

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

MUNICIPIO DE HUMACAO
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

Cmt 1/26 - 6139

Municipality of Humacao

(Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary
Information and Other Supplementary Information

June 30, 2005

(With Additional Reports and Information Required by the
Government Auditing Standards and the OMB Circular A-133)

Dr
Dr

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Rodríguez-Parissi, Vázquez & Co. P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS TAX & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Mayor and Municipal Legislature
Municipality of Humacao
Humacao, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the **Municipality of Humacao** ("Municipality") as of and for the fiscal year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these 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 financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 funds and the aggregate remaining fund information of **Municipality of Humacao**, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2005, on our consideration of the **Municipality of Humacao** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 22 through 23, 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 AUDITOR'S REPORT
(Continuation)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Humacao**, 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 also not a required part of the basic financial statements of **Municipality of Humacao**. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rodriguez Parissi, Vázquez - C.P.S.C.

San Juan, Puerto Rico
December 21, 2005

The stamp number 2084054
was affixed to the original of this report.



Ejemplar Dec 1, 2005

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The following discussion and analysis of the Municipality of Humacao's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2005 by \$74,828,918 (net assets).
- Revenues decreased by \$1,120,800 (2.1%) and expenses increased \$1,656,118 (3.2%) in comparison with year 2004, as restated.
- Net change in net assets amounted to (\$510,184), a decrease of 122.5% with respect to prior year (2004) net change.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$30,026,831, a decrease of \$2,574,324 in comparison with the prior year.
- The General Fund reported an excess of revenues over expenditures and other financing uses of \$998,709 and an unreserved fund balance of \$7,939,952. Unreserved fund balances increased \$1,386,178 from prior year.

General Financial Highlights

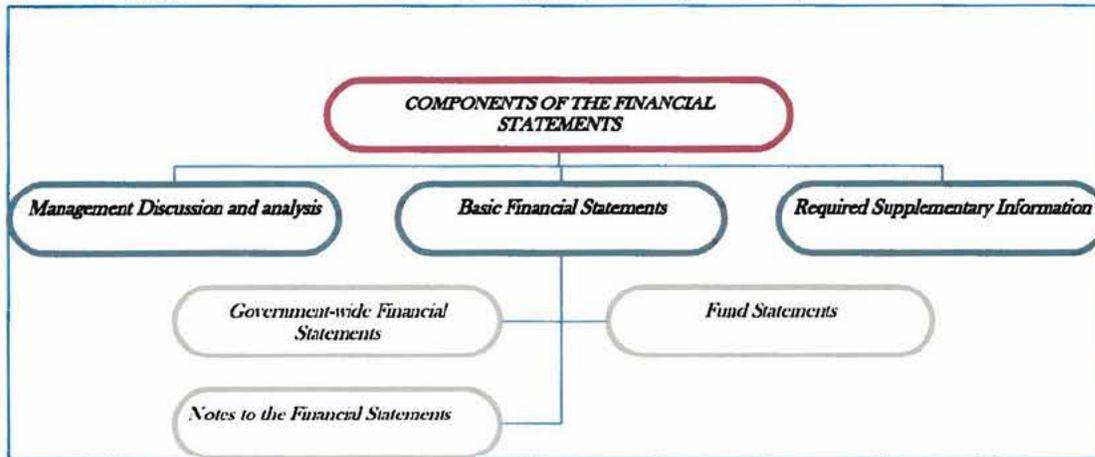
- The investment in net capital assets as of June 30, 2005 was \$54,548,855 (net of related debt).
- Long term debt general and special bonds and notes obligations decreased to \$24,168,132, approximately 8% with respect to prior year balance.
- Other long term debts increases and net reductions from payments amounted to \$4,465,487 and \$1,939,873, respectively.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$920,642, net of \$1,212,905 designated general fund for future expenditures (transfers out to special fund).
- Revenues increase was mainly due to \$1,316,715 of a revision of original estimate of property taxes, \$1,191,349 of intergovernmental and \$775,003 of construction taxes, and a reduction of \$3,282,443 of estimated other revenues that the Municipality does not included as an amendment to the budget.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – 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 the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality. The second statement – the *Statement of Activities* – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements reports as governmental activities the Municipality's basic services such as public safety, public works, health and sanitation, culture and recreation, solid waste disposal, human services and welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

Required supplementary information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2005 and 2004:

Table 1		
Statement of Net Assets		
As of June 30,		
	2005	2004
Current and non-current assets	\$ 50,442,982	\$ 54,383,707
Capital assets (As Restated).....	<u>67,849,227</u>	<u>64,231,682</u>
Total Assets	<u>118,292,209</u>	<u>118,615,389</u>
Current liabilities.....	3,431,674	3,907,644
Deferred revenues	8,231,969	6,981,659
Long-term liabilities.....	<u>31,799,648</u>	<u>29,371,295</u>
Total Liabilities	<u>43,463,291</u>	<u>40,260,598</u>
Net Assets:		
Investment in capital assets, Net of Related Debt (As Restated)	54,548,855	44,336,497
Restricted.....	21,001,431	24,682,544
Unrestricted (As Restated).....	<u>(721,368)</u>	<u>6,320,061</u>
Total Net Assets	<u>\$ 74,828,918</u>	<u>\$ 75,339,102</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year decreased 0.7% with respect to prior year as restated.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$54,548,855; total capital assets (\$89,326,371) less accumulated depreciation (\$21,477,144) and less any related outstanding debt (\$13,300,373) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not

available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2005 the Municipality presented unrestricted (deficit) net assets of (\$721,368). This balance was affected by long term obligations such as compensated absences \$3,647,715 and other debts for the amount of \$3,837,877 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2005 and 2004:

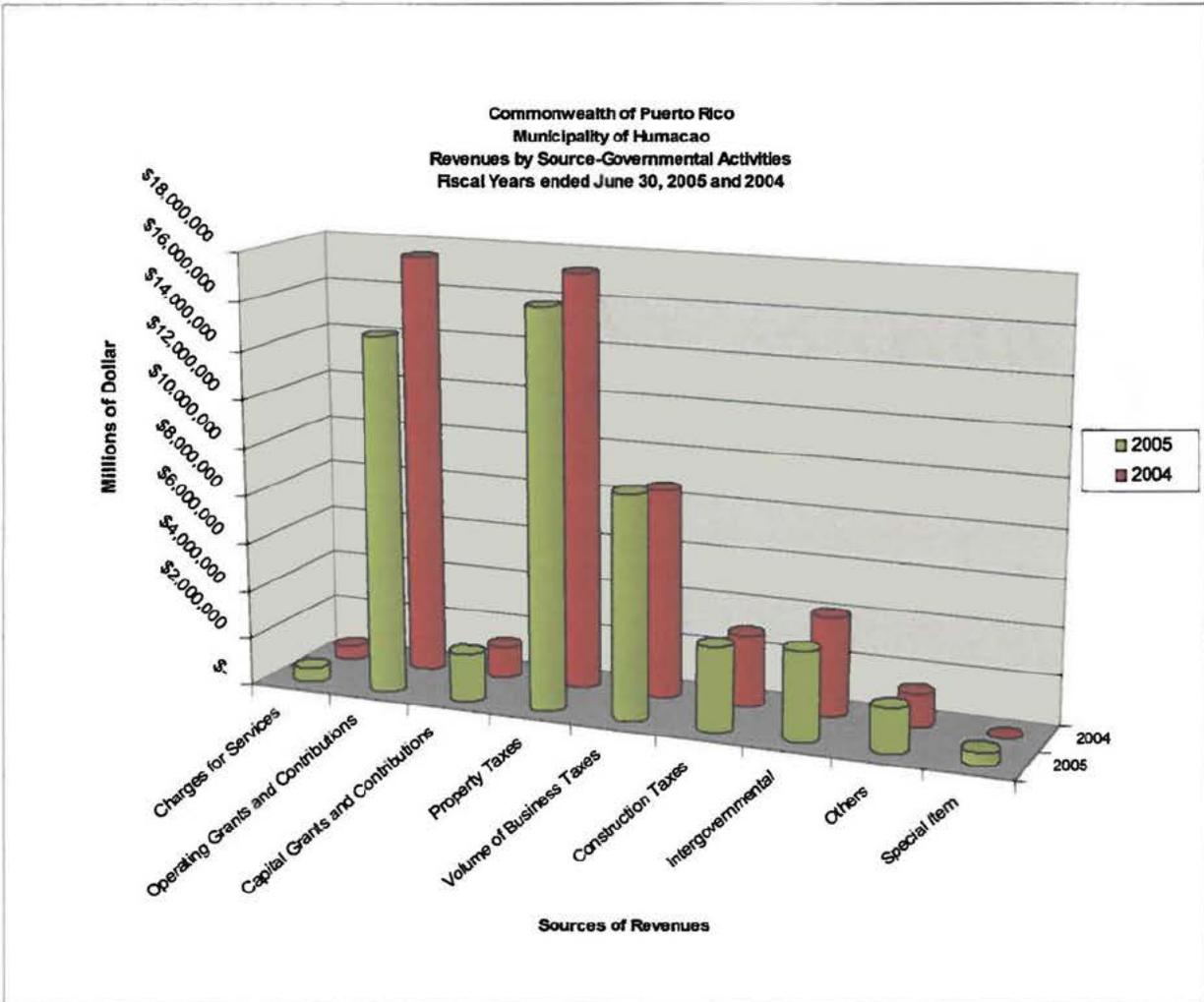
	2005	2004
Revenues:		
Program Revenues:		
Charges for Services	\$ 609,266	\$ 573,492
Operating Grants and Contributions ...	14,763,717	17,498,177
Capital Grants and Contributions	1,981,450	1,320,589
General Revenues:		
Property Taxes.....	16,404,920	17,236,263
Volume of Business Taxes	9,275,602	8,641,649
Construction Taxes	3,495,003	2,987,689
Intergovernmental.....	3,722,839	4,129,938
Other General Revenues.....	1,850,169	1,374,369
Special Item – Property Taxes Amnesty.	538,400	-
Total revenues	<u>52,641,366</u>	<u>53,762,166</u>
Expenses:		
General Administration	19,242,926	17,755,093
Public Safety	2,201,718	2,034,447
Public Works	5,152,948	7,089,559
Culture and Recreation	1,800,249	1,657,323
Health and Sanitation.....	1,969,148	1,718,276
Solid Waste Disposal.....	2,710,613	2,520,427
Human Services and Welfare	6,786,929	5,744,314
Urban Development.....	4,532,082	3,526,187
Education	7,305,331	8,015,622
Interest Costs.....	1,449,606	1,434,184
Total expenses	<u>53,151,550</u>	<u>51,495,432</u>
Changes in net assets	(510,184)	2,266,734
Net assets – beginning, as Restated*.....	<u>75,339,102</u>	<u>73,072,368</u>
Net assets – ending	<u>\$ 74,828,918</u>	<u>\$ 75,339,102</u>

