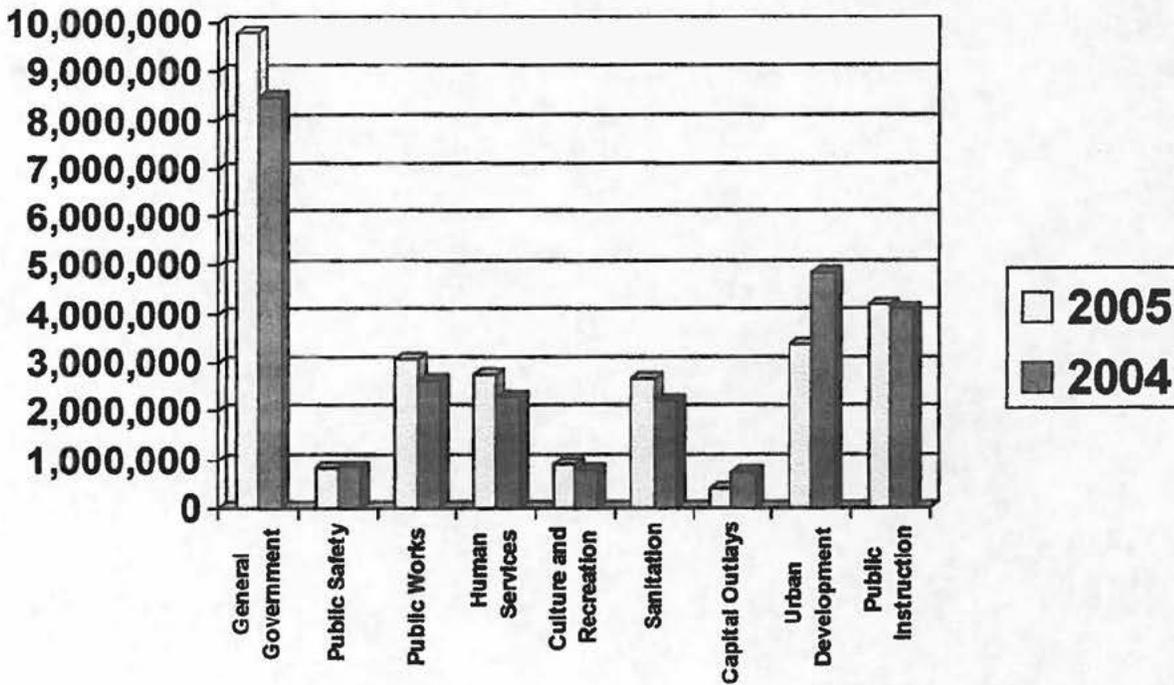
Net assets of the Municipality's governmental activities increase by \$2,004,931. Unrestricted net assets, the part of net assets that can be used to finance operations without constraints established by debt covenants, enabling legislation or other legal requirements, changed from \$904,369 at June 30, 2004 to \$1,495,986 at June 30, 2005. The major cause of this decrease was caused by the transfer of fund for the construction of capital projects.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the Municipality's governmental funds is to provide information on near term inflows, outflows, and balances of expendable resources. All activities which are not required to be accounted for in separates funds either by federal or local ordinances are accounted for in the general fund.

As of June 30, 2005, the Municipality's governmental funds reported combined fund balances of \$26,760,376 This represents a decrease of \$2,806,994 over last year's ending balances.

Governmental Funds Expenses

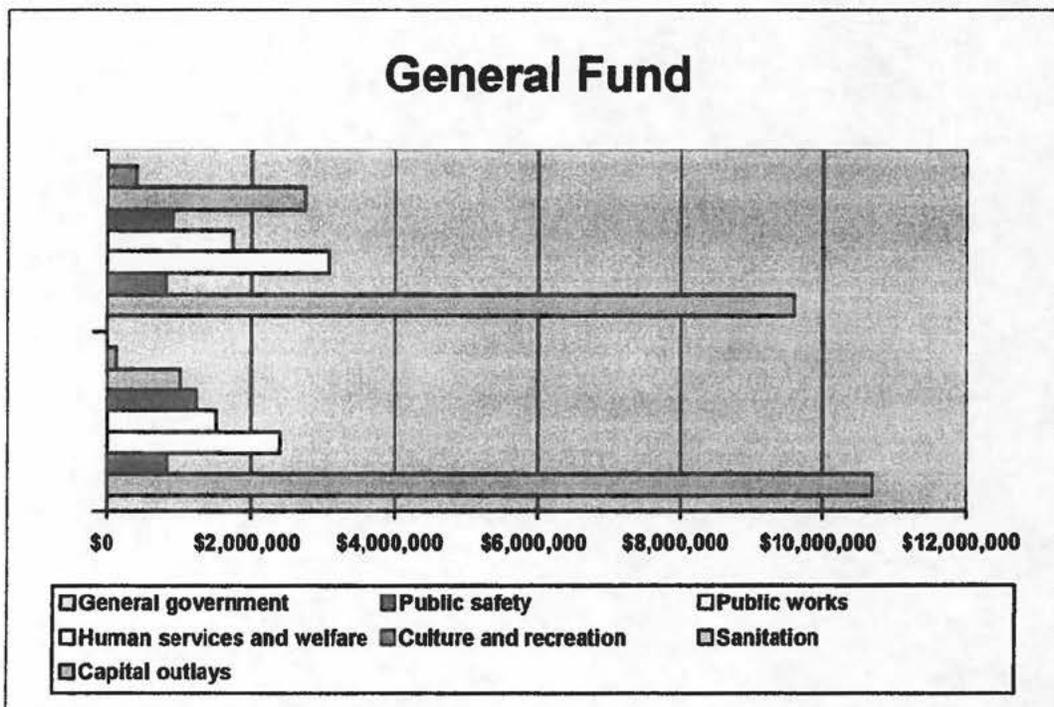


**MUNICIPALITY OF FAJARDO, PUERTO RICO
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Revenues for the Municipality's general fund increase by 16% while total expenses decrease 8%. The decrease in the general government expenditures during the fiscal year ended June 30, 2005 was substantially related to the following: (Table 2)

