

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

**MUNICIPIO DE MAUNABO**  
**AUDITORIA 2005-2006**  
**30 DE JUNIO DE 2006**

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

**BASIC FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2006**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO  
MAUNABO, PUERTO RICO  
BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006  
(WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133)**

OFICINA DEL COMISIONADO  
MUNICIPAL  
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**PART I**  
**FINANCIAL**

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**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, 2006, 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.

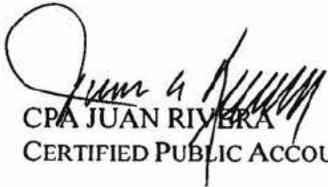
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2006, and the respective changes in 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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2006 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.

  
CPA JUAN RIVERA  
CERTIFIED PUBLIC ACCOUNTANT

Dorado, Puerto Rico  
December 20, 2006

Stamp number 2195601 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, 2006

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.

The Management's Discussion and Analysis ("MD&A") is focused on the current year activities, resulting changes and currently known facts; therefore, it should be read in conjunction with the Municipality's Basic Financial Statements. This MD&A will provide comparable information to the readers with the Municipality's prior year financial statements. Also, it can assist readers to get more specific understanding of the financial activities regarding the Municipality's Basic Financial Statements for the fiscal year ended June 30, 2006.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide:**

The Municipality's Net Assets for the year ended on June 30, 2006 were **\$14,062,398** in comparison with the fiscal year 2005 which were **\$15,007,606**, a **\$945,208** decrease which is equivalent to 6.30%.

The Municipality's Fund Financial Statements show that Governmental Activities Revenues were \$9,909,668 for the fiscal year ended June 30, 2006 in comparison with the prior fiscal year that was \$16,814,430, a \$6,904,762 Governmental Activities Revenues decrease. The difference is mainly caused in the local permits revenues that reported an unusual collection of fees during the year ended June 30, 2005 as consequence of a mega project being constructed by the State Government in this jurisdiction.

The General Fund showed a deficiency of Expenditures over Revenues of **\$1,082,594** during the course of this year. In comparison with fiscal year 2005, that showed a proficiency of Revenues over Expenditures of \$1,191,058. The excess of revenues collected in prior year were used to finance the current operations.

The Governmental Activities Expenditures for the current fiscal year was \$11,772,420 in comparison with the fiscal year ended June 30, 2005 balance of \$13,553,453. A decrease over last fiscal year of \$1,781,033.

The General Fund total expenditures for the current fiscal year showed a decrease of \$3,096,398 or (32%) with last year's expenditure balance.

## **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:

**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 12) 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 13) 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.

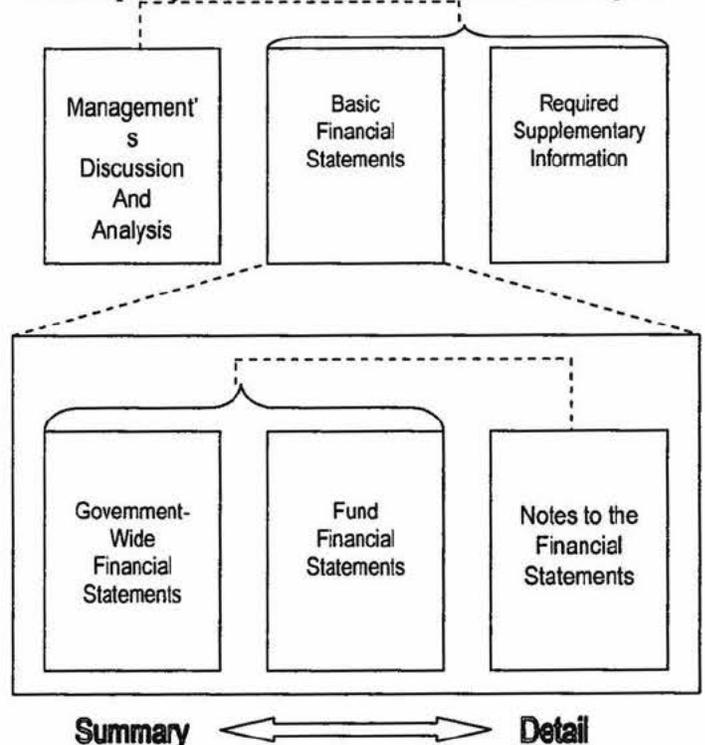
**Fund Financial Statements (Reporting the Municipality's Major Funds)**

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 14).

**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, 2006

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**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 15 and 17). 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 \$7.6 million in the current fiscal year that ended June 30, 2006 as compared with the \$1.64 million that was added during the previous fiscal year. Some of these additions correspond to the capitalization of the infrastructure required by GASB 34 that have not being fully capitalized yet. Depreciation expenses were recorded on \$0.5 and \$0.3 million for each year, respectively. Principal investments consist of urban development, streets improvement, and machinery and equipment acquisitions. Total Investment in Capital Assets, Net of related debt, is \$15.7 million or 81% 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, 2006

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Summary of Net Assets**

The Municipality's net assets decrease by \$491 thousand during the course of the current year. The Municipality's net assets include investment in Capital Assets for \$15.7 million and over \$.9 million restricted for future expenses. The Municipality's net assets at the end of the fiscal year ended on June 30, 2006 were \$14.0 million, as detailed on Table 1. For more detailed information see the Statement of Net Assets on page 12.

