

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE NAGUABO**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2003

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF NAGUABO, PUERTO RICO**  
**BASIC FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2003**  
**(WITH THE ADDITIONAL REPORTS AND INFORMATION**  
**REQUIRED BY THE GOVERNMENT AUDITING STANDARDS**  
**AND OMB CIRCULAR A-133)**

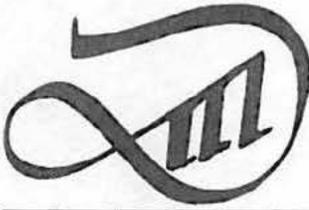
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BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2003  
(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE  
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)**

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**INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
Member of the Municipal Legislature  
Municipality of Naguabo, 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 Naguabo, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2003, 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.

As discussed in Note 6 to the Basic Financial Statements, management has not recorded all capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality**, as of June 30, 2003, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2003, and the respective changes in financial position 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 4 through 7 and 25 and 26 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**

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2003 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 Diaz PSC*

CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
December 18, 2003



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Management of the **Municipality of Naguabo, Puerto Rico (Municipality)**, provides this Management's Discussion and Analysis for the readers of the **Municipality's** basic financial statements. This narrative overview and analysis of the financial activities of the **Municipality** is for the fiscal year ended June 30, 2003. We encourage readers to consider this information with the **Municipality's** basic financial statements that follow.

Because the **Municipality** is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the **Municipality's** financial position and results of operations.

## **FINANCIAL HIGHLIGHTS**

### **Government-wide:**

The net assets of the **Municipality** exceeded its liabilities at the close of the fiscal year by \$15,377,068 reported net assets. The significant change is explained in page 9.

### **Fund Level:**

As of the close of the fiscal year, the **Municipality's** governmental funds reported ending fund balances (deficit) (\$2,671,568) as unreserved fund balance (deficit) which is related to the **Municipality's** general fund. At the end of the fiscal year, net change in fund balance (deficit) was (\$478,364) (see pages 11 and 13).

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is an introduction to the **Municipality's** basic financial statements, which comprise two components: 1) government-wide financial statements and fund financial statements, and 2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

For the first time, this report includes government-wide financial statements as required by GASB Statement No. 34. The presentation of the financial statements includes the Statement of Net Assets and Governmental Funds Balance Sheet on pages 9 and 11, and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances on pages 10 and 13.

### **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:

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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The **Statement of Net Assets** (page 9) 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 10) 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)**

The fund financial statements begin on page 11 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.

**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 are presented on a different measurement focus and basis of accounting than governmental-wide statements, additional columns are presented in each statement which briefly explains the adjustments necessary to reconcile the fund statements with the governmental wide statements.

Governmental funds include the General Fund and the Other Funds that accounts for resources provided under federal grants and local special assignment funds legally restricted for expenditures for those programs and activities contemplated by grantors.

The **Municipality** activities are related to 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 to communities.

**Notes to the Financial Statements:**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found on pages 15 through 25.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The **Municipality's** net assets increase by \$623,420 over the course of this year's operations. The **Municipality's** Net Assets include investment in Property and Equipment for \$19 millions and over \$3.4 millions restricted for future expenses. The **Municipality's** net assets at the end of the fiscal year ended on June 30, 2003 were \$15.4 millions, as detailed on **Table 1**.

**Table 1  
Statement of Net Assets (in Thousands)  
As of June 30, 2003**

Current and non-current assets.....	\$ 4,037
Capital assets.....	<u>21,216</u>
<b>Total Assets</b> .....	<u><b>25,253</b></u>
Current liabilities.....	2,279
Long-term liabilities .....	<u>7,597</u>
<b>Total Liabilities</b> .....	<u><b>9,876</b></u>
<b>Nets Assets:</b>	
Investment in capital assets .....	19,058
Restricted .....	3,391
Unrestricted (Deficit) .....	<u>(7,072)</u>
<b>Total Net Assets</b> .....	<u><b>\$15,377</b></u>

**Table 2  
Changes in Net Assets (in Thousands)  
For Fiscal Year Ending June 30, 2003**

<b>Revenues:</b>	
Operating grants and contributions .....	\$ 3,908
Capital grants and contributions .....	643
General revenues.....	<u>7,557</u>
<b>Total revenues</b> .....	<u><b>12,108</b></u>
<b>Expenditures and Transfer Out:</b>	
Administration.....	5,390
Public Safety.....	411
Public Works.....	846
Solid Waste Disposal.....	867
Human Services and Welfare.....	1,763
Urban Development.....	1,751
Interest on Long-Term Debt .....	158
Other Expense.....	<u>299</u>
<b>Total expenditures</b> .....	<u><b>11,485</b></u>
<b>Changes in net assets</b> .....	<b>623</b>
Net assets – beginning .....	<u>14,754</u>
<b>Net assets – ending</b> .....	<u><b>\$15,377</b></u>

The following financial information (as detailed on **Table 2**) was derived from the government-wide Statement of Activities for fiscal year ended June 30, 2003 and reflects how the **Municipality's** net assets changed during the fiscal year:

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Page 4

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

As the **Municipality's** completed the year, its governmental funds reported fund balances (deficit) of (\$393,431). Of this total amount, (\$2,671,568) constitute unreserved fund balance (deficit) of the general fund. The fund deficit is primarily attributable to decrease in revenues from capital projects not constructed during the fiscal year that would not produce construction and volume of business taxes. The deficit is expected to decrease in the future as result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

**General Fund Budgetary Highlights:**

The total budget for the **Municipality** was \$7.5 millions and actual spending was \$8.1 millions. Total expenditures represented 8% in excess of total budget availability for the period. This excess correspond to liquidation of prior years expenditures and claims and assessment with various suppliers which amounts are not included as part of the budget.

Over the course of the year, the **Municipality** revised the budget several times. This budget amendments fall into two categories: (1) amendments and supplemental appropriations approved at midyear to reflect the actual revenues; and (2) increase and decrease in appropriation to prevent budget overruns and to covers flood expenditures during years.

Even with these adjustments, actual expenditures were \$585,247 over final budget amounts and revenues was short for \$737,891, principally for construction taxes. Volume of business taxes were less that expected. Reductions in state funding also affected grant resources available for appropriation.

The **Municipality's** general fund balance (deficit) of (\$2,308,649) differs from the general fund's budgetary fund balance (deficit) of (\$3,153,423) reported in the budgetary comparison schedule principally because budgetary fund balance excludes: encumbrances, non-budgetary items (expenditures and claims and assessment), and proceed of bonds.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The **Municipality** is in the process of performing an inventory of all Capital Assets and his activities. At June 30, 2003 only information of some buildings, and machinery and equipment was identified and documentation required by GASB No. 34 was obtained. In addition, no depreciation was determined for these capital assets. Accordingly, the **Municipality** is not in compliance with accounting principle generally accepted in the United States of America.

**Debt Outstanding**

As of year-end, the **Municipality** had \$7.6 million in debt (bonds and other long-term debts) outstanding. New bonds and notes in the amount of \$1.5 million were issued during the year. This amount will finance the acquisition of new facilities and payment of debts. Principal payments of \$1.4 million were made by the **Municipality** during the current year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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**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) 874-2068.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2003

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents.....	\$ 1,150,506
Receivables (net):	
Property Taxes.....	6,970
Federal Grants.....	2,206,229
Others.....	<u>673,652</u>
Capital Assets (Notes 1 and 6):	
Land, Improvements, and Construction in Progress.....	-
Other Capital Assets.....	<u>21,216,396</u>
Total Capital Assets.....	<u>21,216,396</u>
<b>TOTAL ASSETS.....</b>	<b><u>25,253,753</u></b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenses.....	1,686,547
Bank Overdraft.....	34,620
Deferred Revenue – Volume of Business Taxes.....	556,945
Long-Term Liabilities (Note 7):	
Due within One Year.....	2,049,636
Due in More than One Year.....	<u>5,548,937</u>
Total Liabilities.....	<u>9,876,685</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt.....	19,058,396
Restricted for:	
Debt Service.....	537,239
Community Development Projects.....	1,611,055
Other Purposes.....	1,242,761
Unrestricted (Deficit).....	<u>(7,072,383)</u>
<b>TOTAL NET ASSETS.....</b>	<b><u>\$15,377,068</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature .....	\$ 733,273	\$ -	\$ -	\$ -	(\$ 733,273)
General Government.....	4,656,657	-	303,717	-	(4,352,940)
Public Safety .....	411,172	-	-	-	(411,172)
Public Works .....	845,910	-	100,366	-	(745,544)
Culture and Recreation .....	184,623	-	-	-	(184,623)
Health and Sanitation.....	113,852	-	-	-	(113,852)
Solid Waste Disposal .....	866,753	-	-	-	(866,753)
Human Services and Welfare .....	1,763,421	-	1,144,538	-	(618,883)
Urban Development .....	1,751,070	-	2,359,635	643,198	1,251,763
Interest on Long-Term Debt.....	158,477	-	-	-	(158,477)
<b>Total Governmental Activities .....</b>	<b>\$11,485,208</b>	<b>\$ -</b>	<b>\$ 3,908,256</b>	<b>\$ 643,198</b>	<b>(6,933,754)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property Taxes, levied for General Purposes .....					1,617,874
Property Taxes, levied for Debt Service.....					219,440
Volume of Business Taxes.....					667,204
Construction Taxes .....					387,432
Intergovernmental .....					4,429,130
Rent.....					88,986
Miscellaneous .....					149,098
<b>Total General Revenues .....</b>					<b>7,557,174</b>
<b>CHANGE IN NET ASSETS.....</b>					<b>623,420</b>
Net Assets – Beginning of Year .....					14,753,648
<b>NET ASSETS – ENDING OF YEAR.....</b>					<b>\$15,377,068</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