**Table 2
Governmental Activities
General Fund
Total cost of services**

	2005	2004
General government	\$10,702,316	\$9,594,442
Public safety	824,110	805,548
Public works	2,405,237	3,077,377
Human services and welfare	1,517,292	1,736,283
Culture and recreation	1,229,301	912,303
Sanitation	1,021,584	2,757,095
Capital outlays	138,456	395,285
Totals	\$17,838,296	\$19,278,333



MUNICIPALITY OF FAJARDO, PUERTO RICO
 MANAGEMENT DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2005

Taxes continue to be the largest source of revenue in the general fund and represent approximately a 62% of total general fund revenues. The largest element of taxes is property taxes, it represent 66% of total tax revenues and 41% of total general revenues. This compares with 34% in the prior fiscal year ended June 30, 2004.

The debt service fund has a total fund balance of \$3,051,930, all of which is reserved for the payment of debt services. The net increase in fund balance during the current year was \$413,688

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipal Assembly revised the Municipality of Fajardo budget several times. These budget amendments fall into various categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual balances. The second category includes increases allocated to capital project activities funded out of fund balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005, the Municipality of Fajardo had \$33,486,426 invested in capital assets, including buildings, parks, roads, bridges, and equipment. This amount represents a net increase of \$5,026,181. over last year.

Table 3
 Capital Assets at Year End

	2005	2004
Land	\$7,795,987	2,539,085
Others	765,615	758,095
Building	22,404,607	21,722,681
Infrastructure	718,801	1,244,852
Equipment	1,271,228	772,537
Motor vehicles	530,188	1,422,995
	<hr/>	<hr/>
Total	<u>\$33,486,426</u>	<u>\$28,460,245</u>

Long Term Debt

At June 30, 2005 the Municipality had total bonded debt outstanding of \$11,474,000 versus \$13,104,553 last year, a decrease of \$1,630,553. Other obligations include accrued vacation and sick leave, claims and judgments, and advances of property taxes. More detailed information about the Municipality's long term liabilities is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

The Municipality's elected and appointed officials when setting the fiscal year 2006 budget considered factors such as, the unemployment rate for the region and inflationary trends.

Amounts available for appropriations in the general fund for the fiscal year 2006 are \$26.9 million, an increase of \$1,000,000 million over the original 2005 budget.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to show the accountability of governments funds. If you have questions about this report or need additional financial information, contact us at Municipality of Fajardo, PO Box 865, Fajardo, Puerto Rico 00738.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

STATEMENT OF NET ASSETS

JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and Investments.....	\$20,936,748
Cash with Fiscal Agent.....	9,740,432
Receivables (net):	
Property Taxes.....	301,286
Federal Grants.....	5,812,373
Interests.....	92,764
Others.....	<u>470,304</u>
Capital Assets (Notes 1 & 8):	
Land, Improvements, and Construction in Progress.....	8,561,602
Other Capital Assets, [Net of Depreciation].....	<u>24,924,824</u>
Total Capital Assets.....	<u>33,486,426</u>
TOTAL ASSETS.....	<u>70,840,333</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	1,048,630
Accrued Interest.....	308,300
Christmas Bonus.....	359,952
Deferred Revenues.....	3,812,888
Long-Term Liabilities (Note 9):	
Due within One Year.....	3,224,335
Due in More than One Year.....	<u>16,781,403</u>
Total Liabilities.....	<u>25,535,508</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	22,262,426
Restricted for:	
Head Start Program.....	2,799,708
Debt Service.....	4,290,618
Community Development Projects.....	2,306,878
Other Purposes.....	12,149,209
Unrestricted.....	<u>1,495,986</u>
TOTAL NET ASSETS.....	<u>\$45,304,825</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature.....	\$ 2,482,886	\$ -	\$ -	\$ -	(\$ 2,482,886)
General Government.....	9,618,295	-	895,248	-	(8,723,047)
Public Safety.....	845,891	-	-	-	(845,891)
Public Works.....	2,621,212	-	-	-	(2,621,212)
Health and Sanitation.....	1,021,584	-	-	-	(1,021,584)
Culture and Recreation.....	851,205	-	-	-	(851,205)
Human Services and Welfare.....	2,496,040	-	1,397,555	-	(1,098,485)
Urban Development.....	7,299,268	-	1,169,000	-	(6,130,268)
Education.....	4,654,536	-	4,739,174	-	84,638
Interest on Long-Term Debt.....	<u>797,787</u>	-	-	-	<u>(797,787)</u>
Total Governmental Activities.....	<u>\$32,688,704</u>	<u>\$ -</u>	<u>\$ 8,200,977</u>	<u>\$ -</u>	<u>(24,487,727)</u>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					8,054,085
Property Taxes, levied for Debt Service.....					2,011,106
Volume of Business Taxes.....					3,896,968
Construction Taxes.....					2,240,478
Intergovernmental.....					2,599,714
Rent.....					221,293
Special Item.....					640,847
Miscellaneous.....					<u>2,571,966</u>
Total General Revenues.....					<u>22,236,457</u>
CHANGE IN NET ASSETS.....					(2,251,270)
Net Assets – Beginning of Year, as Restated (Note 17).....					<u>47,556,095</u>
NET ASSETS – ENDING OF YEAR.....					<u>\$45,304,825</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>GENERAL</u>	<u>HEAD START FUND</u>	<u>DEBT SERVICE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
Cash and Investments (Notes 1 and 2)	\$10,837,434	\$ 203,829	\$ -	\$ 9,895,485	\$20,936,748
Cash with Fiscal Agent	-	-	4,321,149	5,419,283	9,740,432
Receivables:					
Property Taxes	-	-	301,286	-	301,286
Federal Grants	-	3,990,052	-	1,822,321	5,812,373
Due from Other Funds	3,657,955	-	-	5,442,512	9,100,467
Due from Government	-	-	-	92,764	92,764
Others	470,304	-	-	-	470,304
Total Assets	<u>\$14,965,693</u>	<u>\$ 4,193,881</u>	<u>\$ 4,622,435</u>	<u>\$22,672,365</u>	<u>\$46,454,374</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 407,334	\$ 308,717	\$ 825,000	\$ 323,908	\$ 1,864,959
Accrued Interest	-	-	308,300	-	308,300
Due to Governmental Units	8,671	-	-	-	8,671
Due to Other Funds	5,396,347	1,085,456	23,517	2,595,147	9,100,467
Deferred Revenues:					
Volume of Business Tax	3,812,888	-	-	-	3,812,888
Intergovernmental	179,976	-	-	-	179,976
Federal Grants	-	2,781,648	-	1,637,089	4,418,737
Total Liabilities	<u>9,805,216</u>	<u>4,175,821</u>	<u>1,156,817</u>	<u>4,556,144</u>	<u>19,693,998</u>
Fund Balances:					
Reserve For:					
Encumbrances	404,352	-	-	-	404,352
Debt Service	-	-	3,465,618	-	3,465,618
Future Expenditures	-	18,060	-	18,116,221	18,134,281
Unreserved	4,756,125	-	-	-	4,756,125
Total Fund Balances	<u>5,160,477</u>	<u>18,060</u>	<u>3,465,618</u>	<u>18,116,221</u>	<u>26,760,376</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$14,965,693</u>	<u>\$ 4,193,881</u>	<u>\$ 4,622,435</u>	<u>\$22,672,365</u>	<u>\$46,454,374</u>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