**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.

	<u>2006</u>	<u>2005</u>
Current and non-current assets.....	\$ 3,608	\$5,722
Capital assets.....	<u>15,862</u>	<u>13,291</u>
<b>Total Assets.....</b>	<b><u>19,470</u></b>	<b><u>19,013</u></b>
Current liabilities.....	2,137	1,054
Long-term liabilities.....	<u>3,271</u>	<u>3,406</u>
<b>Total Liabilities.....</b>	<b><u>5,408</u></b>	<b><u>4,460</u></b>
<b>Nets Assets:</b>		
Investment in capital assets.....	15,717	13,081
Restricted.....	962	2,986
Unrestricted.....	<u>(2,617)</u>	<u>(1,514)</u>
<b>Total Net Assets.....</b>	<b><u>\$ 14,062</u></b>	<b><u>\$14,553</u></b>

- **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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Current Year Impacts**

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

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services.....	\$ 166	\$ 142
Federal Grants and Contributions .....	2,664	4,464
State Grants and Contributions .....	1,354	1,198
General Revenues:		
Property Taxes.....	800	509
Volume of Business Taxes.....	104	442
Construction Taxes .....	151	5,226
Intergovernmental .....	5,162	4,755
Other General Revenues .....	436	188
<b>Total revenues .....</b>	<b><u>10,837</u></b>	<b><u>16,924</u></b>
<b>Expenses:</b>		
General Administration.....	3,228	3,058
Public Safety .....	658	562
Public Works .....	3,040	3,945
Health and Sanitation.....	1,952	322
Culture and Recreation .....	681	627
Human Services and Welfare .....	1,370	3,231
Urban Development.....	162	1,195
Education .....	684	602
Interest Costs .....	7	11
<b>Total expenses .....</b>	<b><u>11,782</u></b>	<b><u>13,553</u></b>
<b>Changes in net assets.....</b>	<b><u>(945)</u></b>	<b><u>3,371</u></b>
<b>Adjustment.....</b>	<b><u>3266</u></b>	<b><u>135</u></b>
Net assets – beginning .....	11,741	8,235
<b>Net assets – ending.....</b>	<b><u>\$ 14,062</u></b>	<b><u>\$11,741</u></b>

**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.

**Construction Permits** increased due to a mega-project being constructed in the jurisdiction by the State Government (Maunabo Road Tunnels).

**Federal Grants and Contributions** increased mainly due to the passage of the Health Care Facilities to the Municipality by the State Government.

**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 approximately 60% of the Municipality's operating cost in the General Fund.

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

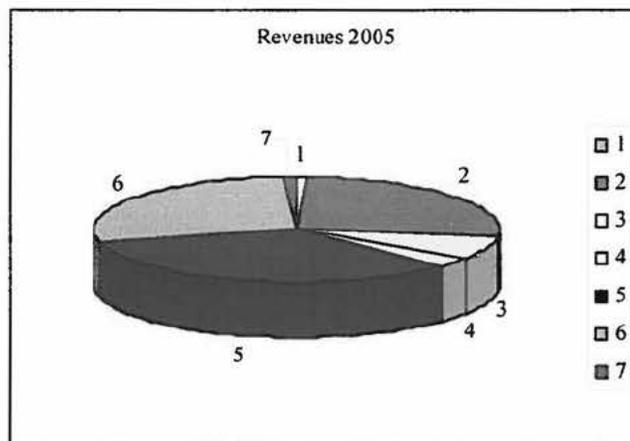
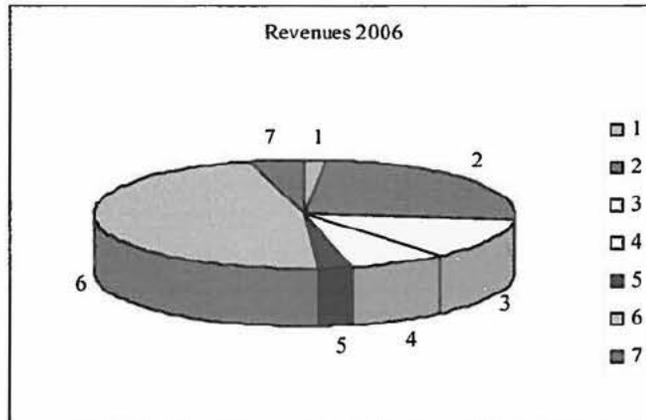
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**Inflation** – while overall inflation appears to be reasonably modest, the Municipality is a major consumer of certain commodities such as chemicals and supplies, fuels and parts. Some functions may experience unusual commodity specific increases.

**Net Assets:**

The following illustrations present revenues by category and expenditures by functions for the years ended June 30, 2006 and 2005, respectively.

**Revenues by Category:** 1) Charges for Services, 2) Operating Grants, 3) Capital Grants, 4) Property Taxes, 5) Local Taxes, 6) Intergovernmental, and 7) Miscellaneous.