JUNE 30, 2003

	<u>GENERAL</u>	<u>DEBT SERVICE FUND</u>	<u>SBGP FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
Cash and Cash Equivalent.....	\$ -	\$ -	\$ 7,137	\$ 251,156	\$ 258,293
Cash with Fiscal Agent.....	36,252	853,950	-	260,304	1,150,506
Property Taxes.....	300,159	6,970	-	-	307,129
Federal Grant.....	-	-	1,934,836	271,393	2,206,229
Due from Other Funds.....	266,678	-	-	748,508	1,015,186
Others.....	<u>258,908</u>	<u>-</u>	<u>-</u>	<u>114,585</u>	<u>373,493</u>
Total Assets.....	<u>861,997</u>	<u>860,920</u>	<u>1,941,973</u>	<u>1,645,946</u>	<u>5,310,836</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable.....	511,856	280,000	185,680	30,800	1,008,336
Bank Overdraft.....	292,913	-	-	-	292,913
Accrued Interests.....	-	41,621	-	-	41,621
Governmental Units.....	636,590	-	-	-	636,590
Due to Other Funds.....	748,508	2,059	145,238	119,381	1,015,186
Volume of Business Tax.....	429,212	-	-	-	429,212
Local Grants.....	551,567	-	-	-	551,567
Federal Grants.....	<u>-</u>	<u>-</u>	<u>1,601,108</u>	<u>127,733</u>	<u>1,728,841</u>
Total Liabilities.....	<u>3,170,646</u>	<u>323,680</u>	<u>1,932,026</u>	<u>277,914</u>	<u>5,704,266</u>
Fund Balances (Deficit):					
Reserve For:					
Encumbrances.....	326,667	-	-	-	326,667
Debt Service.....	-	537,239	-	-	537,239
Other Purposes.....	36,252	-	9,947	1,368,032	1,414,231
Unreserved (Deficit).....	<u>(2,671,568)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,671,568)</u>
Total Fund Balances (Deficit).....	<u>(2,308,649)</u>	<u>537,239</u>	<u>9,947</u>	<u>1,368,032</u>	<u>(393,431)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) ..</b>	<b><u>\$ 861,997</u></b>	<b><u>\$ 860,919</u></b>	<b><u>\$ 1,941,973</u></b>	<b><u>\$ 1,645,946</u></b>	<b><u>\$ 5,310,835</u></b>

See accompanying Notes to this financial statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

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

JUNE 30, 2003

**Total Fund Balances (Deficit) – Governmental Funds (Page 11) ..... (\$ 393,431)**

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 9) 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:

Depreciable Capital Assets ..... 21,216,396

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:

General (Municipal Revenue Collection Agency) .....	\$ 300,160	
Puerto Rico Electric Power Authority .....	251,407	
SBGP .....	<u>1,601,109</u>	
<b>Total Deferred Revenues .....</b>		<b>2,152,676</b>

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.....	4,243,000	
Compensated Absences.....	975,717	
Claims and Assessments.....	390,121	
Property Tax Advances.....	<u>1,989,735</u>	
<b>Total Long-Term Liabilities.....</b>		<b><u>(7,598,573)</u></b>

**Total Net Assets of Governmental Activities (Page 9) ..... \$15,377,068**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>GENERAL</u>	<u>DEBT SERVICE FUND</u>	<u>SBGP FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>					
Property Taxes.....	\$ 1,317,714	\$ 219,440	\$ -	\$ -	\$ 1,537,154
Volume of Business Taxes.....	667,204	-	-	-	667,204
Federal Assistance.....	-	-	683,788	1,786,780	2,470,568
Intergovernmental.....	4,177,725	-	-	1,139,987	5,317,712
Licenses and Permits.....	387,432	-	-	-	387,432
Rent.....	86,996	-	-	-	86,996
Miscellaneous.....	84,798	-	-	-	84,798
Total Revenues.....	<u>6,721,869</u>	<u>219,440</u>	<u>683,788</u>	<u>2,926,767</u>	<u>10,551,864</u>
<b>EXPENDITURES</b>					
Current:					
Mayor and Municipal Legislature.....	733,273	-	-	-	733,273
General Government.....	4,107,748	-	-	831,917	4,939,665
Public Safety.....	411,172	-	-	-	411,172
Public Works.....	731,508	-	-	114,402	845,910
Culture and Recreation.....	184,623	-	-	-	184,623
Health and Sanitation.....	113,852	-	-	-	113,852
Solid Waste Disposal.....	866,753	-	-	-	866,753
Human Services and Welfare.....	686,075	-	-	1,077,346	1,763,421
Urban Development.....	-	-	673,841	1,439,845	2,113,686
Debt Service:					
Principal.....	-	350,000	-	-	350,000
Interest and Other Charges.....	-	158,477	-	-	158,477
Capital Outlay.....	54,779	-	-	-	54,779
Total Expenditures.....	<u>7,889,783</u>	<u>508,477</u>	<u>673,841</u>	<u>3,463,510</u>	<u>12,535,611</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceed of Note.....	1,275,000	-	-	-	1,275,000
Transfers – In.....	-	54,750	-	595,000	649,750
Transfers – Out.....	(649,750)	-	-	-	(649,750)
Total Other Financing Sources and Uses.....	<u>625,250</u>	<u>54,750</u>	<u>-</u>	<u>595,000</u>	<u>1,275,000</u>
<b>SPECIAL ITEM</b>					
Proceeds from Sale of Equipment.....	64,300	-	-	-	64,300
Net Change in Fund Balances.....	(478,364)	(234,287)	9,947	58,257	(644,447)
Fund Balance – Beginning, as Restated.....	(1,830,285)	771,526	-	1,309,775	251,016
<b>FUND BALANCES – ENDING</b> .....	<b><u>(\$ 2,308,649)</u></b>	<b><u>\$ 537,239</u></b>	<b><u>\$ 9,947</u></b>	<b><u>\$ 1,368,032</u></b>	<b><u>(\$ 393,431)</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, 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, 2003

<b>Net Change in Fund Balances – Total Governmental Funds (Page 13) .....</b>		<b>(\$ 644,447)</b>
Amounts reported for Governmental Activities in the Statement of Activities (Page 10) 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 .....	\$ 417,396	
Depreciation Expense .....	<u>          -</u>	
Excess of Capital Outlay over Depreciation Expense .....		417,396
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. ....		1,588,425
Revenues in the Statement of Revenues that correspond to prior year resources are recorded as revenue in the statement of activities. ....		(95,960)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was .....		(1,275,000)
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. ....		863,685
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 Claims and Assessments .....	(390,121)	
Decrease in Compensated Absences .....	<u>159,440</u>	<u>(230,681)</u>
<b>Change in Net Assets of Governmental Activities (Page 10) .....</b>		<b><u>\$ 623,420</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such 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, 2002. 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 current fiscal year: 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*, 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, 2003, 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.

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**.

The relative importance of each criteria 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, 2003, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**B. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

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

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)

B. Measurement Focus and Basis of Accounting (continuation)

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 the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. 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, 2003, 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 spendable resources) with capital assets and long-term obligations.

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

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

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

The **Statement of Activities** 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.

Governmental Fund Financial Statements

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

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. 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.

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continuation)

C. Financial Statement Presentation (continuation)

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

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

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.

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

**SBGP Fund** – This is the fund used to account for all the transactions of the State 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**.

D. Budgetary Data

The Municipality's 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.
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

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

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

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.

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

**F. Receivable**

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

**G. Inventories**

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

**H. Capital Assets**

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

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

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

**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.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

**I. Compensated Absences (continuation)**

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

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see NOTE 7 on page 21).

<b>BALANCE JULY 1, 2002</b>	<b>NEW ISSUES</b>	<b>RETIREMENTS AND CURRENT MATURATES</b>	<b>BALANCE JUNE 30, 2003</b>	<b>CURRENT PORTION</b>	<b>LONG-TERM PORTION</b>
<u>\$1,135,157</u>	<u>\$ -</u>	<u>\$ 159,440</u>	<u>\$ 975,717</u>	<u>\$ 670,587</u>	<u>\$ 305,130</u>

**J. Insurance**

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

**K. Interfund Transactions**

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

government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

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

**L. Reservations of Fund Balance - Governmental Funds**

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

*Encumbrance* - Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in the budgetary comparison schedule.

*Debt Service* - Represents net assets available to finance future debt service payments.

*Fund Deficit* in the General Fund is primarily attributable to decrease in revenues. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

**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.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

**NOTE 3 OTHERS RECEIVABLES**

As of June 30, 2003, the amount of \$251,408 corresponds to final liquidation of the Puerto Rico Electric Power Authority and \$7,500 is for rent.

**NOTE 4 INTERFUND TRANSFER AND BALANCES**

**A. INTERFUND TRANSFERS**

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 3)

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			TABLE 3
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	<u>\$ 54,750</u>	Debt payment

**B. INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivables and payables at June 30, 2003 are summarized as follows: (See Table 4)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 4 AMOUNT
Other Govern. Funds	General Fund	\$ 748,508
General Fund	Other Govern. Fund	119,381
General Fund	SBGP	145,238
General Fund	Debt Service Fund	<u>2,059</u>
<b>TOTAL</b>		<b><u>\$1,015,186</u></b>

**NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 5)

TABLE 5	AMOUNT
PR Electric Power Authority.....	\$ 7,653
Water Company.....	55,218
General Service Administration.....	8,591
Retirement System Administration.....	555,524
AEELA.....	<u>9,604</u>
Total Due to Governmental Units.....	<u>\$636,590</u>

**NOTE 6 CAPITAL ASSETS**

Following are the information of the Capital Assets (See Table 6):

TABLE 6	BALANCE JULY 1, 2002	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2003
Depreciable Capital Assets:				
Buildings.....	\$20,799,000	260,000	\$ -	\$21,059,000
Machinery and Equipment.....	-	157,396	-	157,396
Total Depreciable Capital Assets....	<u>\$20,799,000</u>	<u>\$ 417,396</u>	<u>\$ -</u>	<u>\$21,216,396</u>

The Municipality is in the process of performing an inventory of all Capital Assets and his activities. At June 30, 2003 only information of some buildings, and machinery and equipment was identified and documentation required by GASB No. 34 was obtained. In addition, no depreciation was determined for these capital assets. Accordingly, the Municipality is not in compliance with accounting principle generally accepted in the United State of America.