* Prior Period Adjustment to capital assets is \$9.5 million, \$1.02 million for expenditures.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

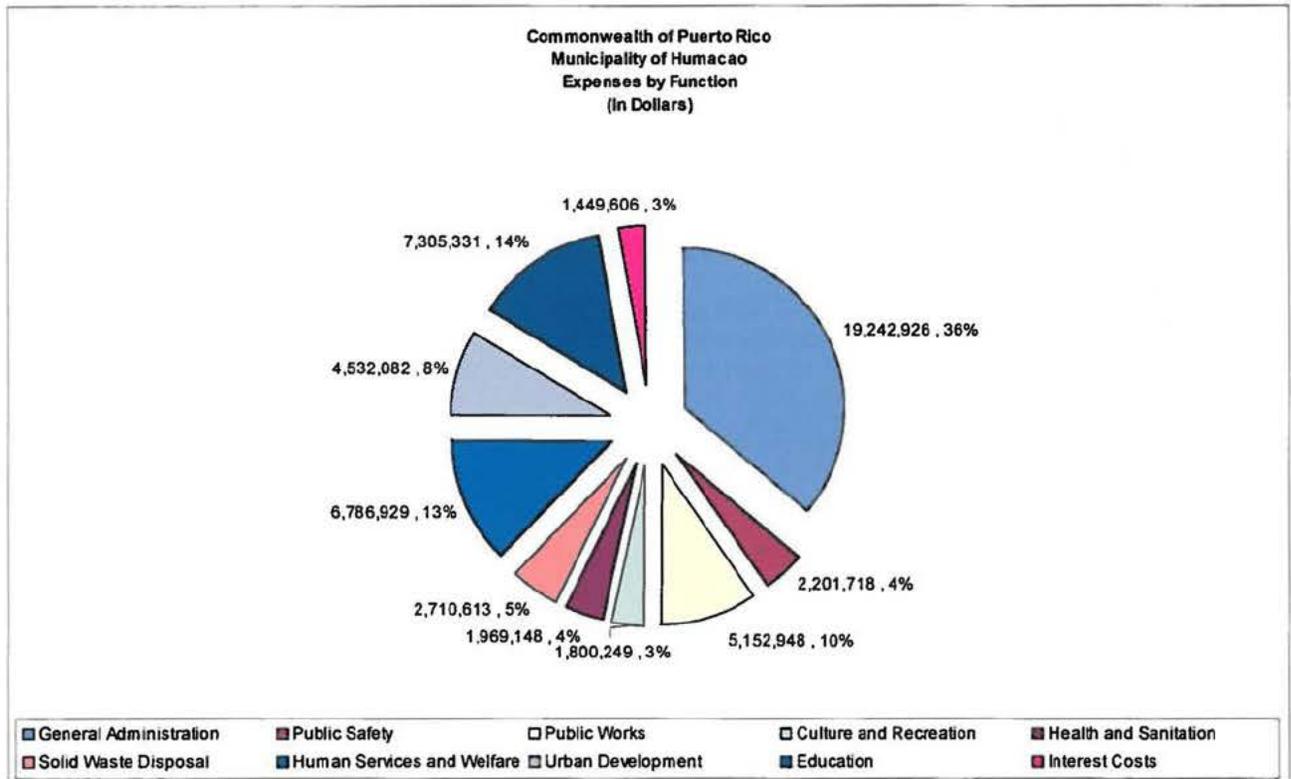
FIGURE 1



Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2004-2005:

FIGURE 2



**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Approximately 28% of the Municipality's revenues came from grants and contributions, 31.2% from property taxes, 18% from volume of business taxes and 22.8% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 36%, education with 14%, human services and welfare with 13%, public works with 10%, and urban development with 8%, approximately. Program revenues of the Municipality covered 33% of total expenses.

With respect to prior year, revenues decreased by approximately \$1,120,800 or 2.1%, principally in property taxes and program revenues. Significant increase was in volume of business taxes and construction taxes with approximately \$1,141,267 for the promotion on new commercial industries.

Expenses increased 3.2% or \$1,656,118 in comparison with 2004 year. Significant increases were registered on salaries and benefits to employees, and donations and services incurred for the benefit of the community.

The following table focuses on the cost of each of the Municipality's largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program-specific intergovernmental aid):

TABLE 3

Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
General Administration	\$ 19,242,926	\$ 17,755,093	\$ 17,509,822	\$ 15,511,511
Public Safety	2,201,718	2,034,447	1,895,028	2,029,452
Public Works	5,152,948	7,089,559	2,979,535	6,551,134
Solid Waste Disposal	2,710,613	2,520,427	2,710,613	2,520,427
Human Services and Welfare	6,786,929	5,744,314	3,094,865	2,883,471
Urban Development	4,532,082	3,526,187	3,521,434	(882,221)
Education	7,305,331	8,015,622	(199,548)	(1,769,296)
Others	<u>5,219,003</u>	<u>4,809,783</u>	<u>4,285,368</u>	<u>4,771,764</u>
	<u>\$ 53,151,550</u>	<u>\$ 51,495,432</u>	<u>\$ 35,797,117</u>	<u>\$ 31,616,242</u>

Some of the cost of governmental activities in 2005 was paid from charges for services, \$609,266, and other governments and organizations that subsidized certain programs with grants and contributions \$16,745,167. The \$35,797,117 net cost of services was substantially covered by other general revenues including property, volume of business license taxes and intergovernmental.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2005, the governmental funds reported combined ending fund balances of \$30,026,831, a net decrease of \$2,574,324 in comparison with the prior year. This decrease was caused primarily by a net change in some non-major funds corresponding to the uses of prior years fund balance of \$4,577,670. Of total combined fund balances, \$7,939,952 (26.4%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 94.7% of total ending general fund balance. For the year ended June 30, 2005, the fund balance of the general fund increased by \$998,709 when compared with the prior year. The principal component of the net increases is a reduction of transfers to other non-major specific capital project funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2004-2005 presented an increase of 7.8% with respect to prior year budget. During the fiscal year budget revenues were increased by \$890,687 mainly due to \$1,316,715 of a revision of original estimate of property taxes, \$1,191,349 of intergovernmental and \$775,003 of construction taxes, and a reduction of \$2,010,330 of estimated other revenues that the Municipality does not included as an amendment to the budget. Budget expenditures were amended during the year in accordance with functions estimates. Nevertheless, non budgeted transfers to non-major funds were used to pass economies in appropriations to specific capital projects.

