

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MAUNABO

AUDITORIA 2003-2004

30 DE JUNIO DE 2004

OFFICE OF THE COMPTROLLER
GENERAL INVESTIGATION
OFFICE - P.O. BOX 57
SAN JUAN
UNIDAD DE CORREO

Call 405-2821

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2004

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

01/28/04

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO
BASIC FINANCIAL STATEMENTS**

JUNE 30, 2004

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

TABLE OF CONTENTS

	Pages
PART I – Financial:	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-10
Basic Financial Statements:	
Governmental-Wide Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Governmental Funds Statements:	
Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to The Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balance	15
Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balance of Governmental Funds to the Statements of Activities.....	16
Notes to the Basic Financial Statements	17-32
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund.....	33
Notes to Required Supplementary Information	34
PART II – Schedule of Expenditures of Federal Awards and Reports on Compliance and Internal Control in accordance with Government Auditing Standards and the requirements of OMB Circular A-133	
Schedule of Expenditures of Federal Awards	35-36
Notes to Schedule of Expenditures of Federal Awards.....	37
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based upon the Audit Performed in Accordance with Government Auditing Standards.....	38-39

TABLE OF CONTENTS

	Pages
Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards.....	40
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs	43
Summary Schedule of Prior Audit Findings	46

PART I
FINANCIAL



MENDOZA & RAMOS

Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785 • Telefax 787-864-9271

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Maunabo, Puerto Rico (Municipality), as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT

Page 2

As described in Notes 1 and 14, during the fiscal year 2002-2003, the Municipality has implemented a new financial reporting model, as required by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2004 on our consideration of the Municipality's internal control structure over financial reporting and 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
January 26, 2005

Stamp number 2026980 was
affixed to the original of this
report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Management of the Municipality of Maunabo, Puerto Rico (Municipality) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activity, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget, and (e) identify individual fund issues or concerns. This narrative overview and analysis of the financial activities of the Municipality is for the fiscal year ended June 30, 2004. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

Because the Municipality is implementing new reporting standards for this fiscal year with significant changes in content and structure, the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

FINANCIAL HIGHLIGHTS

Government-wide:

The Municipality's net assets increased by \$356 thousand (or 5%).

The governmental activities revenue for the General Fund increased by \$187 thousand (or 3%).

Fund Level:

The total cost of all Municipality programs increased by \$1.5 million (or 16%).

The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease in the accumulated in fund balance by \$335 thousand (or 50%).

USING THIS ANNUAL REPORT

This annual report consists of three components: 1) Management's Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information. In light of the fact that this is a very different presentation from the pre-GASB Statement Number 34 model, the following graphic is provided for your review (Figure A-1 on next page). The Basic Financial Statements include two kinds of statements that present different views of the Municipality as follow:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Government-wide Statements (Reporting the Municipality as Whole)

The Statement of Net Assets and Statement of Activities are two financial statements that report information about the Municipality, as a whole, and about its activities similar to a private-sector business. These statements provide both short-term and long-term information about the Municipality's economic condition at the end of the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements include two statements:

The Statement of Net Assets (page 11) presents all the Municipality's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets is an indicator of whether the Municipality's financial position is improving or deteriorating.

The Statement of Activities (page 12) presents information showing how the Municipality's net assets change during the most recent fiscal year. All the changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

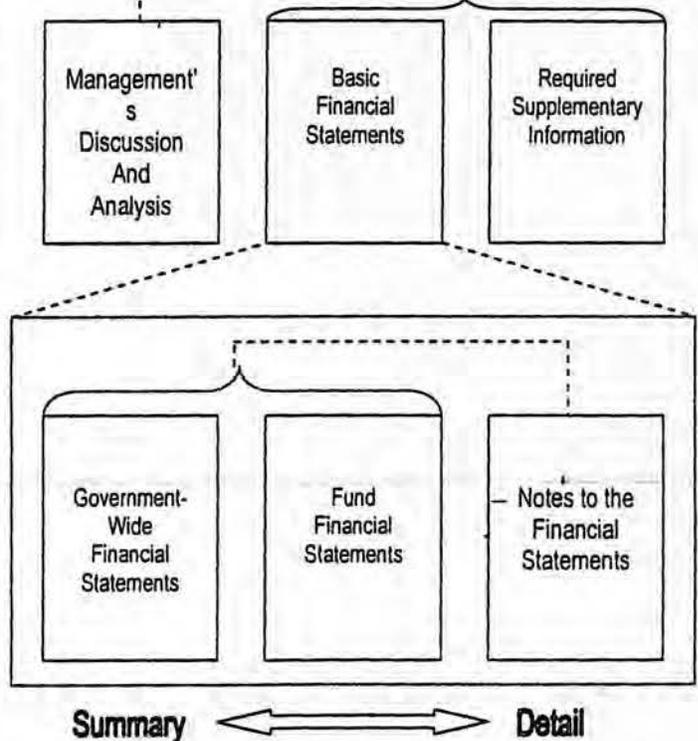
Fund Financial Statements (Reporting the Municipality's Major Funds)

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 reporting model's) fund types. The Major Fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The fund financial statements begin on page 13 and provide detailed information about the Major Individual Funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts the Municipality uses to keep track of specific sources of funding and spending for a particular purpose. The Municipality's funds are all included in Governmental Funds.

The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statements allows

the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 33).