**NOTE 7 GENERAL LONG-TERM DEBTS**

**A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE**

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 7 GENERAL LONG-TERM DEBTS (continuation)**

General obligations bonds and notes payable as of June 30, 2003, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
<b>General Obligations Bonds:</b>	
\$100,000, Series 2002, for construction purposes, payable in semiannual installments ranging from \$15,000 to \$25,000, excluding variable interests from 5.0% to 8.0%, through July 1, 2006 .....	\$ 65,000
\$370,000, Series 2002, for construction purposes, payable in semiannual installments ranging from \$15,000 to \$45,000, excluding variable interest from 5.0% to 8.0%, through July 1, 2016 .....	340,000
\$415,000, Series 1991, for construction purposes, payable in semiannual installments ranging from \$15,000 to \$50,000, excluding variable interest from 4.37% to 6.36%, through July 1, 2006 .....	130,000
\$320,000, Series 1997, for construction purposes, payable in semiannual installments ranging from \$20,000 to \$45,000 excluding variable interest from 6.71% to 7.0%, through July 1, 2007 .....	160,000
\$620,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$70,000 to \$110,000, excluding variable interest from 5.62% to 6.0%, through July 1, 2005 .....	210,000
\$514,000, Series 2000, for construction purposes, payable in semiannual installments ranging from \$16,000 to \$39,000, excluding interest at 4.5%, through July 1, 2005 (Water and Waste Disposal) .....	463,000
\$576,000, Series 2000, for construction purposes, payable in semiannual installments ranging from \$14,000 to \$39,000, excluding interest at 4.5%, through July 1, 2023 (Water and Waste Disposal) .....	517,000
\$200,000, Series 2000, for construction purposes, payable in semiannual installments ranging from \$20,000 to \$35,000, excluding variable interest from 7.08% to 7.5%, through July 1, 2007 .....	100,000
\$590,000, Series 2001, for construction purposes, payable in semiannual installments ranging from \$40,000 to \$80,000, excluding interests at 8.0%, through July 1, 2010 .....	455,000
\$239,000, Series 2000, payable in annual installments ranging from \$6,000 to \$10,000, interests from 4.50%, until year 2014 (Water and Waste Disposal) .....	233,000
\$285,000, Series 2003, payable in annual installments ranging from \$5,000 to \$25,000, variable interests from 5.00% to 6.30%, until year 2006 .....	<u>280,000</u>
<b>Total General Obligations Bonds .....</b>	<b><u>2,953,000</u></b>

DESCRIPTION	AMOUNT
<b>Special Obligations Notes:</b>	
\$400,000 Note from Lottery Fund, for operational purposes, payable in annual installments ranging from \$40,000 to \$80,000, excluding interests at 8.0%, through July 1, 2010 .....	\$ 315,000
\$990,000, Special Obligation Bond, payable in annual installments ranging from \$15,000 to \$75,000, variable interests from 5.00% to 6.30% .....	975,000
Total Special Obligations Notes .....	<u>1,290,000</u>
<b>Total General and Special Obligations .....</b>	<b><u>\$ 4,243,000</u></b>

The Municipality's general obligations long-term note retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 8). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2003 are as follows (See Table 7):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2004	\$ 371,000	\$ 244,460	\$ 615,460
2005	399,000	234,396	633,396
2006	320,000	214,530	534,530
2007	222,000	195,564	417,564
2008	190,000	180,895	370,895
2009-2013	882,000	711,740	1,593,740
2014-2018	814,000	440,455	1,254,455
2019-2023	653,000	230,815	883,815
2024-2027	<u>392,000</u>	<u>62,330</u>	<u>454,330</u>
<b>TOTAL</b>	<b><u>\$ 4,243,000</u></b>	<b><u>\$ 2,515,185</u></b>	<b><u>\$ 6,758,185</u></b>

**B. OTHER LONG-TERM DEBTS**

Following are the Other Long-Term Debts (See Table 8):

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003
Property Tax Advance .....	\$ 227,769	\$ -	\$ 16,824	\$ 210,945
Property Tax - Treasury .....	186,123	-	20,661	165,442
Unemployment Fed Prog....	53,005	-	5,889	47,116
Unemployment .....	141,909	99,486	176,129	65,266
Solid Waste Disposal .....	400,000	-	180,000	220,000
Water & Sewer Authority ...	215,120	-	66,240	148,880
Social Security .....	177,868	-	19,800	158,068
Income Tax Withheld .....	529,917	-	58,200	471,717
Income Tax Withheld .....	498,216	-	80,000	418,216
Claims and Assessments ...	-	390,121	-	390,121
P.R. Land Authority .....	94,085	-	10,000	84,085
Compensated Absences.....	<u>1,135,157</u>	-	<u>159,440</u>	<u>975,717</u>
<b>TOTAL .....</b>	<b><u>\$ 3,659,169</u></b>	<b><u>\$ 489,607</u></b>	<b><u>\$ 793,203</u></b>	<b><u>\$ 3,355,573</u></b>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 7 GENERAL LONG-TERM DEBTS (continuation)**

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

The following is a summary of changes in long-term debts for the year ended June 30, 2003: (See Table 9)

TABLE 9 DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2003	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General .....	\$ 3,004,000	\$ 524,000	\$ 575,000	\$ 2,953,000	\$ 336,000	\$ 2,617,000
Special .....	330,000	990,000	30,000	1,290,000	35,000	1,255,000
Others Debts.....	<u>3,659,169</u>	<u>489,607</u>	<u>793,203</u>	<u>3,355,573</u>	<u>1,678,636</u>	<u>1,676,937</u>
<b>TOTAL .....</b>	<b><u>\$ 6,993,169</u></b>	<b><u>\$ 2,003,607</u></b>	<b><u>\$ 1,398,203</u></b>	<b><u>\$ 7,598,573</u></b>	<b><u>\$ 2,049,636</u></b>	<b><u>\$ 5,548,937</u></b>

**NOTE 8 DEBT RETIREMENT**

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

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

**NOTE 9 PROPERTY TAXES**

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

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

The tax rate per annum is 7.85% for real property and 5.88% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 6.82% and 4.85%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 5.72% and 3.75%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The **Municipality** has reached the maximum statutory tax rate

limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

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

Due to the fact that collections of property tax are applied to the advances of property tax paid by the **Municipality** Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2003, the Debt Service Fund presented a receivable of \$6,970 for the collection of additional property taxes during the next 60 days after end of year.

**NOTE 10 VOLUME OF BUSINESS TAX**

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

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

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

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 11 INTERGOVERNMENTAL REVENUES**

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

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

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN**

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

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

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

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will 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 of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

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

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

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows (See Table 10)

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.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)**

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 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately \$297,128. 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, 2003. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

**NOTE 13 CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, with the exception of eight lawsuits related to suppliers, to which the legal counsel has estimate a potential loss of \$390,121. These lawsuits are in process of negotiation.

**B. FEDERAL GRANTS**

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

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

**NOTE 14 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS**

During fiscal year 2002-2003, the Municipality implemented several new accounting standards and an interpretation issued by GASB.

GASBS No. 34 as amended by GASBS No. 37 establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

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

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

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

**Table 11** reconciles the June 30, 2002 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2002.

FUND BALANCE RESTATED	Table 11	
	DEBT SERVICE	OTHER GOVERNMENTAL FUND
Fund Balance, as Reported		
June 30, 2002.....	\$1,077,977	\$ 962,007
Change in Accounting Principles.....	(306,451)	347,768
Beginning Fund Balance, as Restated,		
July 1, 2002 .....	<u>\$ 771,526</u>	<u>\$1,309,775</u>

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**NOTE 15 FUTURE ADOPTION OF ACCOUNTING  
PRONOUNCEMENT**

The Governmental Accounting Standards Board (GASB) issued GASBS No. 39, *Determining Whether Certain Organizations are Component Units*, which is effective for fiscal year beginning after June 15, 2003. The **Municipality** has not adopted the requirement of this statement.

**END OF NOTES**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2003 .....</b>	<b>(\$ 1,830,285)</b>	<b>(\$ 1,830,285)</b>	<b>(\$ 1,830,285)</b>	<b>\$ -</b>
Resources (Inflows):				
Property Taxes.....	1,317,714	1,317,714	1,317,714	-
Volume of Business Taxes.....	703,391	703,391	667,204	(36,187)
Intergovernmental Revenues.....	4,143,260	4,237,012	4,177,725	(59,287)
License and Permits.....	965,818	965,818	387,432	(578,386)
Rent.....	136,000	136,000	86,996	(49,004)
Miscellaneous.....	164,125	164,125	149,098	(15,027)
<b>Total Resources (Inflows) .....</b>	<b>7,430,308</b>	<b>7,524,060</b>	<b>6,786,169</b>	<b>(737,891)</b>
<b>Amounts Available for Appropriation .....</b>	<b>5,600,023</b>	<b>5,693,775</b>	<b>4,955,884</b>	<b>(737,891)</b>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature .....	883,269	832,039	829,461	2,578
General Government.....	2,863,358	3,717,150	4,102,495	(385,345)
Public Safety .....	512,203	417,207	417,296	(89)
Public Works .....	957,894	793,170	778,957	14,213
Health and Sanitation.....	465,026	117,411	116,978	433
Culture and Recreation .....	281,172	187,699	187,586	113
Solid Waste Disposal .....	456,665	662,380	867,153	(204,773)
Human Services and Welfare .....	913,421	698,871	699,852	(981)
Capital Outlays.....	55,900	56,733	54,779	1,954
Transfer to Other Funds.....	41,400	41,400	54,750	(13,350)
<b>Total Charges to Appropriations .....</b>	<b>7,430,308</b>	<b>7,524,060</b>	<b>8,109,307</b>	<b>(585,247)</b>
<b>BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2003.....</b>	<b>(\$ 1,830,285)</b>	<b>(\$ 1,830,285)</b>	<b>(\$ 3,153,423)</b>	<b>(\$ 1,323,138)</b>

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

**Sources/Inflows of Resources:**

Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 26) .....	\$ 4,955,884
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.....	1,830,285
Proceed from sales of capital assets is inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.....	<u>(64,300)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 13).....	<u>\$ 6,721,869</u>