A positive variance of \$2,884,610 between revised budget and actual expenditures was due mainly to additional revenues as explain in the preceding paragraph and economies in some functions. The Municipality reported less expenditure than appropriations in those functions on payments for purchase of supplies, equipment, and professional and nonprofessional services.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$67,849,227 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of \$3,617,545 or over 5.6% from the prior year, as restated.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2005	(As restated) 2004
Non-depreciable assets:		
Land	\$ 6,599,718	\$ 6,599,718
Construction in progress	11,810,293	6,657,870
Depreciable assets:		
Buildings	36,126,696	36,736,801
Infrastructure	10,072,658	10,297,220
Motor Vehicles	1,837,384	2,296,303
Equipment	1,198,963	1,380,689
Capital Lease	203,515	263,081
Total	\$ 67,849,227	\$ 64,231,682

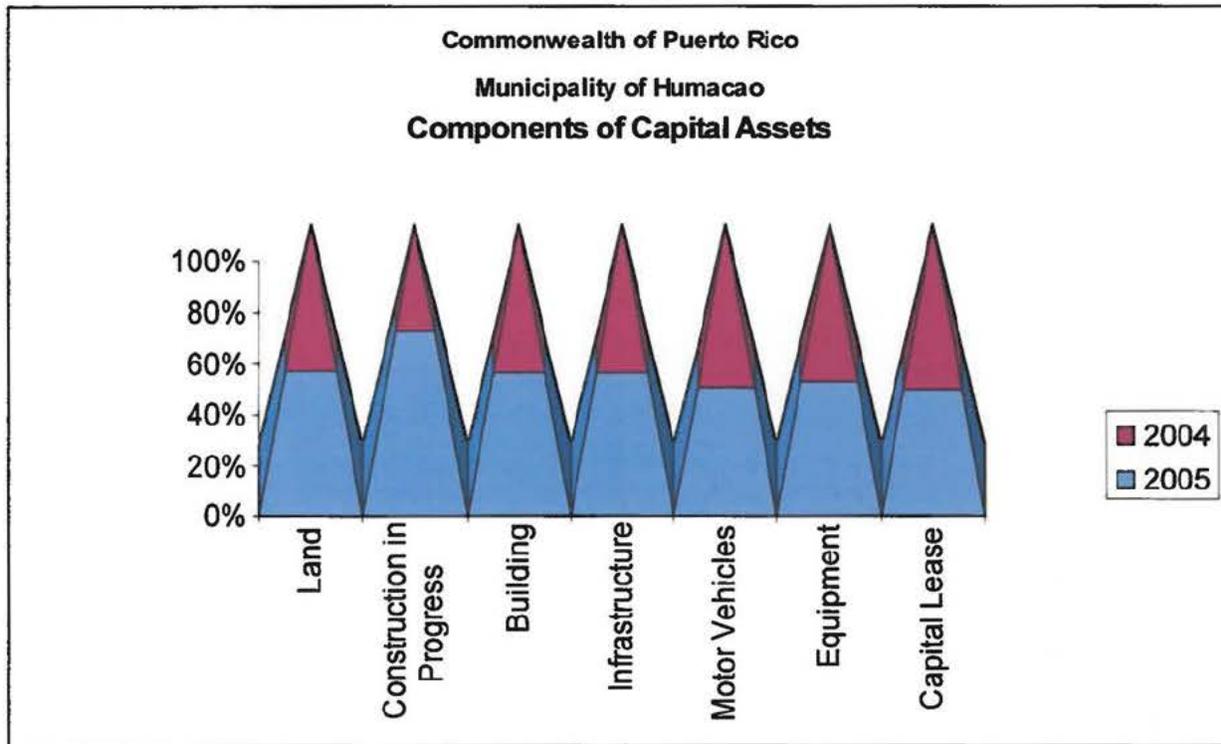
The Municipality acquired a total of \$5,667,932 of capital assets during the fiscal year 2004-2005 as follows:

- Construction in Progress – \$5,667,932 – The principal projects are the following:
 - Market Place Improvement (\$288,637)
 - Municipal Coliseum (\$579,850)
 - Municipality Entrance Improvement (\$396,369)
 - Municipal Police Buildings (\$238,575)
 - Municipal Cemetery (\$344,000)
 - Recreational Facilities (\$251,190)
 - Exclusive Line (\$594,329)
 - Community Centers (\$261,530)
- Acquisition of Building – \$268,353
- Acquisition of Motor Vehicles – \$102,192
- Acquisition of Equipment – \$144,964

Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2005.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FIGURE 3



Long term debt

At year-end, the Municipality had \$24,168,132 in general and special bonds and notes, a decrease of 7% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2005 and 2004:

TABLE 5

Outstanding Long-term Debt As of June 30,		
	Governmental Activities	
	2005	2004
General and special obligation bonds and notes	\$ 24,168,132	\$ 26,108,005
Capitalized Leases	145,924	243,185
Others Debts	7,485,592	3,020,105
Total	\$ 31,799,648	\$ 29,371,295

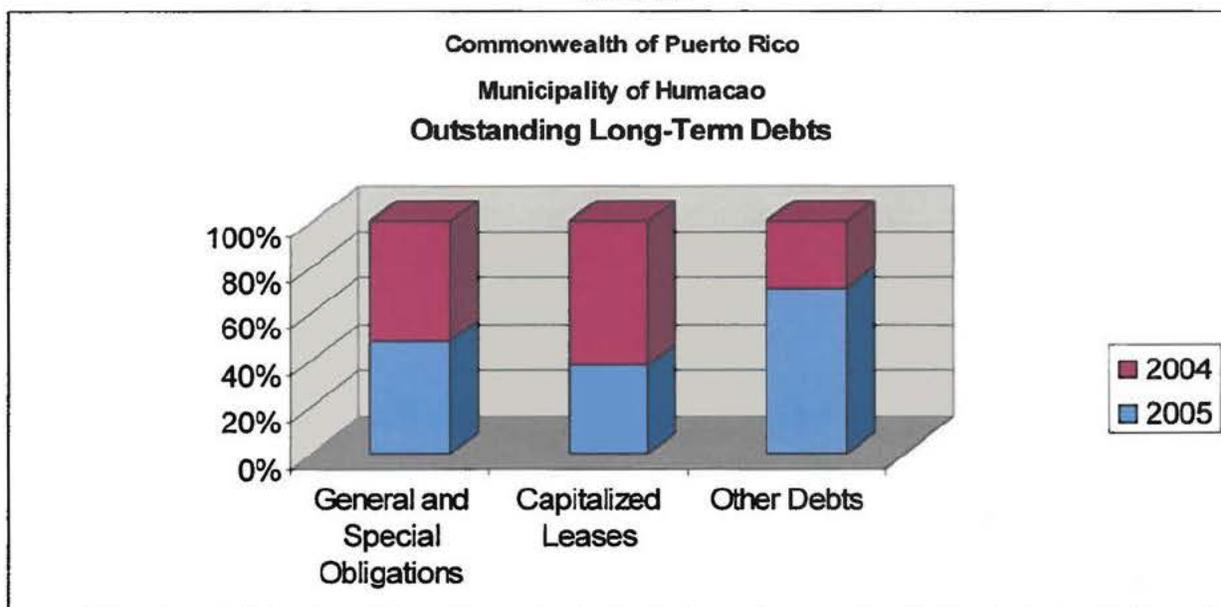
Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The increase in the others debts is due to recognition of final liquidation of property taxes, Law 146 and LIMS Debts, and increase in compensated absences. More detailed information about the Municipality's long term liabilities is presented in Note 7 and 8 to the financial statements.

FIGURE 4



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2005-2006 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 14.1%, which compares with the Commonwealth rate of 10.6%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2006 are \$32 million, approximately \$1 million more than the fiscal year 2005. Revenues increases are demonstrative of the economic development from new commerce and stability of the manufacturing industry. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Finance Department at [(787) 852-2730] or P.O. Box 178, Humacao, Puerto Rico 00792.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash	\$ 19,588,502
Restricted Cash	20,935,379
Receivables (net):	
Property Taxes	232,033
Federal Grants	8,762,160
Others	924,908
Capital Assets (Note 6):	
Land, Improvements, and Construction in Progress	18,410,011
Other Capital Assets, [Net of Depreciation]	<u>49,439,216</u>
Total Capital Assets	<u>67,849,227</u>
TOTAL ASSETS	<u>118,292,209</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses	2,795,737
Accrued Interest	635,937
Deferred Revenue	8,231,969
Long-Term Liabilities (Note 7):	
Due within One Year	5,354,371
Due in More than One Year	<u>26,445,277</u>
TOTAL LIABILITIES	<u>43,463,291</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	54,548,855
Restricted for:	
Debt Service	6,708,430
Head Start	4,595,078
Community Development Projects	1,924,662
Other Purposes	7,773,261
Unrestricted	<u>(721,368)</u>
TOTAL NET ASSETS	<u>\$ 74,828,918</u>

See accompanying Notes to Basic Financial Statements.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature.....	\$ 1,896,250	\$ -	\$ -	\$ -	(\$ 1,896,250)
General Government.....	17,346,676	545	1,732,559	-	(15,613,572)
Public Safety	2,201,718	-	306,690	-	(1,895,028)
Public Works	5,152,948	-	491,963	1,681,450	(2,979,535)
Culture and Recreation	1,800,249	-	24,914	300,000	(1,475,335)
Health and Sanitation	1,969,148	608,721	-	-	(1,360,427)
Solid Waste Disposal	2,710,613	-	-	-	(2,710,613)
Human Services and Welfare.....	6,786,929	-	3,692,064	-	(3,094,865)
Urban Development	4,532,082	-	1,010,648	-	(3,521,434)
Education	7,305,331	-	7,504,879	-	199,548
Interest on Long-Term Debt.....	1,449,606	-	-	-	(1,449,606)
Total Governmental Activities.....	\$ 53,151,550	\$ 609,266	\$ 14,763,717	\$ 1,981,450	\$ (35,797,117)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes.....					12,513,493
Property Taxes, levied for Debt Service.....					3,891,427
Volume of Business Taxes					9,275,602
Construction Tax					3,495,003
Intergovernmental					3,722,839
Rent.....					43,627
Miscellaneous.....					534,429
Interest on Investments					1,272,113
Special Item:					
Property Taxes – Amnesty					538,400
Total General Revenues and Special Item.....					35,286,933
CHANGE IN NET ASSETS.....					(510,184)
Net Assets – Beginning of Year, As Restated (Note 14).....					75,339,102
NET ASSETS – ENDING OF YEAR.....					\$ 74,828,918