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

JUNE 30, 2005

Total Fund Balances – Governmental Funds (Page 13) \$26,760,376

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

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

Non Depreciable Capital Assets	\$ 8,561,602	
Depreciable Capital Assets	39,726,577	
Infrastructure Assets	718,801	
Accumulated Depreciation	<u>(15,520,554)</u>	
Total Capital Assets		33,486,426

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

Head Start Food Program	190,290	
Child Care Food Program	31,411	
Child Care Development Block Grant	178,531	
Head Start	2,781,648	
CDBG	1,236,857	
Intergovernmental	<u>179,976</u>	
Total Deferred Revenues		4,598,713

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

General Bonds and Notes Payable	(10,649,000)	
LIMS Debt	(637,889)	
Compensated Absences	(2,142,484)	
Christmas Bonus	(359,952)	
Law 42	(228,293)	
Law 146	(518,207)	
Claims and Judgments	(5,000,000)	
Property Tax Advances-Treasury	<u>(4,865)</u>	
Total Long-Term Liabilities		<u>(19,540,690)</u>

Total Net Assets of Governmental Activities (Page 11)..... \$45,304,825

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	GENERAL	HEAD START FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Property Taxes	\$ 8,054,085	\$ -	\$ 2,011,106	\$ -	\$10,065,191
Volume of Business Taxes	3,896,968	-	-	-	3,896,968
Federal Assistances	-	4,277,118	-	2,966,135	7,243,253
Intergovernmental	2,599,166	-	-	895,248	3,494,414
Licenses and Permits	2,240,478	-	-	-	2,240,478
Rent	221,293	-	-	-	221,293
Miscellaneous	2,571,966	-	-	-	2,571,966
Total Revenues	<u>19,583,956</u>	<u>4,277,118</u>	<u>2,011,106</u>	<u>3,861,383</u>	<u>29,733,563</u>
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	2,608,849	-	-	-	2,608,849
General Government	7,837,886	-	-	231,693	8,069,579
Public Safety	824,110	-	-	-	824,110
Public Works	2,405,237	-	-	-	2,405,237
Culture and Recreation	1,229,301	-	-	-	1,229,301
Sanitation	1,021,584	-	-	-	1,021,584
Education	-	4,330,738	-	323,798	4,654,536
Human Services and Welfare	1,517,292	-	-	970,951	2,488,243
Urban Development	60,674	-	-	7,033,877	7,094,551
Capital Outlay	138,456	-	-	-	138,456
Debt Service:					
Principal	139,171	-	1,060,000	650,000	1,849,171
Interest and Other Charges	55,736	-	674,191	67,860	797,787
Total Expenditures	<u>17,838,296</u>	<u>4,330,738</u>	<u>1,734,191</u>	<u>9,278,179</u>	<u>33,181,404</u>
OTHER FINANCING SOURCES (USES)					
Transfers – In	-	-	136,773	5,049,369	5,186,142
Transfers – Out	(5,186,142)	-	-	-	(5,186,142)
Total Other Financing Sources and Uses	(5,186,142)	-	136,773	5,049,369	-
Special Item	640,847	-	-	-	640,847
Net Change in Fund Balances	(2,799,635)	(53,620)	413,688	(367,427)	(2,806,994)
Fund Balance – Beginning	7,960,112	71,680	3,051,930	18,483,648	29,567,370
FUND BALANCES – ENDING	<u>\$ 5,160,477</u>	<u>\$ 18,060</u>	<u>\$ 3,465,618</u>	<u>\$18,116,221</u>	<u>\$26,760,376</u>

*OK
Budget
04/06/2006*

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances – Total Governmental Funds (Page 15) (\$ 2,806,994)

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

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

Urban Development and Capital Outlay	\$ 1,813,940	
Depreciation Expense	<u>(1,462,262)</u>	
Excess of Capital Outlay over Depreciation Expense		351,678