**Uses/Outflows of Resources:**

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 26) .....	\$ 8,109,307
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(250,524)
Prior-Year Expenditures is not outflows of budgetary resources but are <i>expenditures</i> For financial reporting purposes.....	85,750
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(54,750)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 13).....	<u>\$ 7,889,783</u>

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

Budgetary Fund Balance (Deficit), June 30, 2003 (See Page 26) .....	(\$ 3,153,423)
Timing Differences:	
Net Change in Encumbrances .....	(234,397)
Reserved Fund Balance.....	36,252
Non-budgetary Items.....	(595,000)
Other Differences – Proceed of Bonds .....	<u>1,275,000</u>
Unrestricted Fund Balance (Deficit), June 30, 2003 (See Page 11) .....	<u>(\$ 2,671,568)</u>

**END OF THIS SECTION**

**PART II**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Agriculture:			
Direct Programs:			
Water and Waste Disposal Loans and Grants.....	10.770		\$ 638,989
Pass-Through Department of Education:			
Indirect Programs:			
Child and Adult Care Food Program.....	10.558	N/AV	<u>8,367</u>
Total U.S. Department of Agriculture.....			<u>647,356</u>
U.S. Department of Commerce:			
Economic Adjustment Assistance.....	11.307		<u>304,837</u>
U.S. Department of Housing and Urban Development:			
Direct Programs (Cluster):			
Section 8 Housing Choice Vouchers .....	14.871	RQ047V00014	544,656
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP) .....	14.228	02-AB-FC-47 01-FD-47 98-FD-47 97-FD-47	<u>673,842</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,218,498</u>
U.S. Health and Human Services:			
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant.....	93.575		<u>467,808</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS .....</b>			<b><u>\$2,638,499</u></b>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 GENERAL**

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 FEDERAL CFDA NUMBER**

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

**NOTE 4 PASS-THROUGH GRANTOR'S NUMBER**

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

**NOTE 5 LOAN OUTSTANDING**

The **Municipality of Naguabo, Puerto Rico** had the following outstanding balance at June 30, 2003 for Water and Waste Disposal Loans Programs. For these loans the grantor does not impose continuing compliance requirements, as described on the OMB Circular A-133. Therefore, the prior year balances are not considered expenditures on the Schedule of Expenditures of Federal Awards. The amount presented in the Schedule, represent federal expenditures according to modified accrual basis of accounting (see Note 2). The loans outstanding balances were included in the **Municipality's** Long-Term Liabilities (see Note 7 of the Notes to Basic Financial Statements).

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT OUTSTANDING
Water and Waste Disposal Loans and Grants .....	10.770	\$205,939
Water and Waste Disposal Loans and Grants .....	10.770	468,000

**NOTE 6 MAJOR PROGRAMS**

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

**END OF NOTES**



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

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

We have audited the basic financial statements of **Municipality of Naguabo, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2003, and have issued report thereon dated December 18, 2003. 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 instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 03-II-02.

**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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-II-01 and 03-II-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 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. 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. However, of the reportable conditions described above, we consider item 03-II-01 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 18, 2003.

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

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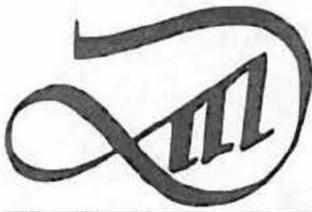
This report is intended solely for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is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

*CPA DIAZ PSC*

CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
December 18, 2003





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

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

**Compliance**

We have audited the compliance of the **Municipality of Naguabo, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. 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, 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, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-9.

**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.

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

Page 2

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-08.

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 that none of the reportable conditions described above is a material weakness.

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

*CPA Diaz PSC*

CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico  
December 18, 2003



**PART III**  
**FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

- Reportable condition(s) identified?  Yes  None Reported
- Material weakness(es) identified?  Yes  No
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

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

Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion

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

Yes  No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
10.760	Water and Waste Disposal System for Rural Communities
11.307	Economic Adjustment Assistance
14.228	State Block Grant Program (SBGP)
14.871	Section 8 Housing Choice Vouchers
95.575	Child Care and Development Block Grant Program

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

\$300,000

Auditee qualified as low-risk auditee?  Yes  No

continue

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION II – FINANCIAL STATEMENT FINDINGS

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<b>FINDING</b>	<b>NUMBER 03-II-01</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION OVER CAPITAL ASSETS</b>
<b>CONDITION</b>	<p>During our examination of <b>Municipality's</b> Capital Assets record and reports we noted the following deficiencies: (1) Incomplete information over properties; (2) Construction in Progress are not accounted for; (3) there is no adequate internal control procedure to assure the proper valuation, ownership and timeliness of recognition of real estate inventory. <i>(This is a prior period finding.)</i></p> <p>Also, depreciation expense for depreciable Capital Assets was not recorded.</p>
<b>CRITERIA</b>	<p>Article 9.002 of State Act Number 81 of August 30, 1991 stated that <b>Municipality</b> should maintain updated Capital Assets accounting records. Also, accounting principles generally accepted in the United States of America require that Capital Assets should be recorded and depreciated, which would increase the assets and expenses of the governmental activities.</p>
<b>CAUSE</b>	<p>Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls and accounting principles.</p>
<b>EFFECT</b>	<p><b>Municipality</b> did not maintain an adequate control of the accountability regarding Capital Assets transactions and records that constituted a departure of accounting principles generally accepted in the United States of America which affect the assets and expenses of the governmental activities.</p>
<b>RECOMMENDATION</b>	<p><b>Municipality</b> should implement internal control procedures in order to comply with this requirement.</p>
<b>MANAGEMENT RESPONSE</b>	<p>Pending the Corrective Action Plan.</p>

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

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<b>FINDING</b>	<b>NUMBER 03-II-02 (SEE FINDING NUMBER 03-III-01)</b>
<b>REQUIREMENT</b>	<b>REPORTABLE CONDITION AND NONCOMPLIANCE OVER BANK ACCOUNTS</b>
<b>CONDITION</b>	During our examination of <b>Municipality's</b> bank accounts we noted the following deficiency: the EDA and Rural Development (Sanitary Sewer Grant) were in a same bank account.
<b>CRITERIA</b>	Subpart B, 7 CFR Section 3015.11 (b) (6), stated that Water and Waste Disposal for Rural Communities funds should have a separate bank account.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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<b>FINDING</b>	<b>NUMBER 03-III-01 (SEE FINDING NUMBER 03-II-02)</b>
<b>FEDERAL PROGRAMS</b>	<b>ECONOMIC ADJUSTMENT ASSISTANCE (NO. 11.307) U.S. DEPARTMENT OF COMMERCE  WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES (CFDA NO. 10.760) U.S. DEPARTMENT OF AGRICULTURE</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT – BANK ACCOUNTS</b>
<b>CONDITION</b>	During our examination of <b>Municipality's</b> bank accounts we noted the following deficiency: the EDA and Rural Development (Sanitary Sewer Grant) were in a same bank account.
<b>CRITERIA</b>	Subpart B, 7 CFR Section 3015.11 (b) (6), stated that Water and Waste Disposal for Rural Communities funds should have a separate bank account.
<b>CAUSE</b>	Evidence that system fails to provide a complete and accurate control of cash.
<b>EFFECT</b>	<b>Municipality</b> did not maintain an adequate control of cash.
<b>RECOMMENDATION</b>	<b>Municipality</b> should open a separate bank account to maintain control over the grant's funds.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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<b>FINDING</b>	<b>NUMBER 03-III-02</b>
<b>FEDERAL PROGRAMS</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>  <b>ECONOMIC ADJUSTMENT ASSISTANCE (NO. 11.307) U.S. DEPARTMENT OF COMMERCE</b>  <b>WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES (CFDA NO. 10.760) U.S. DEPARTMENT OF AGRICULTURE</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>CASH MANAGEMENT – EXCESS CASH BALANCES</b>
<b>CONDITION</b>	<b>Municipality</b> held high cash balances according to the bank statements. This means that federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart I, 24 CFR Section 570.489 (c)(1), Subpart C, 13 CFR Section 143.20 and OMB Common Rules, Subpart C, Section 3019.22 (b), stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for activities, according with Treasury Circular 1075.
<b>CAUSE</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to keep low cash balances.
<b>EFFECT</b>	It could be understood that Federal Program and Finance Departments are requesting funds in excess of the immediate expenditures incurred.
<b>RECOMMENDATION</b>	We recommend to management to revise their bank account balances in order to minimize the amounts held on the accounts.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-03</b>
<b>FEDERAL PROGRAMS</b>	<b>STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS</b>  <b>CHILD CARE AND DEVELOPMENT BLOCK GRANT PROGRAM (CFDA NO. 95.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH ADMINISTRATION FOR CHILDREN AND FAMILIES</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>EQUIPMENT AND REAL PROPERTY MANAGEMENT</b>
<b>CONDITION</b>	The Federal Program Department has a property register that exclude information as acquisition date.
<b>CRITERIA</b>	Code of Federal Regulation, Subpart C, 24 CFR 85.32 (d) (1) and Subpart C, 45 CFR 92.32 (d) (1) (2), stated that property records must be maintained that includes a description of the property, serial number or other identification number, the source of property, percentage of Federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal, sale price of property, a physical inventory of the property must be taken and the result reconciled with the property records at least on every to years, respectively.
<b>CAUSE</b>	There is no internal control procedure implemented to assure that property register includes all necessary information, as required by Subpart C, 24 CFR 85.32 (d) (1) and Subpart C, 45 CFR 92.32 (d) (1) (2) of Common Rules.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 24 CFR 85.32 (d) (1) and Subpart C, 45 CFR 92.32 (d) (1) (2).
<b>RECOMMENDATION</b>	We recommend to management to implement internal control procedures to assure that a property register of federal program is maintained.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending to Corrective Action Plan.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-04</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY TEST</b>
<b>CONDITION</b>	During our Participant Files Test we noted that one (1) participant file did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart F, Section 5.617 (b) stated that as a condition of admission to, or continued occupancy of, any assisted unit, the <b>Municipality</b> shall require the family head and other such family members as is designated, on 24 CFR, Subpart B, Section 5.230 (a), to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the <b>Municipality</b> and to HUD such information as the <b>Municipality</b> and HUD determines to be necessary.
<b>CAUSE</b>	<b>Municipality</b> does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition consent form may authorize the collection of other information from applicants and participant to determine eligibility or level of benefits.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart F, Section 5.617 (b) and Section 5.230 (a).
<b>RECOMMENDATION</b>	We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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<b>FINDING</b>	<b>NUMBER 03-III-05</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>ELIGIBILITY TEST</b>
<b>CONDITION</b>	During our Participant Files Test we noticed that three (3) participants' files have evidence of income that wasn't reported in HUD50058.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Subpart H, Section 887.357 stated that as a condition of reexamination the program should verify a family's income.
<b>CAUSE</b>	<b>Municipality</b> does not review the supporting evidence of income.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with 24 CFR, Subpart H, Section 887.357.
<b>RECOMMENDATION</b>	We recommend management to review all the supporting documents to issue a Form HUD50058.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-06</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD CARE AND DEVELOPMENT BLOCK GRANT PROGRAM (CFDA NO. 95.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH ADMINISTRATION FOR CHILDREN AND FAMILIES</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PERIOD OF AVAILABILITY</b>
<b>CONDITION</b>	It was noted in our tests of <b>Municipality's</b> internal control over disbursement process that three (3) disbursements was made out of period of availability.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 45 CFR Section 92.23 (a), stated that a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
<b>CAUSE</b>	<b>Municipality</b> did not maintain an adequate control over the period of availability of funds.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 45 CFR Section 92.23 (a).
<b>RECOMMENDATION</b>	We recommend to management to revise their availability of funds.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