See accompanying Notes to Basic Financial Statements.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	HEAD START FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash (Note 1).....	\$ 16,448,093	\$ -	\$ -	\$ 3,140,409	\$ 19,588,502
Restricted Cash.....	214,594	240,423	7,150,808	13,329,554	20,935,379
Receivables:					
Property Taxes.....	-	-	232,033	-	232,033
Federal Grants.....	-	4,570,594	-	4,219,810	8,790,404
Due from Other Funds.....	806,568	-	-	366,316	1,172,884
Due from State Government.....	238,992	-	-	-	238,992
Others.....	654,578	-	-	31,338	685,916
TOTAL ASSETS.....	\$ 18,362,825	\$ 4,811,017	\$ 7,382,841	\$ 21,087,427	\$ 51,644,110
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable.....	\$ 1,468,707	\$ -	\$ -	\$ 1,187,817	\$ 2,656,524
Bonds and Notes Payable.....	-	-	1,677,469	-	1,677,469
Accrued Interest.....	-	-	635,937	-	635,937
Due to Governmental Units.....	39,659	-	-	99,554	139,213
Due to Other Funds.....	-	215,939	38,474	918,471	1,172,884
Deferred Revenues:					
Volume of Business Tax.....	8,231,969	-	-	-	8,231,969
Intergovernmental.....	238,992	-	-	-	238,992
Federal Grants.....	-	3,530,943	-	3,333,348	6,864,291
Total Liabilities.....	9,979,327	3,746,882	2,351,880	5,539,190	21,617,279
Fund Balances:					
Reserve For:					
Encumbrances.....	228,952	-	-	-	228,952
Debt Service.....	-	-	5,030,961	-	5,030,961
Future Expenditures.....	214,594	1,064,135	-	15,548,237	16,826,966
Unreserved.....	7,939,952	-	-	-	7,939,952
Total Fund Balances.....	8,383,498	1,064,135	5,030,961	15,548,237	30,026,831
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 18,362,825	\$ 4,811,017	\$ 7,382,841	\$ 21,087,427	\$ 51,644,110

See accompanying Notes to Basic Financial Statements.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO

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

JUNE 30, 2005

Total Fund Balances – Governmental Funds (Page 18)..... \$ 30,026,831

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 16)
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.....	\$ 18,410,011	
Depreciable Capital Assets.....	57,028,781	
Infrastructure Assets.....	13,887,579	
Accumulated Depreciation.....	<u>(21,477,144)</u>	
Total Capital Assets.....		67,849,227

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.....	3,530,943	
CDBG.....	1,807,867	
Early Head Start.....	201,564	
Christmas Bonus.....	238,992	
Federal Transportation Agency.....	969,850	
Other Major Fund.....	<u>325,823</u>	
Total Deferred Revenues.....		7,075,039

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.....	22,490,663	
Capital Lease.....	145,924	
Compensated Absences.....	3,647,715	
Law 146.....	804,040	
LIMS.....	1,309,385	
Christmas Bonus.....	514,550	
Property Tax Advances.....	<u>1,209,902</u>	
Total Long-Term Liabilities.....		<u>(30,122,179)</u>

Total Net Assets of Governmental Activities (Page 16)..... \$ 74,828,918

See accompanying Notes to Basic Financial Statements.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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.....	\$ 13,246,145	\$ -	\$ 3,891,427	\$ -	\$ 17,137,572
Volume of Business Taxes.....	9,275,602	-	-	-	9,275,602
Federal Assistances.....	-	6,787,147	-	7,435,944	14,223,091
Intergovernmental.....	3,483,847	-	-	3,484,741	6,968,588
Licenses and Permits.....	3,495,003	-	-	-	3,495,003
Rent.....	43,627	-	-	-	43,627
Charges for Services.....	608,721	-	-	-	608,721
Interest of Investment.....	1,272,113	-	-	-	1,272,113
Miscellaneous.....	458,451	-	-	75,978	534,429
Total Revenues.....	31,883,509	6,787,147	3,891,427	10,996,663	53,558,746
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	1,629,332	-	-	-	1,629,332
General Government.....	12,041,918	-	-	2,048,726	14,090,644
Public Safety.....	1,992,656	-	-	218,381	2,211,037
Public Works.....	2,590,274	-	-	5,186,034	7,776,308
Culture and Recreation.....	1,346,532	-	-	27,349	1,373,881
Health and Sanitation.....	1,969,148	-	-	-	1,969,148
Solid Waste Disposal.....	2,710,613	-	-	-	2,710,613
Human Services and Welfare.....	3,858,440	-	-	2,881,649	6,740,089
Urban Development.....	440,922	-	-	2,600,304	3,041,226
Education.....	-	6,700,198	-	1,329,820	8,030,018
Capital Outlay.....	104,564	-	-	2,601,176	2,705,740
Debt Service:					
Principal.....	883,716	-	1,939,873	-	2,823,589
Interest and Other Charges.....	221,671	-	1,334,658	-	1,556,329
Total Expenditures.....	29,789,786	6,700,198	3,274,531	16,893,439	56,657,954
OTHER FINANCING SOURCES (USES)					
Transfers – In.....	-	-	314,308	1,319,106	1,633,414
Transfers – Out.....	(1,633,414)	-	-	-	(1,633,414)
Total Other Financing Sources and Uses.....	(1,633,414)	-	314,308	1,319,106	-
Special Item.....	538,400	-	-	-	538,400
Net Change in Fund Balances.....	998,709	86,949	931,204	(4,577,670)	(2,560,808)
Fund Balance – Beginning, As Restated (Note 14).....	7,384,789	977,186	4,099,757	20,125,907	32,587,639
FUND BALANCES – ENDING.....	\$ 8,383,498	\$ 1,064,135	\$ 5,030,961	\$ 15,548,237	\$ 30,026,831

See accompanying Notes to Basic Financial Statements.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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 20).....		(\$ 2,560,808)
Amounts reported for Governmental Activities in the Statement of Activities (Page 17) 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	\$ 5,667,932	
Depreciation Expense	<u>(2,050,387)</u>	
Excess of Capital Outlay over Depreciation Expense		3,617,545
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		7,075,039
Revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances that corresponded to prior year resources are recorded as revenues in the funds.....		(9,778,304)
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.		2,797,273
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Property Tax Advance	(732,652)	
Decrease in Capital Lease	97,261	
Decrease in Christmas Bonus	20,813	
Compensated Absences	<u>(1,046,351)</u>	
		<u>(1,660,929)</u>
Change in Net Assets of Governmental Activities (Page 17).....		<u>(\$ 510,184)</u>

See accompanying Notes to Basic Financial Statements.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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>\$ 7,709,990</u>	<u>\$ 7,709,990</u>	<u>\$ 7,709,990</u>	<u>\$ -</u>
Resources (inflows):				
Property Taxes.....	11,929,430	11,929,430	12,847,099	917,669
Volume of Business Taxes.....	9,160,000	9,340,000	9,275,602	(64,398)
Intergovernmental Revenues.....	2,292,498	2,292,498	3,522,321	1,229,823
License and Permits.....	2,720,000	2,720,000	3,495,003	775,003
Rent.....	70,000	70,000	43,627	(26,373)
Charges for Services.....	900,000	900,000	608,721	(291,279)
Interest.....	1,080,000	1,080,000	1,272,113	192,113
Miscellaneous.....	<u>2,660,894</u>	<u>2,660,894</u>	<u>634,137</u>	<u>(2,026,757)</u>
Total Resources (Inflows).....	<u>30,812,822</u>	<u>30,992,822</u>	<u>31,698,623</u>	<u>705,801</u>
Amounts Available for Appropriation.....	<u>38,522,812</u>	<u>38,702,812</u>	<u>39,408,613</u>	<u>705,801</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	1,713,483	1,811,021	1,724,061	86,960
General Government.....	13,405,943	13,472,294	12,018,691	1,453,603
Public Safety.....	2,154,235	2,178,368	2,020,163	158,205
Public Works.....	2,609,905	2,688,024	2,657,183	30,841
Health and Sanitation.....	2,021,323	1,443,049	1,359,239	83,810
Culture and Recreation.....	1,346,760	2,024,351	1,969,148	55,203
Solid Waste Disposal.....	2,423,000	2,721,194	2,710,613	10,581
Human Services and Welfare.....	4,082,548	4,201,970	4,246,184	(44,214)
Urban Development.....	511,024	511,542	440,922	70,620
Capital Outlays.....	216,150	223,530	104,564	118,966
Transfer to Other Funds.....	<u>328,451</u>	<u>1,681,447</u>	<u>1,527,213</u>	<u>154,234</u>
Total Charges to Appropriations.....	<u>30,812,822</u>	<u>32,956,790</u>	<u>30,777,981</u>	<u>2,178,809</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005.....	<u>\$ 7,709,990</u>	<u>\$ 5,746,022</u>	<u>\$ 8,630,632</u>	<u>\$ 2,884,610</u>

See accompanying Notes to Required Supplementary Information.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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 22)	\$ 39,408,613
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.	(7,709,990)
Non-budgetary Items	<u>184,886</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20)	<u>\$ 31,883,509</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 22)	\$ 30,777,981
Difference – Budget to GAAP:	
Prior Year Expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes	874,171
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(228,952)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(1,633,414)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 20)	<u>\$ 29,789,786</u>

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

Budgetary Fund Balance, June 30, 2005 (See Page 18)	\$ 8,630,632
Timing Differences:	
Net Change in Encumbrances	(831,391)
Non-budgetary Items	<u>140,711</u>
Undesignated General Fund Balance (See Page 18)	<u>\$ 7,939,952</u>

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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 Humacao, Puerto Rico (Municipality) was founded in the year 1793, 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 16 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.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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

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

B. Financial Statement Presentation

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

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges for support, are not reported seen the Municipality don't have such activities.