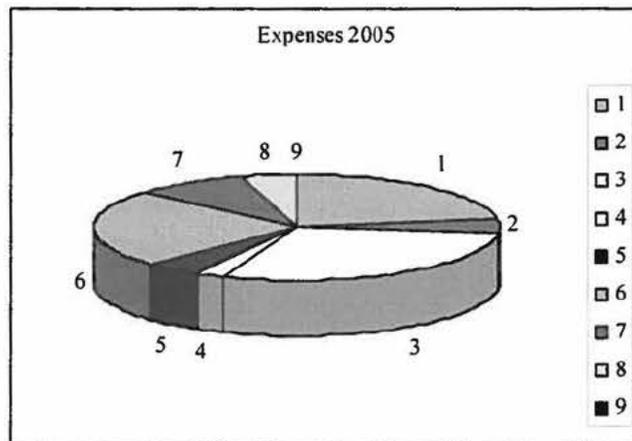
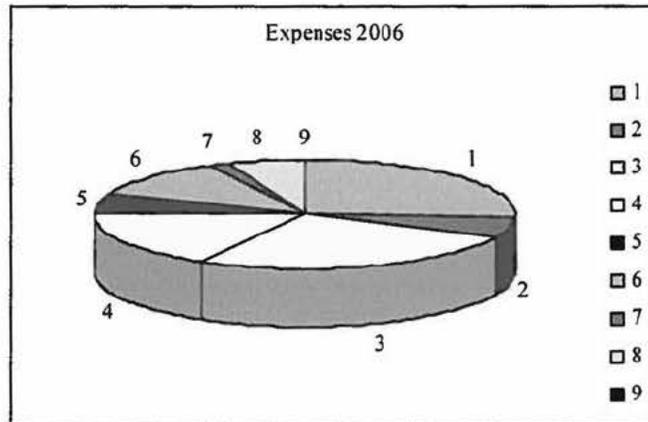
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**Expenditures by Functions:** 1) General Administration, 2) Public Safety, 3) Public Works, 4) Health and Sanitation, 5) Culture and Recreation, 6) Human Services and Welfare, 7) Urban Development, 8) Education, 9) Interest on Debts.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

The Municipality uses fund accounting to ensure and demonstrate compliance with related legal and contractual requirements.

**A- GOVERNMENTAL FUNDS**

The Municipality's Governmental Funds information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unreserved fund balance. In the current fiscal year, the Municipality's Governmental Funds reported an ending fund balance of \$1,560,504 as compared to the \$2,933,344 balance for the prior year. There are reservations of Fund Balance up to \$1,001,879, a decrease of \$905,028 over last fiscal year.

This Reserved Fund Balance is committed to cover balances show as follows:

- \$156,359 is reserved to cover purchase orders placed on prior years
- \$72,598 is to pay Debt Service Fund
- \$772,922 is reserved for State Assignments and for other Governmental purposes.

The Municipality's Governmental Funds include the General Fund, which is the Major Operation Fund of the Municipality and as of June 30, 2006, it showed a fund balance of \$442,479 net of the reserved amounts for specific purposes. This unreserved balance is \$583,958 lesser than the previous fiscal year.

**General Fund Budgetary Highlights:**

The Budgetary Comparisons schedules for budgeted and actual amounts from General Fund are presented in the Municipality's Basic Financial Statement. These schedules show the original adopted budget, the final revised budget, actual results, and variances between final and actual budgeted amounts for the General Fund. An original budget is presented by the Mayor and approved by the Municipality's Legislative Body in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budgeted issues that arise during the normal course of the fiscal year.

- Recourses decrease from previous year due to an extraordinary collection of \$5.2 million in construction permits and volume of business taxes during the fiscal year 2005 as consequence of the construction of the Maunabo Road Tunnels by the State Government.
- The Budget was revised by \$390,350 with available resources of prior year balances to finance the construction of various projects, to compensate a budget reduction in the Child Care Program notified by the Grantor agency, and to pay for certain statutory requirements and increases in administrative cost as services and utilities were both simultaneously increased.
-

## **Economic Factors and Next Year's Budgets**

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with increases of approximately five percent. Federal Financial Assistance may vary if new grants are available, but revenue is also predictable.

Local, national and international economics factors may influence the Municipality's revenues, positively or negatively. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, charges for services, as well as State and Federal Grants. In a local economy, the growth may be monitored by a variety of indicators such as employment growth, unemployment, new constructions, assessed valuations, and other revenues.

All these factors will be considered when preparing the budget for the year ending on June 30, 2007, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

## **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) 861-1112.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES
<b>ASSETS:</b>	
Cash and Investments .....	\$ 1,340,700
Cash with Fiscal Agent .....	227,756
Receivables (net):	
Federal Grants .....	498,890
Others .....	<u>1,540,291</u>
Capital Assets (Note 5):	
Land, Improvements, and Construction in Progress .....	1,916,038
Other Capital Assets, [Net of Depreciation] .....	<u>13,946,223</u>
Total Capital Assets .....	<u>15,862,261</u>
TOTAL ASSETS .....	<u>19,469,898</u>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses .....	2,001,916
Accrued Interest .....	3,737
Deferred Revenue .....	131,379
Long-Term Liabilities (Note 6):	
Due within One Year .....	693,157
Due in More than One Year .....	<u>2,577,311</u>
Total Liabilities .....	<u>5,407,500</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt .....	15,717,261
Restricted for:	
Special Revenue .....	889,068
Debt Service .....	72,598
Unrestricted .....	<u>(2,616,529)</u>
TOTAL NET ASSETS .....	<u>\$ 14,062,398</u>

See accompanying Notes to Basic Financial Statements.