---

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING</b>	<b>NUMBER 03-III-07</b>
<b>FEDERAL PROGRAM</b>	<b>ECONOMIC ADJUSTMENT ASSISTANCE (NO. 11.307) U.S. DEPARTMENT OF COMMERCE</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>
<b>CONDITION</b>	The model for construction contracts over \$10,000 used by the <b>Municipality</b> did not contain the detailed clauses for compliance with the contractual legal remedies when contractor violates contract term, provisions for termination by the grantee for default, executive order 11246 Equal Employment Opportunity, Davis-Bacon, compliance with the Clean Air Act and Clean Water Act, and compliance Energy Policy and Conservation Act and, as required by the programs.
<b>CRITERIA</b>	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (b) (1-3) and Subpart C, 13 CFR Section 143.36 stated that subgrantee's contract must contain provision in this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
<b>CAUSE</b>	Federal Program and Secretary Municipal Department did not maintain appropriate procurement standard procedures, in order to assure that contractor complies with some requirements.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 24 CFR Section 85.36 (b) (1-3) and Subpart C, 13 CFR Section 143.36 of OMB Common Rules.
<b>RECOMMENDATION</b>	We recommend management to update contract model according with the federal requirement.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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<b>FINDING</b>	<b>NUMBER 03-III-08</b>
<b>FEDERAL PROGRAM</b>	<b>CHILD CARE AND DEVELOPMENT BLOCK GRANT PROGRAM (CFDA NO. 95.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH ADMINISTRATION FOR CHILDREN AND FAMILIES</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE AND INTERNAL CONTROL</b>
<b>NONCOMPLIANCE</b>	<b>PROCUREMENT AND SUSPENSION AND DEBARMENT</b>
<b>CONDITION</b>	During our Grant Disbursement Test, we did not find evidence that at least three (3) qualified quotations were obtained for five (4) purchase orders.
<b>CRITERIA</b>	Subpart C, 45 CFR Section 92.36 (d), states the requirements on procurement procedures.
<b>CAUSE</b>	<b>Municipality</b> did not comply with Federal and State Laws regarding procurement procedures established for the purchase of equipment.
<b>EFFECT</b>	<b>Municipality</b> is not in compliance with Subpart C, 45 CFR Section 92.36 (d).
<b>RECOMMENDATION</b>	We recommend management to follow procurement procedures established by Federal and State Laws.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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<b>FINDING</b>	<b>NUMBER 03-III-9</b>
<b>FEDERAL PROGRAM</b>	<b>SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>
<b>REQUIREMENT</b>	<b>COMPLIANCE</b>
<b>NONCOMPLIANCE</b>	<b>SPECIAL TESTS AND PROVISIONS</b>
<b>CONDITION</b>	During our verification of Housing Quality Standards Enforcement, we noticed that the <b>Municipality</b> does not have a list of failed inspections to verify the corrections of deficiencies within thirty (30) calendar days.
<b>CRITERIA</b>	Code of Federal Regulations, 24 CFR, Sections 982.158 and 982.404 stated that, the <b>Municipality</b> must prepare a list of units that fail to meet Housing Quality Standards.
<b>CAUSE</b>	<b>Municipality</b> has failed to develop a procedure to assure that all deficiencies are corrected within the specific time frame, in order to comply with program regulations and requirements.
<b>EFFECT</b>	<b>Municipality</b> does not comply with 24 CFR, Sections 982.158 and 982.404.
<b>RECOMMENDATION</b>	We recommend management to prepare a list of units that fail the inspection.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Pending the Corrective Action Plan.

**END OF SCHEDULE**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

**FISCAL YEAR 2002**

**Finding Number 02-III-01 Allowable Cost/Cost Principles – Missing documents**

**CFDA Number 10.760**

**Questioned Cost \$7,745**

**Auditee Comments System and procedures corrected.**

**Finding Number 02-III-02 Davis-Bacon Act – Monitoring of contractor payroll**

**CFDA Number 10.760**

**Questioned Cost None**

**Auditee Comments System and procedures corrected.**

**Finding Number 02-III-05 Eligibility – Evidence of lessor ownership**

**CFDA Number 14.871**

**Questioned Cost None**

**Auditee Comments System and procedures corrected.**

**Finding Number 02-III-06 Eligibility – Missing contract**

**CFDA Number 14.871**

**Questioned Cost None**

**Auditee Comments System and procedures corrected.**

**Finding Number 02-III-07 Reporting – Annual Report**

**CFDA Number 10.760**

**Questioned Cost None**

**Auditee Comments System and procedures corrected.**

**FISCAL YEAR 2001**

**Finding Number 01-III-05 Reporting – Annual Report**

**CFDA Number 10.760**

**Questioned Cost None**

**Auditee Comments System and procedures corrected.**

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

**FISCAL YEAR 2002**

**Finding Number** 02-III-03 **Eligibility – HUD-approved release and consent forms**

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** From 11 participants files, six (6) did have the forms in the files, which the auditor did not find. The rest are already corrected. All files will have a checklists to avoid of documents.

**Finding Number** 02-III-04 **Eligibility – Evidence of income**

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** The participants were informed to bring documents. All files will be checked to avoid lack of documents.

**Finding Number** 02-III-08 **Special Tests and Provisions - Inspections**

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** The Inspector proceeded to prepare the list.

**FISCAL YEAR 2001**

**Finding Number** 01-III-02 **Eligibility – HUD-approved release and consent forms**

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** See Finding Number 02-III-03 above.

**Finding Number** 01-III-07 **Special Tests and Provisions - Inspections**

**CFDA Number** 14.871

**Questioned Cost** None

**Auditee Comments** See Finding Number 02-III-08 above.

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continue

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF NAGUABO, PUERTO RICO**

**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

NONE

(4) Audit findings is no longer valid:

NONE

**END OF SCHEDULE**

ESTADO LIBRE ASOCIADO DE PUERTO RICO  
GOBIERNO MUNICIPAL DE NAGUABO  
PO BOX 40  
NAGUABO PR 00718

# HOJA FAXSIMIL

Cubierta de Fax: Este mensaje es confidencial, entiendase solamente para la persona a quien esta remitido, si usted recibe este mensaje por error, favor de enviar a la persona correcta o a nuestra oficina, gracias.

PARA: Sr. Isaac Martinez

NUM. FAX: 787-292-0354

DE: Sr. Wilson Habiza

FECHA / HORA: 6-Mayo-04

ASUNTO: Copia PAC Single Audit 2003

NUM. PAGINAS: \_\_\_\_\_ INCLUYENDO PORTADA

COMENTARIOS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

02  
DEPT DE COMPRAS  
05/06/04 10:40 FAX 787 874 4425

MUNICIPALITY OF NAGUABO

**CORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2003**

03-11-01	Finance Department, Clerk of Property and Finance Director	The Single Audit reports that municipality's Capital Assets record and reports have the following deficiencies: a. Incomplete information over properties, b. Construction in progress are not accounted for; c. There is no adequate internal control procedures to assure the proper valuation, ownership and timeliness of recognition of real estate inventory, d. Depreciation expense for depreciable capital assets was not recorded.	Before long, it to sign a contract with CPA firm to executed these works and to carry out an order of GASB 34.	Pending
03-11-02	Finance Department	Municipality's bank accounts have the following deficiency: the EDA and Rural Development were in same bank account.	The EDA project has been completed (see final acceptance report enclosed). Therefore, the bank account is only of Rural Development.	Done

*R. J. P. Maldonado*

*Margery A. Rivera*  
25 Feb. 2004

*Maire B. Meli*

MUNICIPALITY OF NAGUABO

**CORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2003**

03-111-02	Federal Program and Finance Department, Official Payer and Finance Director	Municipality held high cash balances according to the bank statements.	It was informed to Official Payer and Finance Director the importance to minimize the time elapsing between the transfer of funds by the state and disbursement for activities. In the case of CDBG funds, the disbursement of the documents no more than three (3) days once the funds are deposited in the bank account.	Done
03-111-03	Federal Program and Finance Department, Clerk of Property	The Federal Program Department has a property register that exclude information as acquisition date.	It was informed to Clerk of Property to implement internal control procedures to assure that a property register of Federal Program must be maintained.	Done
03-111-04	Federal Programs, Section 8 Supervisor	One (1) participant file did not have evidence of the HUD approved release and consent forms submitted by the family as required by federal regulation.	This participant file have now a release and consent form, (see evidence enclosed). It was informed to Section 8 Supervisor to examine each participant file to verify a release form.	Done

**CORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2003**

03-111-05	Section 8 Supervisor, Federal Programs	It was noticed that three (3) participant's file have evidence of income that wasn't reported in HUD 500-58	The three (3) participants files have fulfilled a form HUD 50058, (see evidence enclosed). It was informed to Section 8 Supervisor to examine all the supporting documents to issue this form.	Done
03-111-06	Finance Department and Child Care Administrator	Municipality's internal control over disbursement process that three (3) disbursement was made out of period of availability.	It was informed to Accountant of Child Care Program and Finance Director to coordinate that disbursement it realize in the period of availability.	Done
03-111-07	Federal Program and Secretary Municipal	The model for construction contracts over \$10,000 used by the municipality did not contain the detailed clauses for compliance with the contractual legal remedies.	The EDA contract model was used for the project already constructed, which the agency provided (see enclosure). Nevertheless, we will verify each similar contract for compliance the detailed clauses.	Done
03-111-08	Finance Department, Official Purchase and Child Care Administrator	Did not found evidence that at least three (3) qualified quotations were obtained for five (5) purchase order.	The purchase equipment's are specialized for child, with exclusive brand and dispatch by only one seller.	Done

MUNICIPALITY OF NAGUABO

**CORRECTIVE ACTION PLAN FOR THE  
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2003**

03-111-09	Section 8 Inspector Federal	Does not have a list inspections to verify the corrections of deficiencies within thirty (30) calendar days.	The Section 8 Inspector will make list of failed inspections.	Pending

The information stated above has been determined to be accurate based upon information available as of February 20, 2003.

Name:  Hon. Robert Baez Gonzalez

Position: Mayor

ECONOMIC DEVELOPMENT ADMINISTRATION

FINAL ACCEPTANCE REPORT

EDA Award Number: 01-19-57011 Contract # \_\_\_\_\_ of \_\_\_\_\_ Contracts  
 Contract Title: Fishing Village Contract Award Date: February 11, 1998  
Hücares Ward (EDA)

The following persons were present during the inspection:

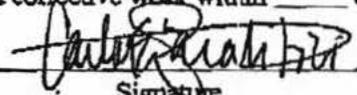
Architect/Engineer: Eng. Hernán González  
 Owner: Municipality of Naguabo  
 Contractor: Modern Technology  
 Economic Development Representative: Eng. Philip J. Saputo  
 Other: \_\_\_\_\_

RECITAL: The work performed under this contract was inspected on Feb. 5, 2003 for the purpose of determining acceptability of construction. The Date of Acceptance is hereby established as June 12, 2003.

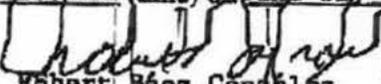
Definition of the term "Date of Acceptance": The "Date of Acceptance" is the date which the Owner may occupy and/or use the facility for the purpose for which it is intended in accordance with the contract documents and all work for the facility has been completed with the exception of minor cleanup and minor corrective action as shown in the Architect/Engineer's list made during the final inspection.

Hernán González  05 sept 2003  
 Architect/Engineer Signature Date

The Contractor agrees that the Date of Acceptance is also the date of commencement of all warranties required by the contract documents and that he/she, the Contractor, has released all liens on the project, including materialmen and mechanics liens or others filed by the Contractor. The Contractor will complete the work on the Architect/Engineer's list of minor cleanup and corrective work within \_\_\_\_\_ days of the Date of Acceptance.

Modern Technology  20/Sept./2003  
 Contractor Signature Date

The Owner accepts the work as complete and will assume full possession thereof at 12:00AM (time) on June 12, 2003 (date).

 Robert Báez González Municipality of Naguabo Sept 30/03  
 Mayor

REPORTING PERIOD:  PROJECT COMPLETION  3 YEARS  6 YEARS

EDA Project No. 01-19-57011

Date of EDA Grant Award: February 11, 1998

III. OUTCOMES (Actual at time of report)

1. Permanent Jobs

- a. Number of Jobs Created: 5
- b. Number of Jobs Retained: 30
- c. Total Number of Direct Jobs: 35

2. Additional dollars invested:

	<i>Direct</i>	<i>Indirect</i>
a. Private sector:	\$ _____	\$ _____
b. Local public:	\$ <u>50,000</u>	\$ _____
c. State:	\$ <u>100,000</u>	\$ _____
d. Other Federal:	\$ _____	\$ _____
e. Totals:	\$ <u>150,000</u>	\$ _____

3. Increase in Local Real or Business Property Tax Base:

- a. Emer value of increase in tax base (prior to any abatement): \$ \_\_\_\_\_
- b. Is the project located in a Federal Empowerment Zone or Enterprise Community? Yes \_\_\_\_\_ No X
- c. Is the project located in a State enterprise zone? Yes \_\_\_\_\_ No X

4. Local Capacity Anticipated and Actual Results: Weigh each objective based on anticipated benefits (total should not exceed 100%) then rate each objective on actual performance (with 10 being the highest).

	Weight (0-100%)	Actual Results (Rate of 1-10)
a. Created infrastructure to support private investment:	<u>50</u>	<u>10</u>
b. Created infrastructure to stimulate private investment:	<u>10</u>	<u>8</u>
c. Stabilized and maintained the local economic base:	<u>20</u>	<u>7</u>
d. Diversified the local economy:	<u>10</u>	<u>8</u>
e. Other non-quantitative benefits	<u>10</u>	<u>9</u>

Specify: \_\_\_\_\_

5. Indirect Benefits: Estimate the number of local businesses that realized significant increases in sales or employment due to indirect project affects (i.e. increased consumer/supplier demand): \_\_\_\_\_

V. Please submit a good quality photograph of the EDA project and/or firms assisted.

AUTHORIZED CERTIFYING OFFICIAL

Signature: Robert Baez Gonzalez Date Report Submitted: Sept. 25, 2003

Typed or Printed Name & Title: Mayor Telephone: (787)874-3108  
Municipality of Naguabo



**Estado Libre Asociado de Puerto Rico  
Gobierno Municipal de Naguabo  
Oficina de Programa Federales**

**AUTORIZACION**

Yo, Jinky Diaz Camareno, autorizo al Municipio de Naguabo y/o a sus Empleados del Programa de Sección 8, donde tengo sometida una solicitud para Subsidio de Renta bajo el Programa de Sección 8, a solicitar y que se les entregue información relacionada con mis ingresos, Cuentas de Bancos, Seguro Social, Trans-Union (Informe de Crédito), Administración de Veteranos, Bienestar Público, Fondo del Seguro del Estado, A.C.C.A. y Departamento del Trabajo.

Toda vez que esta información es requisito para que mi solicitud pueda ser procesada, agradeceré a la Agencia, Patrono u otra institución a quién la misma le sea solicitada, que suministre ésta y por este medio autorizo dicha divulgación.

<u>Jinky Diaz (Hijo)</u>	<u>582-97-9376</u>
NOMBRE JEFE FAMILIA	SEGURO SOCIAL

_____	_____
ESPOSO (A)	SEGURO SOCIAL

DIRECCION: PMB 201 1267 PO Box Naguabo P.R.  
00718

**"HACIA UN NUEVO COMIENZO... PARA NAGUABO"**

P.O. BOX 40 • NAGUABO, P.R. 00718 • TELÉFONOS (787) 874-1095 • FAX (787) 874-3108

**1. Agency**

1a. Agency Name: **MUNICIPALITY OF NAGUABO**

1b. PHA code: **RQ047**

1c. Program: **Voucher** **VO**

1d. Project number (Public/Indian Housing Only): **[ ]**

1e. Building Number (Public/Indian Housing Only): **[ ]**

1f. Building Entrance Number (Public/Indian Housing Only): **[ ]**

1g. Unit Number (Public/Indian Housing Only): **[ ]**

**2. Action**

2a. Type of Action

New Admission  Annual Reexamination  Interim Reexamination  Portability Move-In

Portability Move-Out  End Participation  Other Change of Unit  FSS/VRW Addendum Only

Annual Reexamination Searching  Issuance of Voucher  Expiration of Voucher  Flat Rent Annual Update

Annual HQS Inspection Only  Historical Adjustment  Void

2b. Effective date (mm/dd/yyyy) of action: **02/01/2003**

2c. Correction?  Yes  No

2d. If correction: (check primary reason)

Family income correction  PHA income correction

Family correction (non-income)  PHA correction (non-income)

2e. Date (mm/dd/yyyy) correction transmitted: **[ ]**

2f. Repayment agreement?  Yes  No

2g. Monthly amount of repayment: **[ ]**

2h. Date (mm/dd/yyyy) of admission to program: **02/01/2000**

2i. Projected effective date of next re-examination: **02/01/2004**

2j. Projected date (mm/dd/yyyy) of next flat rent reexamination (public housing only): **[ ]**

2k. FSS Participant now or in the last year?  Yes  No

2m. Special program(s)

Enhanced Voucher  Welfare to Work Voucher

2n. Other special programs: Number 01: **[ ]**

2n. Other special programs: Number 02: **[ ]**

2n. Other special programs: Number 03: **[ ]**

2n. Other special programs: Number 04: **[ ]**

2n. Other special programs: Number 05: **[ ]**

2p. Use if instructed by HUD: **[ ]**

2q. PHA Use Only: **[ ]**

2r. PHA Use Only: **[ ]**

2s. PHA Use Only: **[ ]**

2t. PHA Use Only: **[ ]**

2u. PHA Use Only: **[ ]**

**1. Agency**

1a. Agency Name: MUNICIPALITY OF NAGUABO

1b. PHA code: RQ047

1c. Program: Voucher      VO

1d. Project number (Public/Indian Housing Only):

    Suffix:

1e. Building Number (Public/Indian Housing Only):

1f. Building Entrance Number (Public/Indian Housing Only):

1g. Unit Number (Public/Indian Housing Only):

**2. Action**

2a. Type of Action

New Admission       Annual Reexamination       Interim Reexamination       Portability Move-In

Portability Move-Out       End Participation       Other Change of Unit       FSS/MW Addendum Only

Annual Reexamination Searching       Issuance of Voucher       Expiration of Vouche       Flat Rent Annual Update