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

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

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

- 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.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

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

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due. Property taxes, volume of business taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major fund:

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

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.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 9).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. 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.

Restricted cash represents the unspent proceeds of certain bonds, loans and grants which are set up for purposes restrictions by external parties from the municipality.

Cash balance recognized in the Debt Service Fund is restricted from the property tax collections retained by the Municipal Revenues Collection Center, 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.

Commonwealth of Puerto Rico
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

F. Receivables

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

G. Inventories

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

H. Capital Assets

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

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Equipments	10
Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

I. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7 on page 39).

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 send to the Municipality.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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

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

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use.

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Debt Account includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

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

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 CASH

The Municipality's cash 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 and is not collateralized.

The Municipality invested its funds in interest bearing bank accounts. As June 30, 2005 the amount of \$19,926,433 was invested in an interest bearing account in Doral Bank, Humacao Branch that generates an annual interest rate of 5%.

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2005, the Municipality's custodial credit risk was approximately \$14 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 3 OTHERS RECEIVABLES

As of June 30, 2005, the amount of \$654,579 corresponds to construction taxes and patents receivable within 60 days.

NOTE 4 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Services Fund	\$ 314,308	Bond principal and interest payments
General Fund	Other Major Fund	1,212,905	Budget Specific project funding
General Fund	Other Major Fund	<u>106,201</u>	Non-Budget transfer
	Total	<u>\$1,633,414</u>	

Commonwealth of Puerto Rico
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 INTERFUND TRANSFER AND BALANCES (continuation)

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Debt Service Fund	\$ 38,474
General Fund	Head Start Fund	40,000
General Fund	Other Major Fund	728,094
Other Major Fund	Head Start Fund	175,939
Other Major Fund	Other Major Fund	<u>190,377</u>
TOTAL		<u>\$1,172,884</u>

NOTE 5 DUE FROM/TO GOVERNMENTAL UNITS

As of June 30, 2005, balance due from governmental units of the General Fund corresponded to reimbursement of Christmas Bonus (\$238,992).

The balance due to governmental units of the General Fund for services rendered to the Municipality consists of AEELA (\$39,659).

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows:

DESCRIPTION	BALANCE JULY 1, 2004	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:					
Land.....	\$ 6,273,192	\$ 326,526	\$ -	\$ -	\$ 6,599,718
Construction in Progress	-	6,657,870	5,152,423	-	11,810,293
Total Non-Depreciable Capital Assets	6,273,192	6,984,396	5,152,423	-	18,410,011
Depreciable Capital Assets:					
Buildings	47,374,233	30,908	268,353	-	47,673,494
Infrastructure.....	5,799,946	8,087,633	-	-	13,887,579
Motor Vehicles	7,126,306	(1,305,542)	102,192	-	5,922,956
Equipment.....	2,017,650	971,889	144,964	-	3,134,503
Capital Lease	297,828	-	-	-	297,828
Total Depreciable Capital Assets.....	62,615,963	7,784,888	515,509	-	70,916,360
Less Accumulated Depreciation:					
Buildings	(8,435,992)	(2,232,348)	(878,458)	-	(11,546,798)
Infrastructure.....	(904,102)	(2,686,257)	(224,562)	-	(3,814,921)
Motor Vehicles	(4,005,518)	481,057	(561,111)	-	(4,085,572)
Equipment.....	(778,501)	(830,349)	(326,690)	-	(1,935,540)
Capital Lease	(34,747)	-	(59,566)	-	(94,313)
Total Accumulated Depreciation.....	(14,158,860)	(5,267,897)	(2,050,387)	-	(21,477,144)
Total Depreciable Capital Assets (Net).....	48,457,103	2,516,991	(1,534,878)	-	49,439,216
CAPITAL ASSETS, NET	\$54,730,295	\$ 9,501,387	\$ 3,617,545	\$ -	\$67,849,227

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Mayor and Municipal Legislature	\$ 287,054
General Government	184,536
Public Safety	164,031
Public Works	635,620
Culture and Recreation	594,612
Human Services and Welfare	102,519
Urban Development.....	82,015
Total Depreciation Expenses	\$2,050,387

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send 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:	
\$5,200,000, Series 2003-04, for construction purposes, payable in annual installments ranging from \$90,000 to \$405,000, excluding interests at 5.00%, through July 1, 2028.....	\$ 5,110,000
\$4,020,000, Series 2002-03, for the acquisition of building, payable in semiannual installments ranging from \$70,000 to \$310,000, excluding interests at 5.00%, through July 1, 2027	3,875,000
\$587,000, Series 1982, for construction purposes, payable in annual installments ranging from \$10,000 to \$37,000 excluding interests at 5.00%, through January 1, 2007	74,000
\$1,099,000, Series 1995, for purchase of equipment, payable in semiannual installments ranging from \$24,000 to \$110,000, excluding interests at 5.45%, through July 1, 2013.....	740,000
\$1,415,000, Series 1998, for construction purposes and payment of claims and judgments, payable in semiannual installments ranging from \$95,000 to \$195,000, excluding interests at 7.81%, through July 1, 2007.....	540,000
\$1,485,000, Series 1995, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$155,000, excluding interests at 5.17%, through July 1, 2014.....	1,135,000
\$8,395,000, Series 1998, for construction purposes, payable in semiannual installments ranging from \$160,000 to \$775,000, excluding interests at 6.46%, through July 1, 2018.....	6,920,000
\$1,950,000, Series 2001, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$340,000, excluding interests at 7.00%, through July 1, 2008.....	<u>1,225,000</u>
Total General Obligations – Bonds	<u>19,619,000</u>

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

Special Obligations – Notes:

\$4,115,000, Series 1986, for operational purpose, payable in semiannual installments ranging from \$90,000 to \$385,000, excluding interests at 8.20%, through July 1, 2006.....	745,000
\$4,786,000, Series 1995, for refinancing purpose, payable in semiannual installments ranging from \$126,000 to \$475,000, excluding interests at 7.81%, through July 1, 2013.....	3,195,000
\$92,204, Series 1987, for operational purpose, payable in quarterly installments ranging from \$1,152 to \$4,610, excluding interests at 8.00%, through July 1, 2006	5,763
\$1,333,000, Series 1986, for operational purpose, payable in semiannual installments ranging from \$11,000 to \$82,000, excluding interests at 10.00%, through April 1, 2006.....	156,000
\$2,000,000, Series 1990, for operational purpose, payable in quarterly installments ranging from \$25,000 to \$100,000, excluding interests at 8.00%, through July 1, 2009.....	<u>447,369</u>
Total Special Obligations – Notes	<u>4,549,132</u>
Total General Obligations Bonds and Notes.....	<u>\$24,168,132</u>

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

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	\$ 1,952,873	\$ 1,270,552	\$ 3,223,425
2007	1,918,416	1,379,388	3,297,804
2008	1,605,263	1,269,329	2,874,592
2009	1,510,263	1,176,953	2,687,216
2010	1,171,317	1,087,856	2,259,173
2011-2015	6,000,000	3,967,604	9,967,604
2016-2020	5,165,000	2,331,489	7,496,489
2021-2025	2,505,000	1,187,713	3,692,713
2026-2028	<u>2,340,000</u>	<u>286,000</u>	<u>2,626,000</u>
TOTAL	<u>\$24,168,132</u>	<u>\$13,956,884</u>	<u>\$38,125,016</u>

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

The annual requirements to amortize CRIM LAW 42, outstanding obligation, payable in semiannual installments at 6.18%, as of June 30, 2005 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	\$ 6,905	\$ 29,425	\$ 36,330
2007	7,339	28,991	36,330
2008	7,800	28,530	36,330
2009	8,290	28,040	36,330
2010	8,811	27,519	36,330
2011-2015	53,086	128,561	181,647
2016-2020	71,995	109,652	181,647
2021-2025	97,640	84,007	181,647
2026-2030	132,419	49,228	181,647
2031-2033	<u>82,965</u>	<u>7,312</u>	<u>90,277</u>
TOTAL	<u>\$477,250</u>	<u>\$521,265</u>	<u>\$998,515</u>

The annual requirements to amortize CRIM LIMS, outstanding obligation, payable in semiannual installments at 5.95%, as of June 30, 2005 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	\$ 170,438	\$ 75,410	\$ 245,848
2007	180,730	65,188	245,918
2008	191,643	54,205	245,848
2009	203,216	42,633	245,849
2010	215,487	30,631	246,118
2011-2012	<u>347,871</u>	<u>17,350</u>	<u>365,221</u>
TOTAL	<u>\$1,309,385</u>	<u>\$285,417</u>	<u>\$1,594,802</u>

Commonwealth of Puerto Rico
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

B. OBLIGATION UNDER CAPITAL LEASES

The Municipality is obligated under certain capital leases accounted for in the Statement of Net Assets. The historical cost, accumulated depreciation, future minimum lease payments at June 30, 2005, are as follows:

Cost.....	<u>\$297,828</u>
Accumulated Depreciation.....	<u>\$ 94,313</u>
Monthly Lease Payments	<u>\$ 8,893</u>
Residual Lease Payment.....	<u>\$ -</u>
YEAR ENDING	TOTAL
JUNE 30,	PAYMENT
2006	\$106,713
2007	<u>44,464</u>
Total Minimum Lease Payments	151,177
Less: Deferred Interest.....	<u>5,253</u>
Present Value Minimum Lease Payments.....	<u>\$145,924</u>

C. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
Property Taxes – Law 42.....	\$ 418,741	\$ -	\$ 58,509	\$ 477,250
Property Taxes – Advances	-	732,652	-	732,652
Law 146.....	-	-	804,040	804,040
LIMS Debt.....	-	-	1,309,385	1,309,385
Christmas Bonus	-	514,550	-	514,550
Compensated Absences	<u>2,601,364</u>	<u>1,046,351</u>	-	<u>3,647,715</u>
TOTAL.....	<u>\$ 3,020,105</u>	<u>\$ 2,293,553</u>	<u>\$ 2,171,934</u>	<u>\$ 7,485,592</u>

Commonwealth of Puerto Rico
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 GENERAL LONG-TERM DEBTS (continuation)

D. CHANGES IN GENERAL LONG-TERM DEBTS

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

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.....	\$19,652,000	\$ -	(\$ 33,000)	\$19,619,000	\$ 1,072,000	\$18,547,000
Special.....	4,752,220	27,632	(230,720)	4,549,132	880,873	3,668,259
Capital Lease.....	243,185		(97,261)	145,924	101,983	43,941
Others Debts.....	<u>3,020,105</u>	<u>2,293,553</u>	<u>2,171,934</u>	<u>7,485,592</u>	<u>3,299,515</u>	<u>4,186,077</u>
TOTAL.....	<u>\$27,667,510</u>	<u>\$ 2,321,185</u>	<u>\$ 1,810,953</u>	<u>\$31,799,648</u>	<u>\$ 5,354,371</u>	<u>\$26,445,277</u>

NOTE 8 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 9).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 7). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 9 PROPERTY TAXES

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

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

The tax rate per annum is 7.53% for real property and 5.33% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 6.50% and 4.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 5.25% and 3.25%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 PROPERTY TAXES (continuation)

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center. At June 30, 2005, the Municipality got an excess of advances over actual collections of \$732,652, which was recorded as a debt in the statement of net assets and not in the general fund because it will be paid with future financial resources as per current accounting standards.

NOTE 10 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% 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.

**Commonwealth of Puerto Rico
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 INTERGOVERNMENTAL REVENUES

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

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

NOTE 12 EMPLOYEE'S RETIREMENT PLAN

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

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

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

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 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 be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

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.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
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.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2005 was as follow:

	LAW NO. 447	SYSTEM 2000
Required	<u>\$612,200</u>	<u>\$321,082</u>
Actual	<u>\$612,200</u>	<u>\$321,082</u>

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 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 13 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

B. FEDERAL GRANTS

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

NOTE 14 RESTATEMENTS

During fiscal year 2002-2003, the Municipality implemented several new accounting standards and an interpretation issued by GASB. As part of the implementation of the new standards, during the current fiscal year 2004-2005, the Municipality continued the documentation of capital assets not previously reported and others adjustments.

The following schedule reconciles the June 30, 2004 Net Assets, as previously reported to Beginning Net Assets, as Restated, July 1, 2004.

	NET ASSETS
Net Assets, as Previously Reported, June 30, 2004	\$69,388,768
Christmas Bonus	(535,364)
Adjustment to Capital Assets.....	9,501,387
Adjustment to Long Term Debt.....	<u>(3,015,689)</u>
Beginning Net Assets, as Restated, July 1, 2004.....	<u>\$75,339,102</u>

The following schedule reconciles the June 30, 2004 Fund Balances, as previously reported to Beginning Fund Balances, as Restated, July 1, 2004.

	GENERAL	OTHER FUNDS
Fund Balances, as Previously Reported, June 30, 2004.....	\$6,966,890	20,543,394
Adjustments to interfund transactions.....	<u>417,899</u>	<u>(417,487)</u>
Beginning Fund Balances, as Restated, July 1, 2004.....	<u>\$7,384,789</u>	<u>\$20,125,907</u>

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 15 SUBSEQUENT EVENTS

On July 6 and 7, 2005, the Municipality Legislature, by means of Ordinance Number 1, Series 2005-2006, approved the purchase of land by issuance of \$370,000 in general obligation bonds. Also, On August 3 and 4, 2005, the Municipality Legislature, by means of Ordinance Number 2, Series 2005-2006, approved the constructions of recreational facilities by issuance of \$1,720,000 in general obligation bonds.

On December 16, 2005, the Municipality's federal Head Start program made a payment of \$175,939 to liquidate a debt to USDA food program for loan to cover Head Start's payroll expenditures for July 2004. This loan constituted an unallowable activity as per federal regulations. Municipality's management has guarantee that this is a bona-fide transaction and the funds paid back to Food program will not be returned back to Head Start.

NOTE 16 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 HUMACAO, 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 Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>\$ 705,021</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant/Entitlement Grants (CDBG)	14.218		2,600,304
Emergency Shelter Grants Program (ESG)	14.231		41,515
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856		38,481
Section 8 Housing Choice Vouchers	14.871		1,673,504
Pass-Through the Municipality of San Juan: Hopwa	14.241	N/AV	<u>74,414</u>
Total U.S. Department of Housing and Urban Development		<u>4,428,218</u>	
U.S. Department of Justice:			
Byrne Formula Grant Program	16.579		193,593
Local Law Enforcement Block Grants Program	16.592		68,770
Public Safety Partnership and Community Policing Grants	16.710		<u>161,155</u>
Total U.S. Department of Justice			<u>423,518</u>
U.S. Department of Transportation:			
Federal Transit – Capital Investment Grants.....	20.500		<u>10,879</u>
SUBTOTAL			<u>\$5,567,636</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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 Health and Human Services:			
Pass-Through Elderly Office:			
Special Programs for the Aging – Title III, Part C – Nutritional Services	93.045	N/AV	91,503
Pass-Through Administration of Families and Children:			
Child Care and Development Block Grant.....	93.575	N/AV	207,772
Early Head Start Program	93.600		1,329,820
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program	93.600	N/AV	<u>6,700,198</u>
Total U.S. Department of Health and Human Services..		<u>8,329,293</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$13,896,929</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, 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 activity of the Municipality of Humacao, Puerto Rico (Municipality) and is presented on the modified accrual basis. 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 reporting entity is defined in Note (1) (A) .

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 financial transactions are recorded by the Municipality in accordance with the terms 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.

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

The 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/AV are not available.

NOTE 5 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 \$6,700,198 and Other Governmental Funds \$7,586,310.

NOTE 6 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

REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133



Rodríguez-Parissi, Vázquez & Co. P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS TAX & BUSINESS ADVISORS

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

To the Mayor and Municipal Assembly
Municipality of Humacao
Humacao, Puerto Rico

We have audited the accompanying financial statements of governmental activities, each major fund and aggregated fund information of **Municipality of Humacao**, as of and for the year ended June 30, 2005, which collectively comprise the **Municipality of Humacao's** basic financial statements and have issued our report thereon dated December 21, 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Humacao** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. Reportable conditions are described in the accompanying schedule of findings and questioned as item 2005-II-1.

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. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Humacao** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial 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.

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

The result of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Cost, identified as items 2005-II-2,3,4 and 2005-III-1,2,3,4, and 5. However, of the reportable conditions described above, we consider item 2005-III-1 to be a material weaknesses.

This report is intended solely for the information and use of the audit committee, management, state's fiscal agencies, 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.

Rodriguez Parissi, Vázquez & Co. PSC

San Juan, Puerto Rico
December 21, 2005

The stamp number 2084057
was affixed to original of this report.



Ejemplar Dec. 1, 2008



Rodríguez-Parissi, Vázquez & Co. P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS TAX & BUSINESS ADVISORS

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

To the Mayor and Municipal Assembly
Municipality of Humacao
Humacao, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Humacao**, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. **The Municipality of Humacao's** major federal programs are identified in the summary of auditor's results 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 **Municipality of Humacao's** management. Our responsibility is to express an opinion on **Municipality of Humacao'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; 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 **Municipality of Humacao'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 of **Municipality of Humacao's** compliance with those requirements.

As described in item 2005-III-1 in the accompanying schedule of findings and questioned costs, **Municipality of Humacao**, did not comply with requirements regarding with the activities allowed compliance requirement that is applicable to its USDA Child and Adult Food Care Program. Compliance with such requirements is necessary, in our opinion, for **Municipality of Humacao**, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, **Municipality of Humacao**, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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

(Continued)

However, the results of our auditing procedures disclosed instances of non compliance with those requirements that 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 -Section III as items 2005-III-1,2 ,3,4, and 5.

Internal control over compliance

Management of **Municipality of Humacao** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered **Municipality of Humacao'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.

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 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. However, of the reportable conditions described above, we consider 2005-III-1 to be material weakness.

Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of governmental activities, each major fund and aggregated fund information of **Municipality of Humacao**, as for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Humacao's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of **Municipality of Humacao**. 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.