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

**STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature.....	\$ 1,223,907	\$ -	\$ -	\$ -	(\$ 1,223,907)
General Government.....	1,994,996	-	-	-	(1,994,996)
Public Safety.....	657,985	-	153,174	-	(504,811)
Public Works.....	3,039,955	-	-	380,022	(2,659,933)
Culture and Recreation.....	680,937	165,632	-	-	(515,305)
Health and Sanitation.....	1,952,022	-	1,303,750	-	(648,272)
Human Services and Welfare.....	1,369,845	-	678,297	-	(691,548)
Urban Development.....	161,771	-	-	973,563	811,792
Education.....	683,527	-	528,629	-	(154,898)
Interest on Long-Term Debt.....	7,475	-	-	-	(7,475)
<b>Total Governmental Activities.....</b>	<b>\$11,772,420</b>	<b>\$ 165,632</b>	<b>\$ 2,663,850</b>	<b>\$ 1,353,585</b>	<b>(7,599,353)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes, levied for General Purposes.....					732,763
Property Taxes, levied for Debt Service.....					67,631
Volume of Business Taxes.....					103,855
Licenses and Permits.....					151,389
Intergovernmental.....					5,162,319
Miscellaneous.....					418,781
Rent.....					17,407
<b>Total General Revenues.....</b>					<b>6,654,145</b>
<b>CHANGE IN NET ASSETS.....</b>					<b>(945,208)</b>
<b>Net Assets – Beg of Year as restated (See Note 13, page 33)</b>					<b>15,007,606</b>
<b>NET ASSETS – ENDING OF YEAR.....</b>					<b>\$ 14,062,398</b>

See accompanying Notes to Basic Financial Statements.

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

**BALANCE SHEET – GOVERNMENTAL FUNDS**

JUNE 30, 2006

	GENERAL	CDBG FUND	CDT FUND	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and Investments (Note 2) .....	\$ 1,131,885	\$ 37,392	\$ 333	\$ 171,090	\$ 1,340,700
Cash with Fiscal Agent .....	-	-	-	227,756	227,756
Receivables:					
State Grants .....	-	-	139,889	382,002	521,891
Federal Grants .....	-	498,890	-	-	498,890
Due from Other Funds .....	589,658	-	25,000	663,891	1,278,549
Others .....	<u>12,375</u>	<u>-</u>	<u>78,482</u>	<u>-</u>	<u>90,857</u>
Total Assets .....	<u>\$ 1,733,918</u>	<u>\$ 536,282</u>	<u>\$ 243,704</u>	<u>\$ 1,444,739</u>	<u>\$ 3,958,643</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable and Accrued Liabilities .....	538,578	244,191	127,558	9,147	919,474
Bonds and Notes Payable .....	-	-	-	68,737	68,737
Due to Other Funds .....	484,782	292,091	-	501,676	1,278,549
Deferred Revenues:					
Volume of Business Tax .....	111,720	-	-	-	111,720
Others .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,659</u>	<u>19,659</u>
Total Liabilities .....	<u>1,135,080</u>	<u>536,282</u>	<u>127,558</u>	<u>599,219</u>	<u>2,398,139</u>
Fund Balances:					
Reserve For:					
Encumbrances .....	156,359	-	-	-	156,359
Debt Service .....	-	-	-	72,598	72,598
Other Purposes .....	-	-	-	772,922	772,922
Unreserved .....	<u>442,479</u>	<u>-</u>	<u>116,146</u>	<u>-</u>	<u>558,625</u>
Total Fund Balances .....	<u>598,838</u>	<u>-</u>	<u>116,146</u>	<u>845,520</u>	<u>1,560,504</u>
<b>TOTAL LIABILITIES AND FUND BALANCES ....</b>	<u><b>\$ 1,733,918</b></u>	<u><b>\$ 536,282</b></u>	<u><b>\$ 243,704</b></u>	<u><b>\$ 1,444,739</b></u>	<u><b>\$ 3,958,643</b></u>

See accompanying Notes to Basic Financial Statements

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

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

JUNE 30, 2006

Total Fund Balances – Governmental Funds (Page 14)..... \$ 1,560,504

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 12)  
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.....	\$ 1,916,038	
Depreciable Capital Assets.....	10,317,664	
Infrastructure Assets.....	7,002,929	
Accumulated Depreciation.....	<u>(3,374,370)</u>	
Total Capital Assets.....		15,862,261

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:

Christmas bonus.....	92,800	
General Fund- Revenues collected by CRIM in excess of advances .....	<u>12,901</u>	
Total Revenues.....		105,701

Some expenses reported in the Statement of Activities do not requires the use of current financial resources and therefore  
are not reported as expenditures in governmental funds. Theses activities consist of:

Legal claims .....	10,000	
Christmas bonus.....	<u>185,600</u>	
Total Expenditures.....		( 195,600)

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 .....	145,000	
Compensated Absences.....	1,154,236	
Municipal Revenue Collection Center (Crim) .....	1,385,103	
Crim Advances during 2004-2005 .....	161,625	
PR Department of Labor .....	126,209	
Crim Catastro .....	48,111	
FEMA .....	190,265	
Department of Treasury .....	<u>59,919</u>	
Total Long-Term Liabilities.....		<u>(3,270,468)</u>