Figure A-1
Required Component of
Municipality of Maunabo Annual Financial Report



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Governmental Funds – the entire Municipality's basic service are reported in the governmental funds, which focus in how money flows into out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the Municipality general information, general operation and the basis service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs.

These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Under this method, revenues are recognized when measurable and available. Expenditures and generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements (current financial resources) are presented on a different measurement focus and basis of accounting than governmental-wide statements (total economic resources), a reconciliation of the differences are reflected on the page following each statement (see pages 14 and 16). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the Governmental Activities column (in the Government-Wide Statements).

Infrastructure Assets

Historically, a government's largest group of assets [infrastructure – roads, bridges, traffic signals, underground pipes (unless associated with a utility), etc.] have not been reported nor depreciated in governmental financial statements. GASB Statement Number 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the alternative method), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established condition levels, the government may record all expenditures incurred (except for additions and improvements which extend the asset life) in lieu of depreciation. While the Municipality has acquired an asset management system which a) would allow the election to use the alternative methods, and b) will provide valuable management information, the Municipality has elected to initially implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

Capital Assets Investments

Municipality realized capital assets additions of \$1.8 million and recognized depreciation expenses in the amount of \$0.3 million. Principal investments consist of urban development, streets improvement, and machinery and equipment acquisitions. Total Investment in Capital Assets, Net of related debt, is \$7.7 million or 96% of total investment (net of depreciation). Municipality is in process to capitalized all infrastructures in order to been include on or before the fiscal year 2006-2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Summary of Net Assets

The Municipality's net assets increase by \$356 thousand over the course of this year's operations. The Municipality's net assets include investment in Capital Assets for \$7.7 million and over \$2.7 million restricted for future expenses. The Municipality's net assets at the end of the fiscal year ended on June 30, 2004 were \$8.2 million, as detailed on Table 1. For more detailed information see the Statement of Net Assets on page 11.

Normal Impacts

There are six basic (normal) transactions that will affect the comparability of the Net Assets summary presentation.

- **Net Results of Activities** – This will impact (increase/decrease) current assets and unrestricted net assets.
- **Borrowing for Capital** – This will increase current assets and long-term debts.
- **Spending Borrowed Proceeds on New Capital** – This will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.
- **Spending of Non-borrowed Current Assets on New Capital** – This will (a) reduce current assets and increase capital assets and (b) will reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Principal Payment on Debt** – This will (a) reduce current assets and reduce long-term and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.
- **Reduction of Capital Assets through Depreciation** – This will reduce capital assets and invested in capital assets, net of debt.

Current and non-current assets	\$ 3,923
Capital assets	<u>7,971</u>
Total Assets	<u>11,894</u>
Current liabilities	823
Long-term liabilities	<u>2,836</u>
Total Liabilities	<u>3,659</u>
Nets Assets:	
Investment in capital assets	7,681
Restricted	2,743
Unrestricted	<u>(2,189)</u>
Total Net Assets	<u>\$ 8,235</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Current Year Impacts

The following schedule (as detailed on Table 2) presents the revenues and expenses for the current fiscal year.

Table 2 Changes In Net Assets For Fiscal Year Ending June 30, 2004 (in Thousand)	
Revenues:	
Program Revenues:	
Charges for Services.....	\$ 180
Federal Grants and Contributions.....	3,128
State Grants and Contributions.....	1,665
General Revenues:	
Property Taxes.....	490
Volume of Business Taxes.....	193
Construction Taxes.....	97
Intergovernmental.....	4,835
Other General Revenues.....	290
Total revenues.....	<u>10,878</u>
Expenses:	
General Administration.....	2,319
Public Safety.....	375
Public Works.....	1,824
Health and Sanitation.....	654
Culture and Recreation.....	700
Human Services and Welfare.....	1,933
Urban Development.....	1,888
Education.....	813
Interest Costs.....	16
Total expenses.....	<u>10,522</u>
Changes in net assets.....	356
Net assets – beginning.....	7,879
Net assets – ending.....	<u>\$ 8,235</u>

Normal Impacts

There are five impacts on revenues and expenses as reflected below.

Revenues:

Economic Condition – which can reflect a declining, stable or growing economic environment and has substantial impact on property and volume of business tax revenues as well as public spending habits for building permits, elective user fees and volumes of consumption.

Operating Grants (both recurring and non-recurring) were stable in comparison with prior year.

Intergovernmental Revenues increase primarily for the liquidation of the State Legislature Assignments that produces a positive balance to the Municipality.

Expenses:

Introduction of New Programs – within the functional expense categories individual programs may be added or deleted to meet changing community needs.

Increase/Decrease in Authorized Personnel – changes in service demand may cause the Municipality to

increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent 68% of the Municipality's operating cost.