This report is intended solely for the information and use of the audit committee, management, state's fiscal agencies, 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.


San Juan, Puerto Rico
December 21, 2005

The stamp number 2084058
was affixed to the original of this report.



Expires Dec 1, 2008

RPV

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION I-SUMMARY OF AUDITOR'S RESULTS

Part I Financial Statements:

1. Type of audit report:
 Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Reportable conditions reported
 Yes No
3. Reportable condition reported as a major weakness:
 Yes No
4. Material noncompliance disclosed:
 Yes No

Part II Federal Awards

1. Type of report: on compliance for major programs:
 Unqualified opinion **Qualified opinion**
 Adverse opinion Disclaimer of opinion
2. Reportable condition reported as a major weakness:
 Yes No

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION I-SUMMARY OF AUDITOR'S RESULTS

Part II Federal Awards (Continuation):

3. Material noncompliance disclosed:

Yes No

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

Major Programs:

CFDA Number (s)	Federal Program Grantor and Program Name
14.228	<i>US Department of Housing and Urban Development :</i> Community Development Block Grants
14.871	Section 8 (Housing Vouchers) <i>US Department of Health and Human Services</i>
93.600	Head Start <i>US Department of Agriculture</i>
10.558	Child and Adult Food Care Program

Dollar threshold used to distinguish Type A and Type B programs:

\$300,000 or 3% of total federal awards expended

Low-risk auditee

Yes No

Waive risk criteria under 520 (i) of Circular A-133

Yes No

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION II-FINANCIAL STATEMENTS FINDINGS AND OTHER MATTERS

Internal Controls over Account Receivables

FINDING NUMBER
2005-II-1

Condition: The Municipality does not maintain an accounts receivable aging or subsidiary to keep track of the status of the amounts owed by tax payers to the Municipality.

Criteria: An accounts receivable aging should be maintained in order to expedite collection efforts.

Cause: The Municipality has not adopted a formal policy to maintain an accurate and complete accounts receivable aging.

Effect: The Municipality may not recover all the amounts due because there are no current records that provide for the amounts owed to the Municipality.

Recommendations: The Municipality should establish a formal policy of maintaining an accurate and complete accounts receivable aging and subsidiary to be used as a tool for collection efforts..

Management Response: We will establish these recommendations to correct this situation.

Internal control over cash disbursements

FINDING NUMBER
2005-II-2

Condition: During our disbursement test, we did not observed stamped as paid the required documents such as: purchase or service order, invoice or breakdown for payment and disbursement voucher.

Criteria: Original supporting documents for all payments should be cancelled as "PAID" upon issuance of the payment order or check..

Cause: The Finance Director is not effectively overseeing that the payments division comply with the internal controls of canceling original supporting documents.

Effect: This situation exposes the Municipality to the risk for inappropriate payments because the invoice and related documents may be resubmitted for duplicate payments.

Recommendation: The Finance Director should oversee and require that the payment division cancels all original supporting documents as "PAID" upon issuance of the payment order or check.

Management Response: We are going to correct this situation to reduce the invoice duplicate risk.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION II- FINANCIAL STATEMENTS FINDINGS AND OTHER MATTERS

Internal controls over revenues

**FINDING NUMBER
2005-II-3**

Condition: During our subsequent collection test, we observed in one out of 40 volume of business tax declarations a tentative declaration of volume of business tax without the required oath by the taxpayer.

Criteria: Volume of business tax declaration shall be accepted and processed only when these are filed in accordance with municipal regulations, thus including the completed oath.

Cause: Finance personnel accepted the tax return without the oath as prescribed by policies and procedures.

Effect: Information in the tax return is not supported by required oath.

Recommendations: The Municipality should immediately contact the taxpayer and require the completion of the required oath. In addition, the Municipality should follow-up on any other tax declarations that do not have the corresponding oath.

Management Response: We will establish the instructions to correct this situation.

PROGRAM: SECTION 8

**FINDING NUMBER
2005-II-4**

Fund Balance

Condition: The fund balance closed at June 30, 2005 with a deficit of \$ 45,000 approximately.

Criteria: Federal funds shall not incur in expenditures in excess of approved budget.

Cause: The Municipality failed to monitor the level of program expenditures to anticipate the shortfall.

Effect: This situation resulted in the violation of federal and local regulations that prohibit incurring in deficits.

Recommendations: The program officers should maintain accurate and complete budgetary records in order to prevent incurring in expenditures in excess of the approved funding level. In addition, for the currently presented deficit, the Municipality should inform the Federal government about its plan to overcome the situation, and on the meanwhile, should reimburse the federal program for the excess expenditures incurred. Under no circumstances, the Municipality shall charge the deficit to future appropriations.

Management Response: We understand that we have a receivable from HUD for an underpayment on vouchers assistant payments for fiscal year 2004-2005 that will be collected on fiscal year 2005-2006.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

PROGRAM: USDA 10.558

**FINDING NUMBER
2005-III-1**

ACTIVITIES ALLOWED

Condition: During our audit we examined that the Food program made a loan of \$175,939 to Head Start to cover for payroll expenditures during the month of July 2004 as per check 2326 and Resolution 20 2003-2004. Loans to other funds are not cover as an allowable activities by program regulations, therefore is an unallowable activity.

Criteria: Per 7 CFR Sections 226.15(e)(14) of OMB Circular A-133 establishes that program funds shall be used solely to carry out food service operation or to improve such food service operations, principally for the benefit of the enrolled participants.

Cause: The head Start program did not have funds to cover for the own payroll expenditures and the Municipality approved the transfer of funds with full knowledge that the transfer was not an allowable activity of the USDE program.

Questioned costs: We decided not to question costs because subsequent to June 30, 2005, the Municipality reimbursed the USDA program.

Effect: Program funds, \$ 175,939, were not used for the acquisition of food or commodities during fiscal year, thus jeopardizing the Program's objectives and activities because these funds were not available to carry out program activities.

Recommendations: The Municipality should discourage and discontinue this type of practice. Officers should be instructed to forbid interfund transfers without the prior approval from the Federal grantor. Furthermore, budget controls should be established in all federal programs to anticipate the request of funds on a timely basis, to avoid interfund transfers. Should these be necessary, the Municipality may only use local funds for these purposes.

Management Response: At the moment of the transaction, the delegate agency did not have the funds to cover the payroll for the period a delay in the reimbursement from the grantor, Administracion para el Cuidado de Niños. The nature of the transaction was to satisfy a legit, allowable, reasonable and necessary purpose, which was to cover payroll expenses. We understand that this transaction constitutes an override of internal controls. This action was corrected on December 14, 2005 through the reimbursement of \$175,939 with check 015417 to the, USDA account, 233027989 of Banco Popular.

MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

PROGRAM: SECTION 8

FINDING NUMBER
2005-III-2

CASH MANAGEMENT

Condition: During our audit we observed that housing assistance payments were done at the middle of the month during the whole year, while cash deposits arrived to the bank account at the beginning of the month, as per bank movement analysis.

Criteria: OMB C-A 133 establishes that when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for sub recipients.

Cause: This situation occurred because the Program is not scheduling the payment to be issued within the five-day schedule.

Effect: Housing assistance payments are not getting at the beginning of the month to the rental home owners and PHA .

Questioned costs: None.

Recommendations: The Municipality should schedule the payment to owners as close as possible to the beginning of the month, timing of the receipt of funds.

Management Response: The payments are made at the beginning of the month. At the middle we have to do other payroll to pay the negative rent and to cover for the tenant's status changes.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

PROGRAM: CDBG

FINDING NUMBER

2005-III- 3

CASH MANAGEMENT

Condition: The cash balances held for the months of November (\$77,106), April (\$58,559), and June (\$ 80,728) 2004-2005 were over \$46,000 cash balance, which is cash balance need it to cover monthly payroll disbursements and therefore the adequate cash balance need it to be maintain for monthly cash needs .

Criteria: 24 CFR 85.21(f)(2) grantees and sub grantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Cause: Program personnel have not established internal control to minimize the time elapsing of funds to cover cash needs.

Effect: Program has high cash balance over cash needs. If the recipient fails to expend those federal assistance funds within a reasonable period or fails to establish procedures to minimize the time elapsing between cash advances and the disbursement.

Questioned costs: None.

Recommendations: In order to monitor and determine compliance with applicable cash management requirements, CDBG program should implement adequate internal control procedures which allow calculating the time between the request and the receiving of funds and the estimated required cash needs for that period.

Management Response: We can not avoid having high cash balances because we do not have control over the collections over program income cash deposits. We have various governmental rental clients that do not pay in a monthly basis. Therefore, we do not know when the deposits comes up and how much, before doing any cash request to cover monthly cash disbursement needs.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

PROGRAM: SECTION 8

FINDING NUMBER
2005-III-4

SPECIAL TEST AND PROVISION, REASONABLE RENT

Condition: During our audit we observed that program's personnel did not follow the HUD regulations on the determination that rent to owner is a reasonable rent. We did not observe in the newly participants files, as per our audit test over eligibility, program's personnel has not documented the determination of reasonable rent in accordance with the program's administrative plan. Instead, they use the fair market rent rates established by HUD that is not allowed to use without a comparable rent test in the housing area.