Total Net Assets of Governmental Activities (Page 13)..... \$ 14,062,398

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, 2006

	GENERAL	CDBG FUND	CDT FUND	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Property Taxes .....	\$ 732,763	\$ -	\$ -	\$ 67,631	\$ 800,394
Volume of Business Taxes .....	103,855	-	-	-	103,855
Federal Assistances .....	-	973,563	-	144,449	1,118,012
Intergovernmental and others .....	4,234,776	-	1,303,750	1,424,254	6,962,780
Licenses and Permits .....	151,389	-	-	-	151,389
Rent .....	17,407	-	-	165,632	183,039
Miscellaneous .....	411,394	-	-	178,805	590,199
<b>Total Revenues .....</b>	<b>5,651,584</b>	<b>973,563</b>	<b>1,303,750</b>	<b>1,980,771</b>	<b>9,909,668</b>
<b>EXPENDITURES</b>					
Current:					
Mayor and Municipal Legislature .....	1,230,808	-	-	-	1,230,808
General Government .....	1,278,759	-	-	14	1,278,773
Public Safety .....	453,335	-	-	198,342	651,677
Public Works .....	2,059,249	-	-	-	2,059,249
Culture and Recreation .....	372,050	-	-	181,370	553,420
Health and Sanitation .....	589,273	-	1,362,749	-	1,952,022
Human Services and Welfare .....	593,244	-	-	768,205	1,361,449
Urban Development .....	-	974,277	-	-	974,277
Education .....	-	-	-	683,527	683,527
Capital Outlay .....	-	-	-	464,831	464,831
Debt Service:					
Principal .....	-	-	-	65,000	65,000
Interest and Other Charges .....	-	-	-	7,475	7,475
<b>Total Expenditures .....</b>	<b>6,576,718</b>	<b>974,277</b>	<b>1,362,749</b>	<b>2,368,764</b>	<b>11,282,508</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers – In .....	53,434	-	-	210,894	264,328
Transfers – Out .....	(210,894)	-	-	( 53,434)	(264,328)
<b>Total Other Financing Sources and Uses .....</b>	<b>(157,460)</b>	<b>-</b>	<b>-</b>	<b>157,460</b>	<b>-</b>
<b>Net Change in Fund Balances .....</b>	<b>(1,082,594)</b>	<b>( 714)</b>	<b>( 58,999)</b>	<b>( 230,533)</b>	<b>( 1,372,840)</b>
Fund Balance – Beginning, as Restated .....	1,681,432	714	175,145	1,076,053	2,933,344
<b>FUND BALANCES – ENDING .....</b>	<b>\$ 598,838</b>	<b>\$ -</b>	<b>\$ 116,146</b>	<b>\$ 845,520</b>	<b>\$ 1,560,504</b>

*Handwritten signature and date: 15/03/2007*

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, 2006

Net Change in Fund Balances – Total Governmental Funds (Page 16).....		(\$ 1,372,840)
Amounts reported for Governmental Activities in the Statement of Activities (Page 13) 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 .....	\$ 1,325,849	
Depreciation Expense.....	<u>(536,701)</u>	
Excess of Urban Development and Capital Outlay over Depreciation Expense .....		789,148
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. ....		105,701
Encumbrances are reported as expenditures in governmental fund .....		47,960
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.....		65,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in legal claims .....	(10,000)	
Increase in Christmas bonus.....	(185,600)	
Decrease in Department of Treasury Debt .....	53,611	
Increase in Municipal Revenue Collection Center Debt .....	(420,680)	
Increase in debt wit Crim- Catastro.....	(48,111)	
Increase in debt with PR Department of Labor .....	(126,209)	
Decrease in Compensated Absences .....	<u>156,812</u>	
Total Additional Expenditures .....		<u>(580,177)</u>
Change in Net Assets of Governmental Activities (Page 13) .....		<u>(\$ 945,208)</u>

See accompanying Notes to Basic Financial Statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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 12 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, 2006, 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, 2006, 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**

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**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, 2006, 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.

CDT Fund – This is the fund used to account for all the transactions of the Health Care Facilities. The primary objectives of this fund is to provides Health Care services to the citizens. It receives funds from the Health Department and through medical insurance companies.

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 primary 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  
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**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 \$50 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).

**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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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

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

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During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2006, 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 ...	40-00029602	\$ 100,000	1.95%	07-26-06
Popular Bank of Puerto Rico ...	40-00031186	54,574	1.00%	12-12-06
Government Development Bank of P.R.	15155	325,000	3.34%	08-04-06
Government Development Bank of P.R.	15156	325,000	3.50%	02-05-07
Government Development Bank of P.R.	16503	<u>325,000</u>	4.60%	07-06-06
TOTAL .....		<u>\$ 1,129,574</u>		

**NOTE 3 OTHER RECEIVABLES**

As of June 30, 2006, this amount consists of the following:

	AMOUNT
Health Insurances.....	\$ 78,482
Interests earned .....	6,229
Other State Contributions .....	<u>6,146</u>
TOTAL .....	<u>\$ 90,857</u>

**NOTE 4 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

Transfers are indicative of funding for operational debts funding.

**NET INTERFUND TRANSFER WITHIN GOVERNMENTAL FUNDS**

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Other Fund	<u>\$ 157,460</u>	Debt payment, Matching, and other

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at June 30, 2006 are summarized as follows, net of \$81,539 between funds grouped as other funds.

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
CDT Fund	Other Funds	\$ 10,000
CDT Fund	General Fund	15,000
Other Funds	CBDG Fund	112,570
Other Funds	General Fund	469,782
General Fund	Other Fund	410,137
General Fund	CDBG Fund	<u>179,521</u>
	TOTAL	<u>\$1,197,010</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**NOTE 5 CAPITAL ASSETS**

Capital Assets activities for the fiscal year ended June 30, 2006 was as follows:

DESCRIPTION	BALANCE JULY 1, 2005	ADDITIONS AND RECLASS.	ADJUSTMENT AND RETIREMENTS	BALANCE JUNE 30, 2006
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 867,513	\$ -	\$ -	\$ 867,513
Works of Arts .....	90,000	-	-	90,000
Construction in Progress.....	<u>2,195,231</u>	<u>(1,236,706)</u>	-	<u>958,525</u>
Total Non-Depreciable Capital Assets.....	3,152,744	(1,236,706)	-	1,916,038
<b>Depreciable Capital Assets:</b>				
Buildings.....	3,868,446	-	-	3,868,446
Improvements .....	2,225,429	1,223,380	-	3,448,809
Infrastructure .....	1,381,227	5,621,702	-	7,002,929
Machinery and Equipment.....	1,812,812	( 629,284)	-	1,183,528
Motor Vehicles .....	<u>421,196</u>	<u>1,395,685</u>	-	<u>1,816,881</u>
Total Depreciable Capital Assets.....	<u>9,709,110</u>	<u>7,611,483</u>	-	<u>17,320,593</u>
<b>Less Accumulated Depreciation:</b>				
Buildings.....	(1,310,111)	(56,169)	-	(1,366,280)
Improvements .....	(291,857)	(35,229)	-	(327,086)
Infrastructure .....	(20,780)	(215,059)	-	(235,839)
Machinery and Equipment.....	(875,316)	207,824	-	(667,492)
Motor Vehicles .....	<u>(339,605)</u>	<u>(438,068)</u>	-	<u>(777,673)</u>
Total Accumulated Depreciation .....	<u>(2,837,669)</u>	<u>(536,701)</u>	-	<u>(3,374,370)</u>
Total Depreciable Capital Assets (Net).....	<u>6,871,441</u>	<u>7,074,782</u>	-	<u>13,946,223</u>
<b>CAPITAL ASSETS, NET .....</b>	<b><u>\$ 10,024,185</u></b>	<b><u>\$ 5,838,076</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 15,862,261</u></b>

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

	AMOUNT
General Government.....	\$ 149,079
Mayor and Municipal .....	26,253
Public Safety .....	40,192
Public Works .....	180,119
Human Services and Welfare .....	11,814
Culture and Recreation .....	<u>129,244</u>
Total Depreciation Expenses .....	<u>\$536,701</u>

**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, 2006, are comprised of the following individual issues:

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DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$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.....	\$ 145,000
Total General Obligations – Bonds.....	<u>\$ 145,000</u>

The annual requirements to amortize the general obligations outstanding as of June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2007	\$ 70,000	\$ 5,388	\$ 75,388
2008	<u>75,000</u>	<u>2,910</u>	<u>77,910</u>
TOTAL	<u>\$145,000</u>	<u>\$ 8,298</u>	<u>\$ 153,298</u>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts:

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES AND ADJUSTMENTS	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006
Property Taxes – MRCC (before 2002).	\$964,423	\$ 526,874	\$106,194	\$1,385,103
Property Taxes- 2004-2005 .....	161,625			161,625
CRIM (Catastro).....		55,311	7,200	48,111
Department of Labor & Hum. Resources		129,224	3,015	126,209
Property Taxes–PR Treasury Department	113,530		53,611	59,919
FEMA .....	190,265			190,265
Compensated Absences .....	<u>1,311,047</u>	<u>-</u>	<u>156,811</u>	<u>1,154,236</u>
TOTAL .....	<u>\$2,740,890</u>	<u>\$ 711,409</u>	<u>\$ 326,831</u>	<u>\$3,125,468</u>

**C. CHANGES IN GENERAL LONG-TERM DEBTS**

The following is a summary of changes in long-term debts for the year ended June 30, 2006:

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General.....	\$ 210,000	\$ -	\$ 65,000	\$ 145,000	\$ 70,000	\$ 75,000
Others Debts .....	<u>2,740,890</u>	<u>711,409</u>	<u>326,831</u>	<u>3,125,468</u>	<u>623,157</u>	<u>2,502,311</u>
TOTAL .....	<u>\$2,950,890</u>	<u>\$ 711,409</u>	<u>\$ 391,831</u>	<u>\$3,270,468</u>	<u>\$ 693,157</u>	<u>\$2,577,311</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**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. Up to 0.50% for all other organizations based on predetermined gross volumes levels.

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 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.

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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,

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 2006 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.

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The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2006 was approximately \$254,592. 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, 2006. 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 PRIOR PERIOD ADJUSTMENTS**

In the Statement of Activities, the Net Assets of the beginning of year have been increased by \$3,266,755 due to certain adjustments of prior year balances in property and long-term debts account as follows:

Beginning Net Assets as previously reported in the Statement of Activities for the year ended June 30, 2005	\$11,740,851
Deduct differentials on long-term debts erroneously reported	( 455,250)
Add property and equipments misclassified and unreported	<u>3,722,005</u>
Beginning Net Assets as corrected	<u>\$15,007,606</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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END OF NOTES

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REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE JULY 1, 2005 .....	\$ 1,681,432	\$ 1,681,432	\$ 1,681,432	\$ -
Resources (Inflows):				
Property Taxes .....	732,763	732,763	732,763	-
Volume of Business Taxes .....	145,000	145,000	103,855	( 41,145)
Intergovernmental Revenues .....	5,071,029	5,071,029	4,234,776	( 836,253)
License and Permits .....	560,000	560,000	151,389	( 408,611)
Rent .....	12,000	12,000	17,407	5,407
Miscellaneous .....	422,508	422,508	411,394	( 11,114)
Total Resources (Inflows).....	6,943,300	6,943,300	5,651,584	(1,291,716)
Amounts Available for Appropriation .....	8,624,732	8,624,732	7,333,016	(1,291,716)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	1,196,010	1,262,414	1,230,808	31,606
General Government.....	1,168,096	1,264,129	1,278,759	( 14,630)
Public Safety.....	397,018	387,298	453,335	( 66,037)
Public Works .....	2,485,097	2,657,390	2,059,249	598,141
Health and Sanitation.....	655,148	628,518	589,273	39,245
Culture and Recreation .....	383,389	384,389	372,050	12,339
Human Services and Welfare .....	658,542	749,512	593,244	156,268
Urban Development.....	-	-	-	-
Capital Outlays .....	-	-	-	-
Net transfers to Other Funds.....	-	-	157,460	(157,460)
Total Charges to Appropriations.....	6,943,300	7,333,650	6,734,178	599,472
BUDGETARY FUND BALANCE, JUNE 30, 2006.....	\$ 1,681,432	\$ 1,291,082	\$ 598,838	(\$ 692,244)

See accompanying Notes to Required Supplementary Information.