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		863,733
--	--	---------

Revenues in the Statement of Revenues that correspond to prior year resources are not reported as revenues in the Statement of Activities		(800,709)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Repayment of long-term principal is expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were.		1,105,000
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Some expenses reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in Governmental Funds.
These activities consist of:

Decrease in Law 42	52,348	
Increase in Property Tax Advance-Treasury	(4,865)	
Increase in Law 146 Debt	(518,207)	
Increase in Bonds	(169,447)	
Increase in LIMS Debt	(637,889)	
Increase in Christmas Bonus	(1,096)	
Decrease in Loan Section 108	650,000	
Property Tax Advances	<u>(334,822)</u>	
Total Long-Term Liabilities		<u>(963,978)</u>

Change in Net Assets of Governmental Activities (Page 12) (\$ 2,251,270)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

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

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

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

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

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

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Financial Statement Presentation

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

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Financial Statement Presentation (continuation)

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

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

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

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

Governmental Fund Financial Statements

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

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the **Municipality's** actual experience conforms to the budgeted fiscal plan.

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

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

Required Supplementary Information

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

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Measurement Focus and Basis of Accounting (continuation)

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

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

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

The Municipality reports the following major funds:

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

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

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

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

D. Budgetary Data

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant

appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Payments of encumbrances of prior year are recorded as expenditures under GAAP but not under the budgetary basis.
3. Interfund transactions of the General Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

E. Cash and Investment

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

D. Cash and Investment (continuation)

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico and is not collateralized.

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The **Municipality's** capitalization levels are \$1 on personal property. Infrastructure assets are capitalized based on a percentage of the estimated useful life. Other costs incurred for repairs and maintenance is expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

I. Compensated Absences

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality's** employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment

prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations (see Note 9).

J. Insurance

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

K. Interfund Transactions

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

following types of transactions among funds:

TABLE 1	
CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Motor Vehicles	5
Machinery and Equipments	5-10

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Interfund Transactions (continuation)

Operating Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. Transfer includes interest earned on restricted cash with fiscal agent in the Debt Service Fund and operating and capital improvement in other governmental funds which is transferred to the General Fund; and principal and interest payments of general long-term debt transferred from the General Fund to the Debt Service Fund. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

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

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund.

N. Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

Investments consist of certificates of deposit. The Municipality's cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico, which are uninsured and uncollateralized.

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2005, the market value of investments recorded in the General Fund approximated its carrying value as follow: (See Table 2)

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	TABLE 2 EXPIRATION DATE
Popular Bank of Puerto Rico ...	1110000043	\$ 1,500,000	2.80%	07-14-05
Popular Bank of Puerto Rico ...	1110000046	4,708,000	2.80%	07-14-05
Popular Bank of Puerto Rico ...	1110000047	<u>4,792,000</u>	2.80%	07-14-05
TOTAL		<u>\$11,000,000</u>		

The investments are distributed by the amounts of \$9,000,000 to the General Fund and \$2,000,000 to the Special Revenue Fund.

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2005, the Municipality's custodial credit risk was approximately \$9.7 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDV). These deposits are exempt from the collateral requirement established by the Commonwealth.

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

NOTE 4 OTHERS RECEIVABLES AND DUE FROM AGENCIES

The following is a summary of due from other agencies for the fiscal year ended June 30, 2005 (Table 3).

TABLE 3	AMOUNT
Solid Waste Disposal	\$274,269
Christmas Bonus	179,976
Volume of Business Taxes	<u>16,059</u>
Total Due to Governmental Units	<u>\$470,304</u>

NOTE 5 INTERFUND TRANSFER AND BALANCES

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

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
TABLE 4			
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 136,773	Debt payment
General Fund	Other Fund	<u>5,049,369</u>	Specific project funding
Total		<u>\$5,186,142</u>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows: (See Table 5)

Inter-fund receivables between the General and Debt Service Fund represent the interest income received from the Municipal Revenue Collection Center.

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 5 AMOUNT
General Fund	Debt Service Fund	\$ 23,517
General	Head Start Fund	1,085,456
General Fund	Other Fund	2,548,982
Other Fund	General Fund	5,396,347
Other Fund	Other Fund	46,165
TOTAL		<u>\$9,100,467</u>

NOTE 7 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2005, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 6)

TABLE 6	AMOUNT
Water Company.....	\$ 5,071
General Service Administration.....	3,600
Total Due to Governmental Units	<u>\$ 8,671</u>

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

TABLE 8	AMOUNT
General Government.....	\$ 526,414
Public Safety.....	58,491
Public Works.....	599,527
Culture and Recreation.....	73,113
Urban Development.....	204,717
Total Depreciation Expenses.....	<u>\$1,462,262</u>

NOTE 8 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows (See Table 7)

TABLE 7	BALANCE JULY 1, 2004	ADJUSTMENTS	ADDITIONS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:				
Land.....	\$ 2,539,085	\$ 5,256,902	\$ -	\$ 7,795,987
Others.....	758,095	-	7,520	765,615
Total Non-Depreciable Capital Assets.....	<u>3,297,180</u>	<u>5,256,902</u>	<u>7,520</u>	<u>8,561,602</u>
Depreciable Capital Assets:				
Buildings.....	31,815,811	1,275,815	706,641	33,798,267
Infrastructure.....	1,275,815	(1,275,815)	718,801	718,801
Machinery and Equipment.....	2,020,907	1,241,612	152,793	3,415,312
Motor Vehicles.....	3,526,425	(1,241,612)	228,185	2,512,998
Total Depreciable Capital Assets.....	<u>38,638,958</u>	<u>-</u>	<u>1,806,420</u>	<u>40,445,378</u>
Less Accumulated Depreciation:				
Buildings.....	(10,093,130)	(613,362)	(687,168)	(11,393,660)
Infrastructure.....	(30,963)	30,963	-	-
Machinery and Equipment.....	(1,248,370)	(270,761)	(624,953)	(2,144,084)
Motor Vehicles.....	(2,103,430)	270,761	(150,141)	(1,982,810)
Total Accumulated Depreciation.....	<u>(13,475,893)</u>	<u>(582,399)</u>	<u>(1,462,262)</u>	<u>(15,520,554)</u>
Total Depreciable Capital Assets (Net).....	<u>25,163,065</u>	<u>(582,399)</u>	<u>344,158</u>	<u>24,924,824</u>
CAPITAL ASSETS, NET	<u>\$28,460,245</u>	<u>\$ 4,674,503</u>	<u>\$ 351,678</u>	<u>\$33,486,426</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the **Municipality** are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 10). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the **Municipality**.