Salary Increases (cost of living, merit and market adjustment) – the ability to attract and retain human and intellectual resources requires the Municipality to strive to approach a competitive salary range position in the marketplace. Also, Christmas Bonus for all employees was increase during December 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

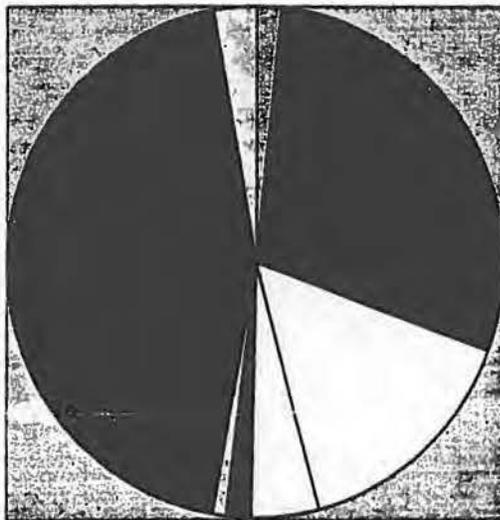
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Inflation – while overall inflation appears to be reasonably modest, the Municipality is a major consumer of certain commodities such as chemicals and supplies, fuels and parts. Some functions may experience unusual commodity specific increases.

Net Assets:

Net Assets reflect an increase of \$6,528,573 corresponding to an increase in revenues over expenses. See Graph 1 and 2 that present revenues by category and expenditures by function.

GRAPH 1
Municipality of Maunabo, Puerto Rico
Revenues by Category
(In Million of \$)



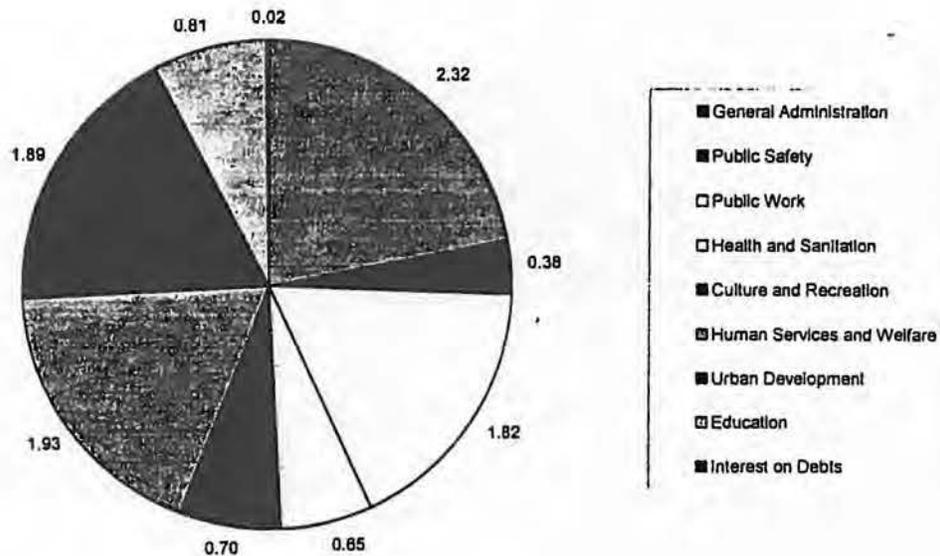
- Charges for Services
- Operating Grants
- Capital Grants
- Property Taxes
- Volume of Business Taxes
- Construction Taxes
- Intergovernmental
- Miscellaneous

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GRAPH 2
Municipality of Maunabo, Puerto Rico
2004 Expenses By Functions
(In Million of \$)



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

As the Municipality's completed the year, its governmental funds reported fund balances of \$1.5 million. Of this total amount, (\$28) thousand constitute unreserved (deficit) fund balance, which reduced the available fund for appropriation for the general purposes of the programs administer by the Municipality.

General Fund Budgetary Highlights:

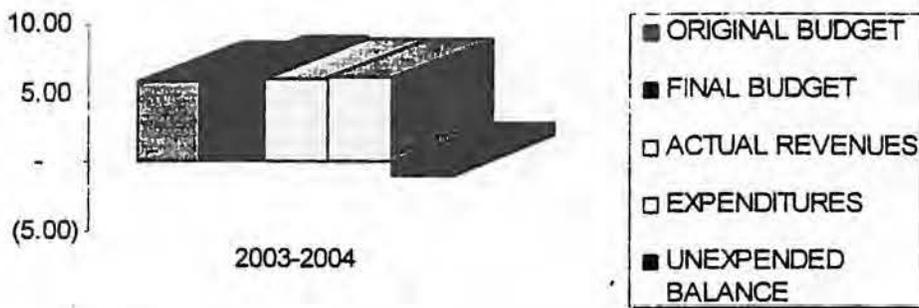
The total budget for the Municipality was \$6.2 million and actual spending was \$6.2 million. Total expenditures represented 98% of total budget availability for the period. Current year budgetary fund balance was negative in the amount of \$95 thousand corresponding to excess of appropriations over revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GRAPH 3
Municipality of Maunabo, Puerto Rico
Budget Comparison
(In Million of \$)



Economic Factors and Next Year's Budgets

For the fiscal year 2003-04, the Municipality actual revenues are \$5.8 million, and expenditures exceed for the amount for \$338 thousand. The budget for the year 2004-05 included and estimated additional revenues for the amount of \$5.0 million corresponding to construction taxes for the Tunnels Project. New private projects are contemplated for the futures years when this project is finished.