Annual HQS Inspection Only       Historical Adjustment       Void

2b. Effective date (mm/dd/yyyy) of action: 12/01/2003

2c. Correction?       Yes       No

2d. If correction: (check primary reason)

Family income correction       PHA income correction

Family correction (non-income)       PHA correction (non-income)

2e. Date (mm/dd/yyyy) correction transmitted:

2f. Repayment agreement?       Yes       No

2g. Monthly amount of repayment:

2h. Date (mm/dd/yyyy) of admission to program: 10/30/2001

2i. Projected effective date of next re-examination: 12/01/2004

2j. Projected date (mm/dd/yyyy) of next flat rent reexamination (public housing only):

2k. FSS Participant now or in the last year?       Yes       No

2n. Special program(s)

Enhanced Voucher       Welfare to Work Voucher

2n. Other special programs: Number 01

2n. Other special programs: Number 02

2n. Other special programs: Number 03

2n. Other special programs: Number 04

2n. Other special programs: Number 05

2p. Use if instructed by HUD

2q. PHA Use Only

2r. PHA Use Only

2s. PHA Use Only

2t. PHA Use Only

2u. PHA Use Only

**6. Assets**

8f. 6g. Column Totals	\$0.00	\$0.00
8h. Passbook Rate (written as decimal)		0.02
8i. Imputed Asset Income: 6f X 6h (if 6f is \$6000 or less, then zero)	\$0.00	
8j. Final Asset Income: Larger of 8g or 8i		\$0.00

**7. Income**

7a. Family Member Name	SANTANA, LILLIAM		Family Member No.	1
7b. Source of income	7d. Dollars per year	7e. Income exclusions (includes income disallowance and ISA-Public Housing only)	7f. Income after Earned Income Exclusion	
General Assistance	\$672.00	\$0.00	\$672.00	
7g. Column Totals		\$0.00	\$672.00	
7L Total Annual Income: 8j + 7g			\$672.00	

**6. Assets**

6f. 6g. Column Totals	\$0.00	\$0.00
6h. Passbook Rate (written as decimal)		0.02
6i. Imputed Asset Income: 6f X 6h (If 6f is \$5000 or less, then zero.)	\$0.00	
6j. Final Asset Income: Larger of 6g or 6i		\$0.00

**7. Income**

7a. Family Member Name	RIVERA, OMayRA	Family Member No.	1
7b. Source of Income	7d. Dollars per year	7e. Income exclusions (includes income disallowance and ISA-Public Housing only)	7f. Income after Earned Income Exclusion
Child support	\$1,560.00	\$0.00	\$1,560.00
Other wage	\$10,920.00	\$0.00	\$10,920.00
7g. Column Totals		\$0.00	\$12,480.00
7i. Total Annual Income: 6j + 7g			\$12,480.00

**MUNICIPIO DE NAGUABO OFICINA DE PROGRAMAS FEDERALES**  
**SECCION 8**  
**NAGUABO, PUERTO RICO 00718**

**NO. DE CONTRATO** 21-22-VO-0024

**ENMIENDA CONTRATO DE ARRENDAMIENTO**

El Municipio de Naguabo enmienda el CONTRATO DE SUBSIDIO entre:

<u>URSULIO MARCANO</u>	<u>OMAYRA RIVERA</u>
Nombre del Arrendador	Nombre del Inquilino
<u>583-03-2848</u>	<u>580-04-1101</u>
Seguro Social del Arrendador	Seguro Social del Inquilino
<u>URB. MANSIONES DE BAIROA CALLE 2</u>	<u>CALLE CELIS 43 (BAJOS)</u>
<u>CAGUAS, PR</u>	<u>NAGUABO PR 00718</u>
Dirección del Arrendador	Dirección del Inquilino

La ENMIENDA consiste en:

Extensión al contrato de Arrendamiento desde el 1 DE DICIEMBRE DE 2003  
 hasta 1 DE DICIEMBRE DE 2004

Cambio en Composición familiar al \_\_\_\_\_

Transferencia a otra unidad al \_\_\_\_\_

Cambio en ingresos al \_\_\_\_\_

Renta Negativa al \_\_\_\_\_

Otros \_\_\_\_\_

<b>RENTA TOTAL</b> _____	\$ <u>400.00</u>
<b>PARTICIPACION FAMILIAR</b> _____	<u>196.00</u>
<b>APORTACION AGENCIA MUNICIPAL</b> _____	<u>204.00</u>
<b>RENTA NEGATIVA</b> _____	\$ <u>-0-</u>

*OMAYRA RIVERA ESCUDERO*  
**OMAYRA RIVERA ESCUDERO**  
 Inquilino

*URSULIO MARCANO*  
**URSULIO MARCANO**  
 Arrendador  
 DEPT DE COMPRAS

NO APLICA

**MUNICIPIO DE NAGUADO  
OFICINA DE PROGRAMAS FEDERALES  
SECCION 0  
NAGUADO, PUERTO RICO 00710**

NO. DE CONTRATO 21-22-V0-0024

**ENMIENDA CONTRATO DE ARRENDAMIENTO**

El Municipio de Naguado amienda el CONTRATO DE SUBSIDIO entre:

<u>OROLIO MARCANO</u> Nombre del Arrendador	<u>OMAYRA RIVERA</u> Nombre del Inquilino
<u>603-02-2040</u> Seguro Social del Arrendador	<u>600-04-1101</u> Seguro Social del Inquilino
<u>URD. MANSIONES DE BAIRGA CALLE 2-319</u> CAGUAS, PUERTO RICO	<u>GALLE CELIS 43(BAJOS)</u> NAGUADO, PUERTO RICO 00710
Dirección del Arrendador	Dirección del Inquilino

La ENMIENDA consiste en:

- Extensión al contrato de Arrendamiento desde el 1 DE DICIEMBRE DE 2002  
hasta 1 DE DICIEMBRE DE 2003
- Cambio en Composición familiar al \_\_\_\_\_
- Transferencia a otra unidad al \_\_\_\_\_
- Cambio en ingresos al \_\_\_\_\_
- Renta Negativa al \_\_\_\_\_
- Otros \_\_\_\_\_

RENDA TOTAL	\$ <u>400.00</u>
PARTICIPACION FAMILIAR	<u>157.00</u>
APORTACION AGENCIA MUNICIPAL	<u>243.00</u>
RENDA NEGATIVA	\$ <u>-0-</u>

*[Signature]*

*[Signature]*  
**OMAYRA RIVERA ESCUDERO**  
Inquilino

Head of Household

SSN

Program

Date Modified

PADRO, JULIO A

583-41-4270

Voucher

03/11/2003

1. Agency

1a. Agency Name

MUNICIPALITY OF NAGUABO

1b. PHA code

HQ047

1c. Program

Voucher

VO

1d. Project number (Public/Indian Housing Only)

Suffix

1e. Building Number (Public/Indian Housing Only)

1f. Building Entrance Number (Public/Indian Housing Only)

1g. Unit Number (Public/Indian Housing Only)

2. Action

2a. Type of Action

- New Admission
- Annual Reexamination
- Interim Reexamination
- Portability Move-In
- Portability Move-Out
- End Participation
- Other Change of Unit
- FSS/W/W Addendum Only
- Annual Reexamination Searching
- Issuance of Voucher
- Expiration of Voucher
- Flat Rent Annual Update
- Annual HQS Inspection Only
- Historical Adjustment
- Void

2b. Effective date (mm/dd/yyyy) of action

02/01/2003

2c. Correction?

Yes  No

2d. If correction: (check primary reason)

- Family Income correction
- PHA Income correction
- Family correction (non-income)
- PHA correction (non-income)

2e. Date (mm/dd/yyyy) correction transmitted

2f. Repayment agreement?

Yes  No

2g. Monthly amount of repayment

2h. Date (mm/dd/yyyy) of admission to program

2i. Projected effective date of next re-examination

02/01/2004

2j. Projected date (mm/dd/yyyy) of next flat rent reexamination (public housing only)

2k. FSS Participant now or in the last year?

Yes  No

2n. Special program(s)

- Enhanced Voucher
- Welfare to Work Voucher

2n. Other special programs: Number 01

2n. Other special programs: Number 02

2n. Other special programs: Number 03

2n. Other special programs: Number 04

2n. Other special programs: Number 05

2p. Use if instructed by HUD

2q. PHA Use Only

2r. PHA Use Only

2s. PHA Use Only

2t. PHA Use Only

2u. PHA Use Only

*Signature*

*50-00-04*

Head of Household  
PADRO, JULIO A

SSN  
583-41-4270 | Voucher

Program

Date Modified  
03/11/2003

**5. Assets**

6f. 6g. Column Totals	\$0.00	\$0.00
6h. Passbook Rate (written as decimal)		0.03
6i. Imputed Asset Income: 6f X 6h (if 6f is \$5000 or less, then zero.)	\$0.00	
6j. Final Asset Income: Larger of 6g or 6i		\$0.00

**7. Income**

7g. Column Totals		
7i. Total Annual Income: 6j + 7g		

**12. Section 8: Vouchers (except owner-occupied manufactured home)**

12a. Number of bedrooms on voucher:

12b. Is family now moving to this unit?  Yes  No

12c. Does the family qualify as a Hard to House family?  Yes  No

12d. Portability? (if no, skip to 12g)  Yes  No

12e. Cost billed per month (put 0 if absorbed)

12f. PHA Number billed

12g. Check all housing types that apply:

Group home (prorate gross rent)

Own manufactured home, lease space       SRO: 1 room occupied by 1 person

12h. Owner name: BUSTELO ROSARIO

12i. Owner  TIN or  SSN (select one)

12j. Payment standard for the family

12k. Rent to owner

12m. Utility allowance, if any

12p. Gross rent of unit: 12k + 12m (or "Space Rent")

12q. Lower of 12j or 12p (if premerger voucher, see InstructionBooklet)

12r. TTP: copy from 9j

12s. Total HAP: 12q minus 12r

**Rent Calculation**

12t. Total family Share: 12p minus 12a

12u. HAP to owner: lower of 12k or 12s

12v. Tenant rent to owner: 12k minus 12u

12w. Utility reimbursement to family: 12s minus 12u, but do not exceed 12m

Head of Household <b>PADRO, JULIO A</b>	SSN <b>13-41-4270</b>	Program <b>Voucher</b>	Date Modified <b>03/20/2003</b>
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**6. Assets**

6f. 6g. Column Totals	\$0.00	\$0.00
6h. Passbook Rate (written as decimal)		0.02
6i. Imputed Asset Income: 6f X 6h (if 6f is \$5000 or less, then zero.)	\$0.00	
6j. Final Asset Income: Larger of 6g or 6i		\$0.00

**7. Income**

7a. Family Member Name <b>CORDERO, MARIA I</b>		Family Member No. <b>2</b>	
7b. Source of Income	7d. Dollars per year	7e. Income exclusions (includes income disallowance and ISA-Public Housing only)	7f. Income after Earned Income Exclusion
General Assistance	\$2,496.00	\$0.00	\$2,496.00
7g. Column Totals		\$0.00	\$2,496.00
7L Total Annual Income: 8j + 7g			\$2,496.00

Head of Household  
PADRO, JULIO A

SSN  
83-41-4270

Program  
Voucher

Date Modified  
03/20/2003

12. Section 8: Vouchers (except owner-occupied manufactured home)

12a. Number of bedrooms on voucher

3

12b. Is family now moving to this unit?