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BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 34).....	\$ 7,333,016
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.....	( 1,681,432)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 16).....	<u>\$ 5,651,584</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 34).....	\$ 6,734,178
Difference – Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	( 157,460)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 16).....	<u>\$ 6,576,718</u>
NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance	
Budgetary Fund Balance, June 30, 2006 (See Page 34).....	\$ 598,838
Timing Differences:	
Net Change in Encumbrances .....	( 156,359)
Unreserved Fund Balance (See Page 14).....	<u>\$ 442,479</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, 2006

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	\$ 6,317
Pass Through State – Department of Education, Child and Adult Care Food Program .....	10.558	N/AV	<u>20,573</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).....	14.219	05-FD-FC-AB 04-FD-FC-AB 03-FD-FC-AB 02-FD-FC 01-FD-FC 00-FD-FC	<u>974,277</u>
U.S. Department of Justice: Local Law Enforcement Block Grant Policy Safety Partnership and Community Policy Grant Program	16.592 16.710		58,768 <u>58,240</u>
Total U.S. Department of Justice.....			<u>117,008</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	<u>150,808</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward) .....			<u>\$1,268,983</u>

continue

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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>\$1,268,983</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	68,867
Pass-Through Office of the Governor, ASSMCA Office:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/AV	124,955
Pass-Through Administration of Children and Families:			
Community Service Block Grant (CSBG) .....	93.569		12,998
Child Care and Development Block Grant .....	93.575	N/AV	<u>339,577</u>
Total U.S. Department of Health and Human Services ..			<u>546,397</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$1,815,380</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, 2006

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**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**

**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, 2006, and have issued report thereon dated December 20, 2006. 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to 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. No matters were noted involving the internal control over financial reporting and its operation that we consider to be material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality in a separate letter dated December 20, 2006.

This report is intended solely for the information and use of the Municipal's 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.

  
CPA JUAN RIVERA  
Certified Public Accountant

Dorado, Puerto Rico  
December 20, 2006

Stamp number 2195602 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, 2006. 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 others procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

In our opinion, except for the instance of non-compliance identified above, 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

## 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 matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 06-01 and 06-02.

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.

  
CPA JUAN RIVERA  
Certified Public Accountant

Dorado, Puerto Rico  
December 20, 2006

Stamp number 2195603 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, 2006**

**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
14.219 93.575	Community Development Block Grants / Small Cities Program Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$500,000

Auditee qualified as low-risk auditee?  Yes  No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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**NO INSTANCES OF NONCOMPLIANCE**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO  
MAUNABO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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**State Block Grant Program (SBGP) - CFDA 14.219**

Documents and information required for the test of Compliance of SBGP Program met all requirements except for the following: ①

**Condition 06-1**

**Special Test and Provision - Rehabilitation**

Our audit procedures revealed the following conditions on a test performed over four (4) participants' files of the homes rehabilitation program:

- The Municipality did not inspect the work done in all four cases examined.
- The income verification process was not properly complete made in one case.
- In two cases the files did not show the evidence of deeds.
- In one instance the photographic evidence is not representative of the participant's needs.
- In all cases inspected the chronological order of the events show that participant's applications', purchase orders and delivery of materials occurred simultaneously the same date.

**Criteria**

**The Code of Federal Regulation 24 §570.506**

*Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipients have met the requirements of third party...*

**Cause**

Fail to follow the procedures to comply with federal regulation and lack of adequate supervision.

**Effect**

The Municipality are uncertain about whether the works were performed and when they were properly completed. Also the Municipality did not have all the information to determine the participant s' eligibility.

**Recommendation**

The Municipality should establish proper procedures to ensure compliance with the federal regulation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO  
MAUNABO, PUERTO RICO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

---

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

**Condition 06-1 (Continued)**

**Auditee Response**

Instructions were immediately given to the Federal Programs Director in order to follow up on the programs' procedures and regulation. All inspections have to be timely performed and participants' records should be properly documented. NO

**Condition 06-2**

**Records- Disbursements**

In a test of 19 vouchers for payments we observed the following exceptions: 2

- The purchase orders in eight (8) instances are dated after the corresponding invoices dates.
- No evidence of the engineering inspection was found in one case to release the 10% retained fees.
- In one case, the procurement process (informal bidding) was not properly completed (two quotations were obtained instead of the three required and the uncompleted process was not adequately documented)

**Criteria**

**The Code of Federal Regulation 24 §570.506**

*Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipients have met the requirements of third party...*

**Cause**

Fail to follow the procedures to comply with federal regulation. The accounting system in Federal Affairs Office is not part of the Uniform Accounting System of the Municipality.

**Effect**

The Municipality must have all the information necessary to support payment to suppliers. Also must have a purchase order first in order to buy goods and services.