General obligations bonds and notes payable as of June 30, 2005, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$11,435,000, Series 1999-98, for construction purposes, payable in annual installments ranging from \$305,000 to \$1,130,000, excluding variable interests from 5.190% to 6.340% until July 1, 2016.....	<u>\$ 9,195,000</u>
Total General Obligations Bonds.....	<u>9,195,000</u>
Special Obligations Notes:	
\$1,496,000, Series 1983-84, for construction purposes, payable in annual installments ranging from \$18,000 to \$143,000, excluding interests at 9.125%, until January 1, 2008.....	394,000
\$3,270,000 Series 1991-92, for construction purposes, payable in annual installments ranging from \$120,000 to \$355,000, excluding variable interest from 4.163% to 6.363%, until July 1, 2006.....	685,000
Special Obligations Notes:	
\$370,000 Series 1994-95, for construction purposes, payable in annual installments ranging from \$5,000 to \$35,000, excluding variable interests from 6.106% to 8.206%, until July 1, 2019.....	300,000
\$2,500,000, Series 1986-87, for operational purposes, payable in annual installments of \$125,000, excluding variable interests from 5.000% to 8.500%, until July 1, 2006.....	250,000
\$2,500,000, Series 1996, for construction purposes, payable in annual installments ranging to \$140,000 to \$650,000, excluding interests at 3.00%, until August 1, 2005; (paid through CDBG funds).....	<u>650,000</u>
Total Special Obligations Notes.....	<u>2,279,000</u>
Total General and Special Obligations.....	<u>\$11,474,000</u>

The **Municipality's** general obligations long-term note retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 10). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to

the **Municipality**, except for the Section 108 Loan that was paid through CDBG Program Fund.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2005 are as follows (See Table 9):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TABLE 9 TOTAL PAYMENT
2006	\$ 1,745,000	\$ 659,963	\$ 2,404,963
2007	1,121,000	572,912	1,693,912
2008	723,000	513,052	1,236,052
2009	625,000	465,639	1,090,639
2010	675,000	428,062	1,103,062
2011-2015	4,265,000	1,441,180	5,706,180
2016-2019	<u>2,320,000</u>	<u>172,127</u>	<u>2,492,127</u>
TOTAL	<u>\$11,474,000</u>	<u>\$ 4,252,935</u>	<u>\$15,726,935</u>

B. OTHER LONG-TERM DEBTS

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

TABLE 10 DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
Property Taxes – Law 42....	\$ 280,641	\$ -	(\$ 52,348)	\$ 228,293
Property Taxes-Treasury....	-	-	4,865	4,865
Property Taxes-Law 146....	-	574,996	(56,789)	518,207
LIMS.....	-	716,192	(78,303)	637,889
Claims and Assessments ...	5,000,000	-	-	5,000,000
Compensated Absences....	<u>1,807,662</u>	<u>334,822</u>	-	<u>2,142,484</u>
TOTAL.....	<u>\$7,088,303</u>	<u>\$ 1,626,010</u>	<u>(\$ 182,575)</u>	<u>\$ 8,531,738</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2005: (See Table 11)

TABLE 11 DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 9,645,000	\$ -	(\$ 450,000)	\$ 9,195,000	\$ 485,000	\$ 8,710,000
Special.....	3,459,553	-	(1,180,553)	2,279,000	1,110,000	1,169,000
Others Debts .	<u>7,088,303</u>	<u>1,626,010</u>	<u>(182,575)</u>	<u>8,531,738</u>	<u>1,629,335</u>	<u>6,902,403</u>
TOTAL.....	<u>\$20,192,856</u>	<u>\$ 1,626,010</u>	<u>(\$ 1,813,128)</u>	<u>\$20,005,738</u>	<u>\$ 3,224,335</u>	<u>\$16,781,403</u>

NOTE 10 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 11).

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 PROPERTY TAXES

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

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

The tax rate per annum is 8.53% for real property and 6.53% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 10). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

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

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2005, the Debt Service Fund presented a receivable of \$301,286 for the collection of additional property taxes during the next 60 days after end of year.

NOTE 12 VOLUME OF BUSINESS TAX

Volume of Business Tax is recorded in the fiscal year in which payments is due and, accordingly, represents taxes which are due and uncollected at June 30, 2005. The Volume of Business Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the **Municipality**, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the **Municipality** are as follow:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

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

NOTE 13 INTERGOVERNMENTAL REVENUES

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

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

NOTE 14 EMPLOYEE'S RETIREMENT PLAN

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 EMPLOYEE'S RETIREMENT PLAN (continuation)

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

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

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

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

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

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

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

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

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

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

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2005 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions. The total pension expenditures recorded in the category of administration for the current and the previous years are as follows: (See Table 13)

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2005	<u>\$304,338</u>	<u>\$151,422</u>
2004	<u>\$312,270</u>	<u>\$104,035</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 EMPLOYEE'S RETIREMENT PLAN (continuation)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2005. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

NOTE 15 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

State and Federal laws and regulations require the **Municipality** to place a final cover on its landfill when closed and perform certain maintenance and monitoring function at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on futures closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The **Municipality** has performed a study of the activities that need to be implemented at the **Municipality's** landfill to comply with applicable laws and regulations. As result of this study, the **Municipality** has decided to privatize the solid waste disposal service. The **Municipality** is entitled, under the agreement, to certain revenues resulting from the use of the landfill. As part of the agreement the contractor will assume the closure and post-closure costs during the next thirty years, releasing the **Municipality** of the estimated liability for future closure and post-closure care costs.