CONTACTING THE MUNICIPALITY'S OFFICE OF FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finance Department at (787) 861-0600.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS:</u>	
Cash and Investments	\$ 1,323,716
Cash with Fiscal Agent	203,662
Receivables (net):	
Property Taxes	98
Federal Grants	2,101,430
Others	<u>294,274</u>
Capital Assets (Note 6):	
Land, Improvements, and Construction in Progress	2,395,504
Other Capital Assets, [Net of Depreciation]	<u>5,575,683</u>
Total Capital Assets	<u>7,971,187</u>
TOTAL ASSETS	<u>11,894,367</u>
<u>LIABILITIES:</u>	
Accounts Payable and Accrued Expenses	629,941
Accrued Interest	6,515
Deferred Revenue	186,570
Long-Term Liabilities (Note 7):	
Due within One Year	762,796
Due in More than One Year	<u>2,073,445</u>
Total Liabilities	<u>3,659,267</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	7,681,187
Restricted for:	
Special Revenue	670,379
Debt Service	60,497
State Assignment Funds	424,736
Community Development Projects	1,587,754
Unrestricted	<u>(2,189,453)</u>
TOTAL NET ASSETS	<u>\$ 8,235,100</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 737,233	\$ -	\$ -	\$ -	(\$ 737,233)
General Government	1,582,109	-	-	-	(1,582,109)
Public Safety	375,460	-	171,800	-	(203,660)
Public Works	1,823,652	-	-	-	(1,823,652)
Culture and Recreation	699,921	179,978	-	-	(519,943)
Health and Sanitation	653,641	-	-	-	(653,641)
Human Services and Welfare	1,932,684	-	1,396,013	-	(536,671)
Urban Development	1,888,114	-	1,101,143	1,665,344	878,373
Education	813,480	-	459,613	-	(353,867)
Interest on Long-Term Debt	15,607	-	-	-	(15,607)
Total Governmental Activities	\$10,521,901	\$ 179,978	\$ 3,128,569	\$ 1,665,344	(5,548,010)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					401,909
Property Taxes, levied for Debt Service					87,716
Volume of Business Taxes					192,780
Licenses and Permits					97,278
Intergovernmental					4,834,785
Miscellaneous					275,350
Rent					14,694
Total General Revenues					5,904,512
CHANGE IN NET ASSETS					356,502
Net Assets – Beginning of Year					7,878,598
NET ASSETS – ENDING OF YEAR					\$ 8,235,100

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL	STATE ASSIGNMENT FUND	DEBT SERVICE FUND	CDBG FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Investments (Note 1)	\$ 152,154	\$ 266,836	\$ -	\$ 62,193	\$ 842,533	\$ 1,323,716
Cash with Fiscal Agent	-	-	147,198	-	56,464	203,662
Receivables:						
Property Tax	-	-	98	-	-	98
Federal Grants	-	-	-	1,618,778	482,652	2,101,430
Due from Other Funds	982,520	157,900	-	-	58,302	1,198,722
Others	16,942	-	-	-	277,332	294,274
Total Assets	\$ 1,151,616	\$ 424,736	\$ 147,296	\$ 1,680,971	\$ 1,717,283	\$ 5,121,902
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable and Accrued Liabilities	513,416	-	-	-	26,441	539,857
Bonds and Notes Payable	-	-	86,515	-	-	86,515
Due to Governmental Units	10,084	-	-	-	-	10,084
Due to Other Funds	158,302	-	284	93,217	946,919	1,198,722
Deferred Revenues:						
Volume of Business Tax	113,026	-	-	-	-	113,026
Local Grants	16,942	-	-	-	-	16,942
Federal Grants	-	-	-	1,536,972	161,559	1,698,531
Total Liabilities	811,770	-	86,799	1,630,189	1,134,919	3,663,677
Fund Balances:						
Reserve For:						
Encumbrances	225,269	-	-	-	-	225,269
Debt Service	-	-	60,497	-	-	60,497
Other Purposes	-	424,736	-	50,782	582,364	1,057,882
Unreserved	114,577	-	-	-	-	114,577
Total Fund Balances	339,846	424,736	60,497	50,782	582,364	1,458,225
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,151,616	\$ 424,736	\$ 147,296	\$ 1,680,971	\$ 1,717,283	\$ 5,121,902

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

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

JUNE 30, 2004

Total Fund Balances – Governmental Funds (Page 13).....		\$ 1,458,225
Amounts reported for Governmental Activities in the Statement of Net Assets (Page 11) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets.....	\$ 2,395,504	
Depreciable Capital Assets.....	7,642,228	
Infrastructure Assets.....	425,996	
Accumulated Depreciation.....	<u>(2,492,541)</u>	
Total Capital Assets.....		7,971,187
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:		
CDBG	1,536,972	
Child Care	88,015	
Municipal Revenue Collection Center	<u>16,942</u>	
Total Deferred Revenues		1,641,929
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	305,850	
Compensated Absences.....	1,137,058	
FEMA	190,265	
Property Tax Advances	<u>1,203,068</u>	
Total Long-Term Liabilities.....		<u>(2,836,241)</u>
Total Net Assets of Governmental Activities (Page 11).....		\$ <u>8,235,100</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