Criteria: As per OMB C-A 133, compliance N, The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

Cause: The program had many changes during this fiscal year 2004-2005, because they were in training to implement new procedures, and obtaining the necessary resources to ensure compliance, with the reasonable rent enforcement regulations.

Effect: The program may cause the rent prices in the private market to rise because program rental rates higher than the prices in the private market prices, because program personnel has not being doing any quotations on newly rental tenants.

Questioned costs: None.

Recommendations: The program must maintain a record to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units.

Management Response: We present to auditor our rent reasonable study and our comparable rent test. These documents will be to the fiscal year 2005-2006.

Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III- FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

PROGRAM: SECTION 8

FINDING NUMBER

2005-III-5

HOUSING QUALITY STANDARDS INSPECTIONS

Condition: In our audit we have to examine the Housing Quality Standards Inspections to observe if the personnel program sent one person to inspect the housing at least one time annually. However, we noted the following:

- We found in 15 out of 44 participants were the re-inspection took more than one year.
- The inspector did not have a register to maintain a control of the previous inspection, in where they know the tenant's and housing owner's name, date and results of the previous inspection.
- Some failure inspection did not have an advice of the deficiencies to the housing owner's. Otherwise, we observed some housing fails the inspection, and the inspector sent the letter, for 24 hours if a defect is life threatening or must correct them no more than 30 days per calendar depends of the urgency. But, did not follow up monitories to verify if the owner fulfill with their responsibilities.

Criteria: OMB C-A 133, compliance N, The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control reinspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

Cause: The program had many changes during this fiscal year 2004-2005, because they were in training to implement new procedures, and obtaining the necessary resources to ensure compliance, with housing quality standards enforcement regulations

Effect: This situation results in the risk of accepting dwellings that do not meet the housing standards required for participating in the program.

Questioned costs: None.

Recommendations: The program should implement an inspection register to maintain control of the inspection date, tenant's and housing owner's name, inspection result and details that helped them to effectively monitor compliance with housing quality standards enforcement regulations.

Management Response: In July 1, 2005 we had begin to comply this compliance.

Management Response: In July 1, 2005 we had begin to comply this compliance.

**Commonwealth of Puerto Rico
MUNICIPALITY OF HUMACAO, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<i>Fiscal Year</i>	<i>Finding Number</i>	<i>Description</i>	<i>CFDA Number</i>	<i>Questioned Cost</i>	<i>Finding Status</i>
2003	03-III-01	Special Test and Provision	14.871	None	Finding has not been cleared by Grant Agency. This finding prevails at fiscal period 2004-2005.
2003	03-III-02	Cash Management- Excess cash	14.218 14.856 14.871	None	Finding stills prevails for 14.218 and 14.871 and findings have not been cleared by Grant Agency.
2004	04-03 04-10 04-13 04-17	Cash Management	14.871 14.218 20.507 93.600	None	Finding has not been cleared by Grant Agency. Finding issued to 14.871 and 14.218 stills prevails.
2004	04-04 04-05 04-06 04-07 04-09	Special Test and Provision <ul style="list-style-type: none"> ▪ Waiting List ▪ Reasonable Rent ▪ Utilities Allowance ▪ HQS Inspections ▪ HAP Amounts 	14.871	None	Finding stills prevails and has not been cleared by Grant Agency.
2004	04-08	Eligibility	14.871	None	Finding has not been cleared by Grant Agency. No findings were found during fiscal year.
2004	04-11 04-15	Reporting	14.281 20.507	None	Finding has not been cleared by Grant Agency. No findings were found during fiscal year for 14.281.
2004	04-12 04-14 04-16	Procurement	14.281 20.507 20.507	None	Finding has not been cleared by Grant Agency. No findings were found during fiscal year for 14.281.



Escudo
Humacao

Estado Libre Asociado de Puerto Rico
MUNICIPIO AUTÓNOMO DE HUMACAO
Apartado 178
Humacao, Puerto Rico 00792

Hon. Marcelo Trujillo Panisse
Alcalde

**Single Audit Management Representation Letter-
Governmental Entity**

MUNICIPALITY OF HUMACAO

12/21/05

Rodriguez-Parissi, Vazquez & Co. P.S.C.

We are providing this letter in connection with your audit(s) of the financial statements of Municipality of Humacao as of June 30, 2005 and for the period then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Humacao and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, (as of December 23, 2005), the following representations made to you during your audit(s).

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of Governing Body of Humacao or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving—
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The Municipality of Humacao has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:

- a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Municipality of Humacao is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
 12. There are no—
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
 13. The Municipality of Humacao has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 14. The Municipality of Humacao has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 15. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 16. The financial statements properly classify all funds and activities.
 17. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 18. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 19. Provisions for uncollectible receivables have been properly identified and recorded.
 20. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 21. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 22. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 23. Special and extraordinary items are appropriately classified and reported.
 24. Deposits and investment securities are properly classified in category of custodial credit risk.
 25. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 26. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
 27. With respect to federal award programs:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are

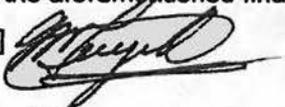


managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.

- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.
- f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.
- l. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- m. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of *OMB Circular A-133*.
- n. We have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- o. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- p. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by *OMB Circular A-133* and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- q. We are responsible for and have accurately prepared the audited section of the Data Collection Form as required by *OMB Circular A-133*, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- r. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

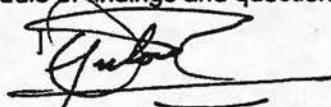
Signed: []



Title: []

Mayor

Signed: []



Title: []

Director



Escudo
Humacao

**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**

PART I 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 / 2005 <small>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</small>		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - <input type="text"/> Months		4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse	
5. Auditee Identification Numbers			
a. Primary Employer Identification Number (EIN) 66 - 0 4 33 5 14		b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> 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 <input type="text"/> - <input type="text"/> - <input type="text"/>		e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> 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 Humacao

b. Auditee address (Number and street)
PO Box 178
City: Humacao
State: PR ZIP + 4 Code: 00792

c. Auditee contact
Name: Mr. José Carrasquillo
Title: Finance Director

d. Auditee contact telephone
(787) 850-0075

e. Auditee contact FAX
(787) 656-0902

f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name Rodríguez-Parissi, Vázquez & Co. P.S.C.

b. Auditor address (Number and street)
PO Box 195607
City: San Juan
State: PR ZIP + 4 Code: 00919-5607

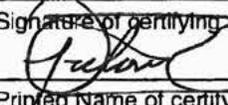
c. Auditor contact
Name: CPA Wallace Rodríguez
Title: Managing Partner

d. Auditor contact telephone
(787) 728-7188

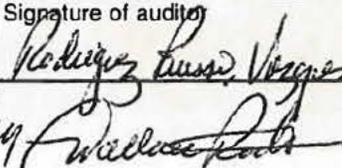
e. Auditor contact FAX
(787) 728-6948

f. Auditor contact E-mail
wrodriguez cparpy.com

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: 12 / 21 / 2005
 Printed Name of certifying official: Mr. José Carrasquillo
 Printed Title of certifying official: Finance Director

9. 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: 12 / 28 / 05

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report
 Mark either: 1 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 No
3. Is a reportable condition disclosed? 1 Yes 2 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 No

PART III 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 No
2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 416,908
3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 Yes 2 No
4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No - SKIP to Item 6
5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1 Yes 2 No
6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 Yes 2 No
7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 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 <input type="checkbox"/> U.S. Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input checked="" type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input checked="" type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | |
| | 09 <input type="checkbox"/> 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
- and, if not marked above, the Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages 4

PART III 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)		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)	If yes, type of audit report ³ (h)		
1 6	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Child and Adult Care Food Program	\$ 705,021.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	A	2005-111-1
1 4	218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Community Development Block Grant	\$ 2,600,304.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	C	2005-111-3
1 4	231	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Emergency Shelter Grants Program	\$ 41,515.00	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	856	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Lower Income Housing Assistance Program-Section B. Moderate Reh.	\$ 38,481.00	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 Vouchers	\$ 1,673,504.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	CN	2005-111-2 2005-111-5 2005-111-4
1 4	241	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOPWA	\$ 74,414.00	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 6	579	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Byrne Formula Grant Program	\$ 193,593.00	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 6	592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Local Law Enforcement Block Grants Program	\$ 68,770.00	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 6	710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Public Safety Partnership & Community Policing Grants	\$ 161,155.00	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
2 0	500	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Federal Transit - Capital Investment Grants	\$ 10,879.00	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

TOTAL FEDERAL AWARDS EXPENDED →

\$.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	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None

⁵ N/A for NONE

FORM SF-SAC (6-2004)

PART III 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		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)	If yes, type of audit report ³ (h)		
913	.045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Separate Program for the Aging-Title III, Part C Nutritional Services	\$ 91,503.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
913	.575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Child Care & Development Block Grant	\$ 207,772.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
913	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Early Head Start Program	\$ 1,329,820.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	U	0	N/A
913	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Head Start Program	\$ 6,700,198.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	U	0	N/A
		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			
		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 →

\$ 13,896,929.00

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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.

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|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility | I. Procurement and suspension and debarment | L. Reporting |
| B. Allowable costs/cost principles | F. Equipment and real property management | J. Program income | M. Subrecipient monitoring |
| C. Cash management | G. Matching, level of effort, earmarking | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act | H. Period of availability of Federal funds | | O. None |
| | | | P. Other |

⁵ N/A for NONE