Accordingly, as of June 30, 2005 the **Municipality** has not made contributions to finance closure and post-closure care costs.

NOTE 16 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of one (1) lawsuit related to excessive used of force, to which the legal counsel has estimate a potential loss of \$5,000,000. These lawsuits are in appeal in other Courts. Accordingly, the financial statements include this provision in the Long-Term Liabilities because will be paid with future resources if the Courts decided in against of the **Municipality**.

B. FEDERAL GRANTS

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

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

NOTE 17 FUND BALANCE – NET ASSETS RESTATEMENTS

Impact of the restatements on fund/balance net assets as previously reported is as follows:

TABLE 14	NET ASSETS
Net Assets, as Previously Reported, June 30, 2004.....	\$43,299,894
Adjustment to Expenses.....	(179,428)
Adjustment to Revenues	(238,874)
Adjustment to Capital Assets.....	<u>4,674,503</u>
Net Assets, as Restated, July 1, 2004	<u>\$47,556,095</u>

NOTE 18 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2004; and GASBS No. 46, *Net Assets Restricted by Enabling Legislation*, which is effective for period beginning after June 15, 2005. Early application is encouraged. The **Municipality** has not adopted the requirement of these statements. The following are other pronouncements issued that does not apply to the **Municipality**:

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

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

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

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

END OF NOTES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2004.....	<u>\$ 5,792,053</u>	<u>\$ 5,792,053</u>	<u>\$ 5,792,053</u>	<u>\$ -</u>
Resources (Inflows):				
Property Taxes.....	8,054,085	8,054,085	8,054,085	-
Municipal License Taxes.....	3,879,111	3,879,111	3,896,968	17,857
License and Permits and Other Local Taxes.....	2,574,347	2,574,347	2,599,166	24,819
Intergovernmental Revenues.....	2,010,200	2,010,200	2,240,478	230,278
Rent.....	251,000	251,000	221,293	(29,807)
Miscellaneous.....	<u>1,676,700</u>	<u>1,676,700</u>	<u>2,571,966</u>	<u>895,266</u>
Total Resources (Inflows).....	<u>18,445,543</u>	<u>18,445,543</u>	<u>19,583,956</u>	<u>1,138,413</u>
Amounts Available for Appropriation.....	<u>24,237,596</u>	<u>24,237,596</u>	<u>25,376,009</u>	<u>1,138,413</u>
Charges to Appropriations (Outflows):				
General Government.....	11,295,968	12,911,711	8,838,752	4,072,959
Public Safety.....	1,214,004	1,211,175	828,917	382,258
Public Works.....	2,826,288	2,728,923	2,435,685	293,238
Human Services and Welfare.....	540,400	570,670	1,527,519	(956,849)
Culture and Recreation.....	1,046,909	1,100,300	1,243,408	(143,108)
Sanitation.....	1,021,209	1,021,209	1,021,584	(375)
Urban Development.....	185,069	214,051	60,674	153,377
Capital Outlays.....	190,696	212,271	138,456	73,815
Transfer to Other Funds.....	<u>125,000</u>	<u>5,174,479</u>	<u>5,186,142</u>	<u>(11,663)</u>
Total Charges to Appropriations.....	<u>18,445,543</u>	<u>25,144,789</u>	<u>21,281,137</u>	<u>3,863,652</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005.....	<u>\$ 5,792,053</u>	<u>(\$ 907,193)</u>	<u>\$ 4,094,872</u>	<u>\$ 5,002,065</u>

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 27).....	\$24,237,596
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.....	(5,792,053)
Prior-Year Revenue is not inflows of budgetary resources but are <i>revenues</i> for financial reporting purposes.....	<u>1,138,413</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15).....	<u>\$19,583,956</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 27).....	\$21,281,137
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes.....	2,147,653
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes.....	(404,352)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(5,186,142)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, expenditures and Changes in Fund Balance (See Page 15).....	<u>\$17,838,296</u>

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

Budgetary Fund Balance, June 30, 2005 (See Page 27).....	\$ 4,094,872
Timing Differences:	
Special Item.....	640,847
Non-budgetary Items.....	<u>20,406</u>
Unrestricted Fund Balance, June 30, 2005 (See Page 13).....	<u>\$ 4,756,125</u>

END OF THIS SECTION

PART II

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA)	10.558	N/AV	<u>\$ 321,518</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant (CDBG).....	14.218		1,286,735
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation.....	14.856		37
Section 8 Housing Choice Voucher Program	14.871		<u>457,389</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,744,161</u>
U. S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant.....	93.575	N/AV	142,407
Head Start Program	93.600	N/AV	<u>4,330,738</u>
Total U.S. Department of Health and Human Services			<u>4,473,145</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$6,538,824</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 GENERAL

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 LOAN OUTSTANDING

In determining the value of total non-cash awards expended for loans and loan guarantees, the balances of loans from previous years must be included if the federal government imposes continuing compliance requirements. OMB Circular A-133 does not specifically define the term continuing compliance requirements. Therefore, it is a matter of judgment as to whether continuing compliance requirements are significant enough to require inclusion of prior-year loan or loan guarantee balances. The **Municipality** had the following outstanding balance at June 30, 2005: Section 108 Loans for the amount of \$650,000 included in the Long-Term Liabilities of the Statement of Net Assets, for which Grantor do not imposes continuing compliance requirements.

NOTE 6 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Fund as follows: Head Start \$ 4,330,738 and Other Governmental Funds \$2,208,086.