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

JUNE 30, 2004

	GENERAL	STATE ASSIGNMENT FUND	DEBT SERVICE FUND	CDBG FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Property Taxes	\$ 401,909	\$ -	\$ 87,716	\$ -	\$ -	\$ 489,625
Volume of Business Taxes	192,780	-	-	-	-	192,780
Federal Assistances	-	-	-	1,417,451	1,763,158	3,180,609
Intergovernmental	4,834,785	1,060,406	-	-	1,403,051	7,298,242
Licenses and Permits	97,278	-	-	-	-	97,278
Rent	14,694	-	-	-	-	14,694
Miscellaneous	258,408	-	-	-	-	258,408
Total Revenues	5,799,854	1,060,406	87,716	1,417,451	3,166,209	11,531,636
EXPENDITURES						
Current: f						
Mayor and Municipal Legislature	720,116	-	-	-	-	720,116
General Government	1,739,340	-	-	-	-	1,739,340
Public Safety	185,228	-	-	-	174,866	360,094
Public Works	1,775,332	-	-	-	-	1,775,332
Culture and Recreation	316,846	-	-	-	294,800	611,646
Health and Sanitation	653,641	-	-	-	-	653,641
Human Services and Welfare	508,163	181,925	-	-	1,199,330	1,889,418
Urban Development	179,263	1,337,314	-	1,366,669	525,535	3,408,781
Education	-	-	-	-	813,480	813,480
Capital Outlay	38,384	115,244	-	-	-	153,628
Debt Service:						
Principal	-	-	95,850	-	-	95,850
Interest and Other Charges	-	-	15,607	-	-	15,607
Total Expenditures	6,116,313	1,634,483	111,457	1,366,669	3,008,011	12,236,933
OTHER FINANCING SOURCES (USES)						
Transfers – In	-	-	18,426	-	-	18,426
Transfers – Out	(18,426)	-	-	-	-	(18,426)
Total Other Financing Sources and Uses	(18,426)	-	18,426	-	-	-
Net Change in Fund Balances	(334,885)	(574,077)	(5,315)	50,782	158,198	(705,297)
Fund Balance – Beginning, as Restated (Note 14) ..	674,731	998,813	65,812	-	424,166	2,163,522
FUND BALANCES – ENDING	\$ 339,846	\$ 424,736	\$ 60,497	\$ 50,782	\$ 582,364	\$ 1,458,225

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, 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, 2004

Net Change in Fund Balances – Total Governmental Funds (Page 15).....		(S 705,297)
Amounts reported for Governmental Activities in the Statement of Activities (Page 12) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Urban Development and Capital Outlay	\$ 1,804,104	
Depreciation Expense.....	<u>(286,847)</u>	
Excess of Urban Development and Capital Outlay over Depreciation Expense		1,517,257
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		818,508
Revenues in the Statement of Revenues that correspond to Prior Year Resources are not reported as revenue in the Statement of Activities		(1,471,741)
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.....		95,850
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Municipal Revenue Collection Center Debt.....	328,209	
Increase in Compensated Absences	<u>(226,284)</u>	
Total Additional Expenditures		<u>101,925</u>
Change in Net Assets of Governmental Activities (Page 12)		<u>\$ 356,502</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Maunabo, Puerto Rico (Municipality) was founded in the year 1799, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with 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.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2003. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the Municipality has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the fiscal year 2002-2003: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2004, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

A. Financial Reporting Entity (continuation)

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.

B. Measurement Focus and Basis of Accounting

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, 2004, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

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 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 as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

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 some grants, funds 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

B. Measurement Focus and Basis of Accounting (continuation)

or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2004, has been reported only in the government-wide financial statements.

C. 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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 expendable 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.
- Restricted Net Assets – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – These consists 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 is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

C. Financial Statement Presentation (continuation)

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) 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. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

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 a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

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

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. 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.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primarily objectives of these assignments is the development of projects on communities, not-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

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

Community Development Block Grant Program Fund (CDBG) – This is the fund used to account for all the transactions of the State Community Development Block Grant Program. The primarily objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

D. Budgetary Data

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and 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. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

D. Budgetary Data (continuation)

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 8).
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.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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 Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

E. Cash, Cash Equivalent and Investment

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

F. Receivable

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

G. Inventories

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

H. Capital Assets

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

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

CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infrastructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

I. Compensated Absences

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

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

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2004.

BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2004	CURRENT PORTION	LONG-TERM PORTION
<u>\$ 910,774</u>	<u>\$ 226,284</u>	<u>\$ -</u>	<u>\$ 1,137,058</u>	<u>\$ 666,946</u>	<u>\$ 470,112</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

J. Insurance

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

K. Interfund Transactions

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

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

L. Reservations of Fund Balance – Governmental Funds

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

M. Claims and Judgments

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

N. Use of Estimates

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

NOTE 2 CASH AND CASH EQUIVALENTS

The Municipality's cash and cash equivalents 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.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

Bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2004, the market value of investments recorded in the General Fund approximated its carrying value as follow:

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	EXPIRATION DATE
Popular Bank of Puerto Rico ...	1020000001	\$ 100,000	2.25%	02-26-04
Popular Bank of Puerto Rico ...	1020000003	<u>51,842</u>	1.90%	12-12-04
TOTAL		<u>\$ 151,842</u>		

NOTE 3 OTHER RECEIVABLES

As of June 30, 2004, this amount consists of the following:

	AMOUNT
State Law No. 52	\$217,770
State Law No. 82	48,689
Youth Delinquency Prevention.....	<u>10,873</u>
TOTAL	<u>\$294,274</u>

NOTE 4 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for operational debts funding.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	<u>\$18,426</u>	Debt Payment