**Recommendation**

Establish procedures to ensure the compliance with the federal regulation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO  
MAUNABO, PUERTO RICO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**Condition 06-2 (Continued)**

**Auditee Response**

Three weeks ago, the Municipality uniformed the accounting system of the Federal Programs with all other funds. Instructions were given to the Purchase Department to place the orders at time the contracts are signed.

(No)

**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, 2006**

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The following schedule contains the finding number, title, questioned costs and status of each of the findings included in the schedule of findings and questioned costs relative to federal awards for the year ended June 30, 2005 as required by OMB Circular A-133.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO  
MAUNABO, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2006

---

**FINDING 2005-III-01**

**Procurement Standards**

CONDITION

This finding was a reportable condition stating that a contract examined did not contain two required provisions regarding access by the grantee and others to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract; and retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

(3)

RECOMMENDATION

The auditor recommended that contracts be verified and amended in order to include all required provisions as required by Federal regulations. In addition, should obtain all required documents before contracts are granted.

(NO)

CURRENT STATUS

The recommendation was adopted. No similar findings were noted in the 2006 audit.

**FINDING 2005-III-02**

**Reporting**

CONDITION

This finding was a reportable condition stating that the Child Care Development Block Grant quarterly reported amounts did not agree with the Program's general ledger.

✓

RECOMMENDATION

The auditor recommended that timely reconciliation and cutoff procedures between numbers kept at the federal program and numbers recorded in the general ledger be performed in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

(NO)

CURRENT STATUS

The officials of the Municipality did not agree with the finding presented by the auditor. No similar findings were noted in the 2006 audit.

END OF SCHEDULE

FORM SF-SAC (5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2004, 2005, or 2006

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

RETURN TO

Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)

1. Fiscal period ending date for this submission
Month Day Year
06 / 30 / 2006
Fiscal Period End Dates Must Be In 2004, 2005, or 2006
2. Type of Circular A-133 audit
1 [X] Single audit 2 [ ] Program-specific audit

3. Audit period covered
1 [X] Annual 2 [ ] Biennial 3 [ ] Other - [ ] Months
4. FEDERAL GOVERNMENT USE ONLY
Date received by Federal clearinghouse

5. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN)
66-0433521
b. Are multiple EINs covered in this report? 1 [ ] Yes 2 [X] No
c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number
[ ] - [ ] - [ ]
e. Are multiple DUNS covered in this report? 1 [ ] Yes 2 [X] No
f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF MAUNABO
b. Auditee address (Number and street)
P O BOX 8
City
MAUNABO
State ZIP + 4 Code
PR 00707
c. Auditee contact
Name
JORGE L MARQUEZ PEREZ
Title
MAYOR
d. Auditee contact telephone
(787) 861-0825
e. Auditee contact FAX
(787) 861-1165
f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
JUAN A RIVERA, CPA
b. Auditor address (Number and street)
P O BOX 757
City
DORADO
State ZIP + 4 Code
PR 00646
c. Auditor contact
Name
JUAN A RIVERA, CPA
Title
OWNER
d. Auditor contact telephone
(787) 784-2255
e. Auditor contact FAX
(787) 784-2250
f. Auditor contact E-mail
JRMELECIO@HOTMAIL.COM

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

Signature of certifying official
Date
Month Day Year
12 21 2006
Printed Name of certifying official
Jorge L. Marquez Perez
Printed Title of certifying official
Mayor

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

Signature of auditor
Date
Month Day Year
12 20 2006

**PART II**

**FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

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

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

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

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

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

**PART III**

**FEDERAL PROGRAMS (To be completed by auditor)**

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

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 500,000

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

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

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

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

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

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

- |  |  |   |   |
|--|--|---|---|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration  |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State  |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation  |
| 11 <input type="checkbox"/> Commerce                                       | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury  |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency                                      |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs  |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None  |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:   |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px;"></span> |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px;"></span> |

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

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

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the Federal cognizant agency .....

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

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

**9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR**

**10. AUDIT FINDINGS**

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1	0 .433	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOUSING PRESERVATION GRANT	\$ 6,317 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 20,573 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4 .219	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 974,277 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	NP	06-1 TO 06-2
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK PROGRAM	\$ 58,768 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	6 .710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	POLICY SAFETY PARTNERSHIP AND COMUNITY POLICY GRANT	\$ 58,240 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	7 .036	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANT GRANT	\$ 150,808 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 68,867 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .959	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	\$ 124,955 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .659	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY SERVICE BLOCK GRANT	\$ 12,998 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT GRANT	\$ 339,577 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				\$ 1,815,380 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

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

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

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

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

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

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

<sup>5</sup> N/A for NONE

PAGE

Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N	/	A			21	-					41	-				
2						22	-					42	-				
3						23	-					43	-				
4						24	-					44	-				
5						25	-					45	-				
6						26	-					46	-				
7						27	-					47	-				
8						28	-					48	-				
9						29	-					49	-				
10						30	-					50	-				
11						31	-					51	-				
12						32	-					52	-				
13						33	-					53	-				
14						34	-					54	-				
15						35	-					55	-				
16						36	-					56	-				
17						37	-					57	-				
18						38	-					58	-				
19						39	-					59	-				
20						40	-					60	-				

f. List the multiple DUNS covered in the report.

1	N	/	A			21	-										
2						22	-										
3						23	-										
4						24	-										
5						25	-										
6						26	-										
7						27	-										
8						28	-										
9						29	-										
10						30	-										
11						31	-										
12						32	-										
13						33	-										
14						34	-										
15						35	-										
16						36	-										
17						37	-										
18						38	-										
19						39	-										
20						40	-										

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.