NOTE 7 MAJOR PROGRAMS

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

END OF NOTES



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Consolidated Mall C-31
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Caguas, PR 00726-8369
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cpadiazmartinez@hotmail.com

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Fajardo, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2005, which collectively comprise the **Municipality's** basic financial statements and has issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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



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

Page 2

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

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

Caguas, Puerto Rico
December 9, 2005





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PO Box 8369
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the **Municipality of Fajardo, Puerto Rico (Municipality)**, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005. The **Municipality's** major federal programs are identified in the summary of auditors' result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-III-01 through 05-III-03.

Internal Control Over Compliance

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



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Page 2

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-III-01 through 05-III-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

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

Caguas, Puerto Rico
December 9, 2005



PART III
FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

● Reportable condition(s) identified? Yes None Reported

● Material weakness(es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

● Reportable condition(s) identified? Yes None Reported

● Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-01
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages according to the Department of Labor's requirements. This is a prior year audit finding.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7), which establishes that the Municipality must interview employees at the beginning, at a middle stage and at the end of the project.
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors comply with the Act.
EFFECT	Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
RECOMMENDATION	We recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to a municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and performing interviews to contractor's and subcontractor's laborers according to the established requirements.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-02
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CFDA 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT, SUSPENSION AND DEBARMENT
CONDITION	The model for construction contracts over \$100,000 used by the Municipality did not contain the compliance with the Copeland Anti-Kickback Act, as required by the program regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart C, Section 85.36 (i) (1-13) stated that the sub-grantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures, in order to assure that contractors comply with all requirements.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36 (i) (1-13) of OMB Common Rules. This could affect future claims against contractors because if any clauses are not present at the time of agreement, the Municipality would not have any legal rights to make contractors comply with requirements or provisions not specified in the contract.
RECOMMENDATION	We recommend management to update the contract model according with the federal requirements.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-03
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION FOR THE CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	We noted that the Municipality did not maintain a general ledger which adequately separates the administrative and program costs.
CRITERIA	Code of Federal Regulations, 45 CFR, part 1301, Subpart D, Section 1301.32 (a)(1) and (e)(1) stated that allowable costs for developing and administering a Head Start program may not exceed 15% of the total approved costs and grantees must categorize costs as development and administrative or program costs.
CAUSE	Municipality failed to implement procedures to ensure that administration costs did not exceed the limits established by the grant agreement.
EFFECT	Municipality did not maintain an adequate control of the accountability of the program to ensure compliance with all the terms and dispositions set forth by the grant agreement.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2004

Finding Number	2004-II-1	Reportable Condition over Budgeting Transactions (Government Auditing Standards' findings)
CFDA Number	N/A	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-02	Eligibility HUD- approved release and consent forms submitted by the family.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-03	Eligibility Tenant's files did not contain any evidence of the deeds to the property.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-04	Procurement Standards Missing contract clauses.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-05	Reporting Family Reports (HUD-50058) were not updated annually.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Finding Number	04-III-06	Special Test and Provisions Head Start Centers lacking required licenses and permits.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-07	Special Test and Provisions Waiting list order was based on the family unit size for which the family qualified.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-08	Special Test and Provisions Participant's files did not have a unit inspection report.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-09	Special Test and Provisions There was no correction period limit for the person responsible for repairs to the housing units.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.
Finding Number	04-III-10	Special Test and Provisions No evidence of the determination of reasonableness of rent payment.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments		System and procedures were corrected.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FISCAL YEAR 2003

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

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 03-III-04 **Special Test and Provisions**
The waiting list did not contain the required information to assure compliance with selection policies.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures were corrected.

Finding Number 03-III-05 **Special Test and Provisions**
Head Start Centers lacking required licenses and permits.

CFDA Number 93.600

Questioned Cost None

Auditee Comments System and procedures were corrected.

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2004

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

CFDA Number 14.871

Questioned Cost None

Auditee Comments Major made instruction to implement the monitoring system.

FISCAL YEAR 2003

Finding Number 03-III-01 **Activities Allowed and Unallowed**
Municipality made unallowed loans between funds.

CFDA Number 14.871

Questioned Cost None

Auditee Comments The restitution of funds is pending to the results of a revision of the debt.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF FAJARDO, PUERTO RICO**

SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

CFDA Number 93.600

Questioned Cost None

Auditee Comments Contracts granted during the fiscal year 2004-2005 contained all the clauses required by federal regulation.

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE



Oficina de la
Directora

Gobierno Municipal Fajardo

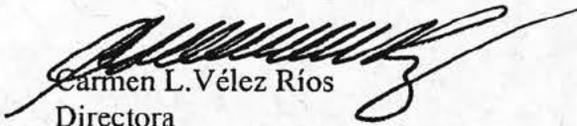
OFICINA ASUNTOS FEDERALES

MUNICIPIO FAJARDO
OFICINA FINANZAS

2006 FEB -7 P 2:54

7 de febrero de 2006

María I. Colón
Directora
Oficina de Asuntos Federales


Carmen L. Vélez Ríos
Directora

Oficina de Asuntos Federales

SEÑALAMIENTO 05-111-02 SIGLE AUDIT REPORT

Saludos. Luego de discutir el señalamiento con las auditoras inmediatamente buscamos la reglamentación federal aplicable. Enviamos tanto a la oficina de la Licenciada Toledo y de Secretaría Municipal para que se incluya dicha cláusula en los contratos del Municipio en los que se utilizan fondos federales.

En conversación telefónica la semana pasada con la Licenciada Toledo me indicó que se había tomado la acción correctiva de incluir dicha cláusula a los contratos para futuros proyectos. Espero que la información sea de utilidad y de necesitar información adicional puede comunicarse con la que suscribe.