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

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

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	HUD	\$ 35,317
General	Debt Service Fund	284
General Fund	Other Fund	946,919
Other Funds	General Fund	58,302
State Assignment Fund	General Fund	100,000
State Assignment Fund	HUD	<u>57,900</u>
	TOTAL	<u>\$1,198,722</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2004 was as follows:

DESCRIPTION	BALANCE JULY 1, 2003	ADDITIONS	ADJUSTMENT AND RETIREMENTS	BALANCE JUNE 30, 2004
Non-Depreciable Capital Assets:				
Land.....	\$ 780,531	\$ 71,982	\$ -	\$ 852,513
Works of Arts	-	90,000	-	90,000
Construction in Progress.....	190,285	1,262,706	-	1,452,991
Total Non-Depreciable Capital Assets.....	970,816	1,424,688	-	2,395,504
Depreciable Capital Assets:				
Buildings.....	3,868,446	-	-	3,868,446
Improvements.....	2,002,737	63,636	-	2,066,373
Infrastructure	222,747	203,249	-	425,996
Machinery and Equipment.....	1,178,483	107,730	-	1,286,213
Motor Vehicles	416,396	4,800	-	421,196
Total Depreciable Capital Assets.....	7,688,809	379,415	-	8,068,224
Less Accumulated Depreciation:				
Buildings.....	(1,134,702)	(77,193)	-	(1,211,895)
Improvements.....	(210,542)	(38,277)	-	(248,819)
Infrastructure	(619)	(5,102)	-	(5,721)
Machinery and Equipment.....	(626,654)	(116,527)	-	(743,181)
Motor Vehicles	(233,177)	(49,748)	-	(282,925)
Total Accumulated Depreciation	(2,205,694)	(286,847)	-	(2,492,541)
Total Depreciable Capital Assets (Net).....	5,483,115	92,568	-	5,575,683
CAPITAL ASSETS, NET	\$ 6,453,931	\$ 1,517,256	\$ -	\$ 7,971,187

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

	AMOUNT
General Government.....	\$ 65,578
Mayor and Municipal	17,117
Public Safety.....	15,366
Public Works	48,320
Urban Development.....	8,925
Human Services and Welfare	43,266
Culture and Recreation	88,275
Total Depreciation Expenses	\$286,847

NOTE 6 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS

The principal long-term obligations of the Municipality are general obligations bonds and note issued to finance the construction and improvements of public facilities, purchase of equipment, and operational purposes. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). General obligations bonds and Note Payable as of June 30, 2004, are comprised of the following individual issues:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$317,000 Series 1985, for operational purposes, payable in quarterly installments of \$3.962 excluding interests at 10.00%, through January 1, 2005.....	\$ 15,850
\$430,000, Series 2002, for purchase of equipment, payable in annual installments ranging from \$15,000 to \$75,000, excluding variable interest up to 6%, through July 1, 2008.....	<u>270,000</u>
Total General Obligations – Bonds.....	<u>285,850</u>
Special Note:	
\$130,000, Series 1997, for purchase of equipment, payable in annual installments of \$20,000, excluding variable interest up to 5.42%, through July 1, 2005.....	<u>20,000</u>
Total General Obligations Bonds and Special Note	<u>\$ 305,850</u>

The annual requirements to amortize the general obligations outstanding as of June 30, 2004 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2005	\$ 95,850	\$ 11,283	\$107,133
2006	65,000	7,475	72,475
2007	70,000	5,388	75,388
2008	<u>75,000</u>	<u>2,910</u>	<u>77,910</u>
TOTAL	<u>\$305,850</u>	<u>\$ 27,056</u>	<u>\$332,906</u>

B. OTHER LONG-TERM DEBTS

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2004
Property Taxes – MRCC.....	\$1,533,297	\$ -	\$ 462,680	\$1,070,617
Property Taxes–PR Treasury Department	151,373	-	18,922	132,451
FEMA	190,265	-	-	190,265
Compensated Absences	<u>910,774</u>	<u>226,284</u>	<u>-</u>	<u>1,137,058</u>
TOTAL	<u>\$2,785,709</u>	<u>\$ 226,284</u>	<u>\$ 481,602</u>	<u>\$2,530,391</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2004:

DESCRIPTION	BALANCE JULY 1, 2003	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2004	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 370,000	\$ -	\$ 84,150	\$ 285,850	\$ 75,850	\$ 210,000
Special	31,700	-	11,700	20,000	20,000	-
Others Debts	<u>2,785,709</u>	<u>226,284</u>	<u>481,602</u>	<u>2,530,391</u>	<u>666,946</u>	<u>1,863,445</u>
TOTAL	<u>\$3,187,409</u>	<u>\$ 226,284</u>	<u>\$ 577,452</u>	<u>\$2,836,241</u>	<u>\$ 762,796</u>	<u>\$2,073,445</u>

NOTE 7 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 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 6). 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 8 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 6.33% for real property and 4.33% for personal property of which 2.30% of both belong to the Commonwealth of Puerto Rico and 4.03% and 2.03%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 3.53% and 1.53%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the Municipality of 0.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7). The Municipality has not 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 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers.

The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

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

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipal Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 9 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. 0.30% for all other organizations.

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

NOTE 10 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 11 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (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 instrumentality 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 Instrumentality, Assistants of 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

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.

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 for 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,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

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

Contributions in 2004 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, 2004 was approximately \$195,830. 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, 2004. 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 12 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.

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 13 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

During fiscal year 2003-2004, the Municipality implemented several new accounting standards and an interpretation issued by GASB.

GASBS No. 34 as amended by GASBS No. 37, 40 and 41 establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

GASBS No. 38 requires certain note disclosures when GASBS No. 34 is implemented. The provisions of these new standards have been incorporated into the basic financial statements and notes.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the government. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

These new accounting standards caused most of the accounting changes, changes in reporting entity, and restatements described on the ensuing discussions below. Changes and restatements for reasons other than the adoption of the above pronouncements are also explained below.

Also, restatements were presented for prior period adjustment of General and Other Governmental Funds of the Audited Financial Statements as of June 30, 2003. Following are the reconciliation of the June 30, 2003 Fund Balance, as previously reported to Beginning Fund Balances as restated, July 1, 2003:

FUND BALANCE RESTATED

	GENERAL FUND	OTHER GOVERNMENTAL FUND
Fund Balance / Net Assets, as Reported, June 30, 2003	\$ 768,526	\$ 129,740
Interfund Transaction Restatement	(93,795)	-
Restatement as per GAAP.....	-	294,426
Beginning Fund Balance as Restated, July 1, 2003.....	<u>\$ 674,731</u>	<u>\$ 424,166</u>

NOTE 14 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. Early application is encouraged. The Municipality has not adopted the requirement of this statement. Other two pronouncements are issued (GASBS Nos. 43 and 44), but do not apply to the Municipality.

END OF NOTES

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE				
JULY 1, 2003.....	\$ 203,507	\$ 203,507	\$ 203,507	\$ -
Resources (Inflows):				
Property Taxes.....	401,909	401,909	401,909	-
Volume of Business Taxes	130,000	130,000	192,780	62,780
Intergovernmental Revenues	4,619,927	4,896,496	4,834,785	(61,711)
License and Permits.....	271,200	271,200	97,278	(173,922)
Rent	20,000	20,000	14,694	(5,306)
Miscellaneous.....	416,014	504,669	534,977	30,308
Prior Year Allocation.....	19,302	19,302	-	(19,302)
Total Resources (Inflows).....	5,859,050	6,243,576	6,076,423	(167,153)
Amounts Available for Appropriation	6,062,557	6,447,083	6,279,930	(167,153)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	844,226	788,234	753,639	34,595
General Government.....	1,430,976	1,609,092	1,631,802	(22,710)
Public Safety.....	223,108	210,823	188,382	22,441
Public Works	1,857,997	1,829,199	1,876,928	(47,729)
Health and Sanitation.....	732,672	727,909	653,641	74,268
Culture and Recreation	325,868	319,088	319,035	53
Human Services and Welfare	405,977	510,093	512,338	(2,245)
Urban Development.....	-	185,093	179,263	5,830
Capital Outlays	19,800	45,520	38,384	7,136
Transfer to Other Funds.....	18,426	18,525	18,426	99
Total Charges to Appropriations.....	5,859,050	6,243,576	6,171,838	71,738
BUDGETARY FUND BALANCE, JUNE 30, 2004...	\$ 203,507	\$ 203,507	\$ 108,092	(\$ 95,415)

See accompanying Notes to Required Supplementary Information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 33)	\$ 6,279,930
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.....	(203,507)
Prior-Year Revenue is not inflows of budgetary resources but are <i>revenues</i> for financial reporting purposes.....	<u>(276,569)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15)	<u>\$ 5,799,854</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 33)	\$ 6,171,838
Difference – Budget to GAAP:	
Prior-Year Expenditures are not outflows of budgetary resources but are <i>expenditures</i> for financial reporting purposes.....	188,170
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	<u>(225,269)</u>
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(18,426)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 15)	<u>\$ 6,116,313</u>

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

Budgetary Fund Balance, June 30, 2004 (See Page 33).....	\$ 108,092
Timing Differences:	
Net Change in Encumbrances	283,054
Non-budgetary Items.....	<u>(276,569)</u>
Unreserved Fund Balance (See Page 13).....	<u>\$ 114,577</u>

END OF THIS SECTION

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS ON COMPLIANCE AND INTERNAL CONTROL
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
AND THE REQUIREMENTS OF OMB CIRCULAR A-133**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U. S. Department of Agriculture:			
Housing Preservation Grant.....	10.433	N/AV	\$ 39,428
Pass Through State – Department of Education,			
Child and Adult Care Food Program	10.558	N/AV	<u>20,218</u>
U.S. Department of Housing and Urban Development:			
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP).....	14.228	02-FD 01-FD 00-FD-FC 99-FD-FC 98-FD 97-FD 96-FD 95-FD	<u>1,366,667</u>
U.S. Department of Justice:			
Local Law Enforcement Block Grant	16.592		10,000
Policy Safety Partnership and Community Policy Grant Program	16.710		<u>144,243</u>
Total U.S. Department of Justice.....			<u>154,243</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	97.036	FEMA1136DR-PR FEMA1247DR-PR FEMA1501DR-PR	476,083
Emergency Management Performance Grant (EMPG).....	83.552	N/AV	<u>9,203</u>
Total U.S. Federal Emergency Management Administration (FEMA):			<u>485,286</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>\$2,065,842</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
Subtotal Expenditures of Federal Awards (Balance Brought Forward)			<u>\$2,065,842</u>
U.S. Department of Health and Human Services			
Pass-Through Office of the Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	N/AV	- 40,943
Pass-Through Office of the Governor, ASSMCA Office:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/AV	180,882
Pass-Through Administration of Children and Families:			
Community Service Block Grant (CSBG)	93.569		44,236
Child Care and Development Block Grant	93.575	N/AV	<u>778,651</u>
Total U.S. Department of Health and Human Services ..			<u>1,044,712</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,110,554</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Maunabo, 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 general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES



MENDOZA & RAMOS

Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785 • Telefax 787-864-9271

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of Municipality of Maunabo, Puerto Rico (the "Municipality") as of and for the fiscal year ended June 30, 2004, and have issued report thereon dated January 26, 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.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

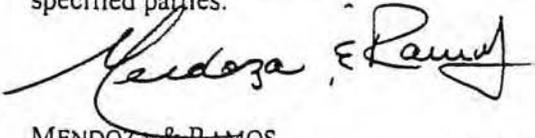
Internal Control Over Financial Reporting

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

INDEPENDENT AUDITORS' REPORT

Page 2

This report is intended solely for the information and use of the Municipal Legislature, management, Office of the Commissioner of Municipal Affairs, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
January 26, 2005

Stamp number 2026981 was
affixed to the original of this
report.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

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

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

In our opinion, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

INDEPENDENT AUDITORS' REPORT

Page 2

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation-that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 04-III-01.

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

This report is intended solely for the information and use of the Municipal Legislature, management, Office of the Commissioner of Municipal Affairs, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
January 26,, 2005

Stamp number 2026982 was
affixed to the original of this
report.



PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

- Reportable condition(s) identified? Yes None Reported
- Material weakness(es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Reportable condition(s) identified? Yes None Reported
- Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with OMB Circular A-133? Yes No

The Municipality's major programs were:

CFDA Number	Name of Federal Program
14.218	Community Development Block Grants / Entitlement Grants
83.544	Public Assistant Grant
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR ~~THE~~ FISCAL YEAR ENDED JUNE 30, 2004

**SECTION II – FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

NO MATTER IS REPORTED.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO FEDERAL PROGRAMS

FINDING	04-III-01
FEDERAL PROGRAMS	PUBLIC ASSISTANCE GRANTS (CFDA 97.036) PASS-THROUGH OFFICE OF GOVERNOR
CATEGORY	INTERNAL CONTROLS OVER COMPLIANCE
NONCOMPLIANCE	PROCUREMENT
CONDITION	As part of the evaluation of contracts granted to individuals and entities from which the Municipality procured services, we selected for testing seven contracts. Our test revealed the following:

- Four out of seven (57%) contracts examined does not contain a provision regarding compliance with executive order 11246 of September 24, 1965, entitled "Equal Employment Opportunity" and access by the grantee and others to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract.
- Seven out of seven (100%) contracts examined does not contain a provision regarding retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

We also noted that contract files do not contain all requested documents before the contract was granted as follows:

<u>Documents</u>	<u>Amount</u>
- Negative certification from the Puerto Rico Treasury Department	1
- Submission of tax returns for the last five years	1
- Municipalities Income Collection Center "CRIM" certification	1
- Payment of Municipal License Tax	3
- Negative certification from Child Support Office ("ASUME")	2
- Negative Certification from the Unemployment State Office	1
-	
- The Municipality do not counts with a bidders register ("Registro de Licitadores") as required by the Municipalities Law.	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	04-III-01 (CONTINUATION)
CRITERIA	<p>As stated in 44 CFR 13.36(i) a grantee's and subgrantee's contracts must contain, among others, a provision regarding (3) compliance with executive order 11246 of September 24, 1965, entitled "Equal Employment Opportunity"; (10) access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States or any of their duly authorized representatives to any books, documents, papers, and records of the contractor; and (11) retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.</p> <p>44 CFR 13.36(c)(4) grantee and subgrantees will ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. As per Chapter VIII, Section 4, of the "Reglamento sobre Normas Básicas para los Municipios de PR", municipalities should maintain a classified bidder's register by goods or services.</p>
CAUSE	The Municipality has not ensured that all contracts granted counts with the required provisions due to the lack of understanding of the applicable Federal regulation.
EFFECT	No preparing contracts for services required, or contracts failure to contain all required federal provisions, could expose the Municipality to contractors non compliance with works requested and being liable for contractors non compliance with applicable federal laws and regulations contained within the required provisions.
RECOMMENDATION	The Municipality should verify and amend their contracts in order to include all required provisions as required by Federal regulations. In addition, should obtain all required documents before contracts are granted.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MAUNABO
MAUNABO, PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2004

FISCAL YEAR	FINDING NUMBER		CFDA NUMBER	QUESTIONED COST	COMMENTS
2003	03-II-01	Reportable Condition Over Property, Plant and Equipment	N/A	NONE	Condition was corrected.
	03-III-01	Cash Management – Excess Cash Balance	14.228	NONE	Condition was corrected.
	03-III-02	Equipment and Real Property Management	14.228	NONE	Condition was corrected.
	03-III-03	Procurement Standards	14.228	NONE	Condition was corrected.
	03-III-04	Special Test and Provisions	14.228	NONE	Condition was corrected.
	03-III-05	Special Test and Provisions	14.228	NONE	Condition was corrected.

END OF SCHEDULE