ESTADO LIBRE ASOCIADO DE PUERTO RICO
 PROYECTO HEAD START
 MUNICIPIO DE FAJARDO

**PLAN DE ACCION CORRECTIVO
 SINGLE AUDIT 2004-2005**

HALLAZGO	ACCION CORRECTIVA	PERSONAL RESPONSABLE	FECHA	OBSERVACIONES
Número 05-111-01 Compliance and Internal Control Davis-Bacon Act	El Gerente Administrativo y el Auxiliar Administrativo tan pronto se adjudiquen los contratos de renovación de algún centro, realizarán las entrevistas a los trabajadores al inicio, mediado y final del proyecto y darán seguimiento a las nóminas y evaluarán las mismas de acuerdo a las tasas asignadas por el Departamento de Trabajo.	Gerente Administrativo Auxiliar Administrativo	Inmediata	
Número 05-111-03 Compliance and Internal Control Reporting	Se procederá a separar en las cuentas del mayor las cuentas de Salarios, Seguro Social, Plan Médico, Fondo Seg. Estado, Seguro Choferil, Bono de Navidad, Viaje al Exterior, Viaje Local y Adiestramientos del personal Programático y Administrativo	Contador	Inmediata	Se consultará a Oficina Central (ACUDEN) para evaluar los porcentos determinados en la Tabla para computar el 15% Costos Administrativos

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.— Econ. and Stat. Adm.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN
TO**Federal Audit Clearinghouse**
1201 E. 10th Street
Jeffersonville, IN 47132**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**Month Day Year
06 / 30 / 2005Fiscal Period End Dates Must
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 Single audit 2 Program-specific audit**3. Audit period covered**1 Annual 2 Biennial 3 Other - Months**4. FEDERAL GOVERNMENT USE ONLY**Date received by
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

6 6 - 0 4 3 3 5 6 6

b. Are multiple EINs covered in this report? 1 Yes 2 No

c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number - - e. Are multiple DUNS covered in this report? 1 Yes 2 No

f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION**a. Auditee name**

MUNICIPALITY OF FAJARDO

b. Auditee address (Number and street)

P.O. BOX 865

City

FAJARDO

State

ZIP + 4 Code

PR

0 0 7 3 8 - 8 6 6 5

c. Auditee contact

Name

ANIBAL MELENDEZ RIVERA

Title

MAYOR

d. Auditee contact telephone

(787) 863 - 1802

e. Auditee contact FAX

(787) 860 - 1320

f. Auditee contact E-mail**g. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date

Month Day Year
01 / 13 / 06

Printed Name of certifying official

HON ANIBAL MELENDEZ RIVERA

Printed Title of certifying official

MAYOR

7. AUDITOR INFORMATION (To be completed by auditor)**a. Auditor name**

CPA DIAZ-MARTINEZ, PSC

b. Auditor address (Number and street)

P.O. BOX 8369

City

CAGUAS

State

ZIP + 4 Code

PR

0 0 7 2 6 - 8 3 6 9

c. Auditor contact

Name

JOSE E. DIAZ MARTINEZ

Title

PRESIDENT

d. Auditor contact telephone

(787) 746 - 0510

e. Auditor contact FAX

(787) 746 - 0525

f. Auditor contact E-mail

CPADIAZMARTINEZ@HOTMAIL.COM

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date

Month Day Year
01 / 11 / 06

CPA Diaz-Martinez, PSC

FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 [X] Unqualified opinion OR any combination of: 2 [] Qualified opinion 3 [] Adverse opinion 4 [] Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 [] Yes 2 [X] No

3. Is a reportable condition disclosed? 1 [] Yes 2 [X] No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 [] Yes 2 [] No

5. Is a material noncompliance disclosed? 1 [] Yes 2 [X] No

FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 [] Yes 2 [X] No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 [] Yes 2 [X] No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 [X] Yes 2 [] No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1 [] Yes 2 [X] No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 [] Yes 2 [X] No

7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 [X] Yes 2 [] No

8. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- 98 [] U.S. Agency for International Development 33 [] Federal Emergency Management Agency 43 [] National Aeronautics and Space Administration 96 [] Social Security Administration
10 [] Agriculture 39 [] General Services Administration 89 [] National Archives and Records Administration 19 [] U.S. Department of State
23 [] Appalachian Regional Commission 93 [] Health and Human Services 05 [] National Endowment for the Arts 20 [] Transportation
11 [] Commerce 14 [X] Housing and Urban Development 06 [] National Endowment for the Humanities 21 [] Treasury
94 [] Corporation for National and Community Service 03 [] Institute of Museum and Library Services 47 [] National Science Foundation 82 [] United States Information Agency
12 [] Defense 15 [] Interior 07 [] Office of National Drug Control Policy 64 [] Veterans Affairs
84 [] Education 16 [] Justice 59 [] Small Business Administration 00 [] None
81 [] Energy 17 [] Labor [] Other - Specify:
66 [] Environmental Protection Agency 09 [] Legal Services Corporation

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives [X]
• and, if not marked above, the Federal cognizant agency []

Count total number of boxes marked above and submit this number of reporting packages 2

FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report 3 (h)	Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)
Federal Agency Prefix 1 (a)	Extension 2 (b)					Major program (g)	Major program (g)			
1 0	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 321,518 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
1 4	218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 1,286,735 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	I	05-III-02	
1 4	856	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOWER INCOME HOUSING ASSISTANCE PROGRAM-SECTION 8 MODERATE REHABILITATION	\$ 37 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
1 4	871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM	\$ 457,389 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A	
9 3	575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 142,407 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A	
9 3	600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 4,330,738 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	DL	05-III-01, 05-II I-03	
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No				
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No				
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No				
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No				
TOTAL FEDERAL AWARDS EXPENDED				\$ 6,538,824 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS					

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act

- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds

- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance

- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

⁵ N/A for NONE

FORM SF-SAC (3-2004)