Yes  No

12c. Does the family qualify as a Hard to House family?

Yes  No

12d. Portability? (if no, skip to 12g)

Yes  No

12e. Cost billed per month (put 0 if absorbed)

\$0.00

12f. PHA Number billed

12g. Check all housing types that apply:

Group home (prorate gross rent)

Own manufactured home, lease space

SRO: 1 room occupied by 1 person

12h. Owner name

BUSTELO ROSARIO

12i. Owner  TIN or  SSN (select one)

561180015

12j. Payment standard for the family

\$580.00

12k. Rent to owner

\$375.00

12m. Utility allowance, if any

\$80.00

12p. Gross rent of unit: 12k + 12m (or "Space Rent")

\$455.00

12q. Lower of 12j or 12p (if premerger voucher, see InstructionBooklet)

\$455.00

12r. TTP: copy from 8j

\$25.00

12s. Total HAP: 12q minus 12r

\$430.00

Rent Calculation

12t. Total family share: 12p minus 12s

\$25.00

12u. HAP to owner: lower of 12k or 12s

\$375.00

12v. Tenant rent to owner: 12k minus 12u

\$0.00

12w. Utility reimbursement to family: 12m minus 12u, but do not exceed 12m

\$55.00

## AGREEMENT

THIS AGREEMENT, made this 23<sup>rd</sup> day of August, 2001, by and between the Municipality of Naguabo, hereinafter called "OWNER" and Modern Technology Construction doing business as (an individual,) or (a partnership,) or (a corporation) hereinafter called "CONTRACTOR".

WITNESSETH: That for and in consideration of the payments and agreements hereinafter mentioned:

1. The CONTRACTOR will commence and complete the construction of the **Reconstruction Fishing Village Naguabo, Puerto Rico.**
2. The CONTRACTOR will furnish all of the material, supplies, tools, equipment, labor and other services necessary for the construction and completion of the PROJECT described herein.
3. The CONTRACTOR will commence the work required by the CONTRACT DOCUMENTS within ten (10) calendar days after the date of the NOTICE TO PROCEED and will complete the same within 149 calendar days of the issuance of the NOTICE TO PROCEED, unless the period for completion is extended otherwise by the CONTRACT DOCUMENTS.
4. The CONTRACTOR agrees to perform all of the WORK described in the CONTRACT DOCUMENTS and comply with the terms therein for the sum of \$ 614,000 or as shown in the BID schedule.
5. The term "CONTRACT DOCUMENTS" means and includes the following:
  - (A) Advertisement For BIDS
  - (B) Information For BIDDERS
  - (C) BID
  - (D) BID BOND

- (E) Agreement
- (F) Payment BOND
- (G) Performance BOND
- (H) NOTICE OF AWARD
- (I) NOTICE TO PROCEED
- (J) CHANGE ORDER
- (K) General Conditions
- (L) SUPPLEMENTAL GENERAL CONDITIONS
- (M) DRAWINGS prepared by Hernán González González Engineer and dated June, 2001.
- (N) SPECIFICATIONS prepared or issued by Hernán González González, Engineer dated June, 2001
- (O) ADDENDA: N/A
  - No. \_\_\_\_\_ dated \_\_\_\_\_, 200
  - No. \_\_\_\_\_ dated \_\_\_\_\_, 200

*Handwritten initials: RGG and MM*

- 6. The OWNER will pay to the CONTRACTOR in the manner and at such times as set forth in the General Conditions such amounts as required by the CONTRACT DOCUMENTS.
- 7. This Agreement shall be binding upon all parties hereto and their respective heirs, executors, administrators, successors, and assigns.

IN WITNESS WHEREOF, the parties hereto have executed, or caused to be executed by their duly authorized officials, this Agreement in ( 5 )  
Number of Copies  
 each of which shall be deemed an original on the date first above written.

OWNER:

Municipality of Naguabo,

BY

Name Robert Báez González

Title Mayor

(SEAL)

ATTEST:

*Ana M. Ostain*

*Maria E. Cardona*

for Name Maria Eugenia Cardona  
(Please type)

Title Municipal Secretary

CONTRACTOR:

Modern Technology Construction

BY

by: Name José Rafael Hernández Colón  
(Please Type)

Address P. O. Box 7453  
San Juan, PR 00916-7453

(SEAL)

ATTEST:

Name Elizabeth Lopez De Victoria

(Please Type)

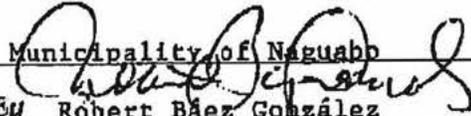
Federal Programs Director

NOTICE TO PROCEED

TO: Mr. José R. Hernández  
Modern Technology Construction  
P. O. Box 7453  
San Juan, PR 00916-7453

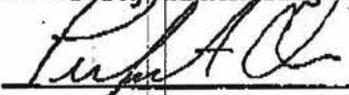
DATE: August 23, 2001  
PROJECT: Reconstruction of  
Fishing Village (EDA funds)

You are hereby notified to commence WORK in accordance with the Agreement dated August 23, 2001 on or before September 4, 2001, and you are to complete the WORK within 149 consecutive calendar days thereafter. The date of completion of all WORK is therefore January 30, 2002.

Municipality of Naguabo  
  
By Robert Báez González  
Title Mayor

ACCEPTANCE OF NOTICE

Receipt of the above NOTICE TO PROCEED is hereby acknowledged by \_\_\_\_\_

  
this the August 23, 2001

for: By José R. Hernández  
Title President  
Employee Identification Number 660-51-8337

GOBIERNO MUNICIPAL DE NAGUABO  
NAGUABO, PUERTO RICO  
CONTRATO: \_\_\_\_\_

CONTRATO DE CONSTRUCCION

-----En Naguabo, Puerto Rico a 23 de agosto de 2001.-----

COMPARECEN

---DE LA PRIMERA PARTE: EL MUNICIPIO DE NAGUABO, PUERTO RICO, Seguro Social Patronal Número 660-43-3490 representando en este acto por su Alcalde, Hon. Robert Báez González, quien es mayor de edad, casado y vecino de Naguabo, Puerto Rico. En lo sucesivo denominado como EL MUNICIPIO.-----

---DE LA SEGUNDA PARTE: Modern Technology Construction, es representado en este acto, por su carácter Presidente, José Rafael Hernández Colón, una corporación con fines de lucro, organizada de acuerdo con las leyes de Puerto Rico e inscrita en el Departamento de Estado, con el número de Registros 89,164 con seguro social patronal número 660-51-8337 y quien es mayor de edad, en lo sucesivo llamado EL CONTRATISTA.-----

---Manifiestan las partes tener la capacidad legal necesaria para este otorgamiento y en tal virtud, libre y voluntaria.-----

EXPONEN

---PRIMERO: Que de acuerdo con la facultad que le confiere al MUNICIPIO la Ley Número 81 del 30 de agosto de 1991, conocida como Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico, ha convenido con EL CONTRATISTA en formalizar un Contrato para la construcción de: Villa Pesquera Segunda Fase a construirse en el Bo. Playa Húcares de Naguabo.-----

---SEGUNDO: Que la Junta de Subastas en su reunión celebrada el día 2 de agosto de 2001, acordó adjudicarle la Subasta formal Número 2001-05 a Modern Technology Construction.-----

---TERCERO: Que para llevar a efecto la obra, EL MUNICIPIO Y EL CONTRATISTA formalizan este contrato sujeto a las siguientes:-----

CLAUSULAS Y CONDICIONES

---UNA: EL CONTRATISTA se compromete a realizar la obra contratada de acuerdo con los términos, condiciones y especificaciones técnicas y planos de la Subasta formal Número 2001-05, los cuales se hacen formar parte de este contrato como si tuvieran en éste reproducidos.-----

---DOS: EL CONTRATISTA suministrará toda la mano de obra, equipo, materiales y servicios para el proyecto antes indicado.-----

---TRES: Por los trabajos a realizarse EL MUNICIPIO pagará al CONTRATISTA la suma de seiscientos catorce mil dólares (\$614,000.00), abonando aquellas sumas de dinero que fueran certificadas, las cuales en ningún caso serán mayor al noventa (90%) del importe total a pagar por cada factura certificada.-----

---CUATRO: EL MUNICIPIO pagará a EL CONTRATISTA la cantidad acordada del Programa EDA.

ABZ  
MK

—CINCO: EL MUNICIPIO retendrá un diez por ciento (10%) del importe total indicado en la cláusula número TRES de este contrato para garantizar el fiel cumplimiento del mismo. Esta cantidad retenida se devolverá después que EL MUNICIPIO compruebe fuera de toda duda y razonabilidad que los trabajos se efectuaron de acuerdo con los términos, condiciones y especificaciones técnicas y planos establecidos en la Subasta formal Número 2001-05 y EL CONTRATISTA ofrezca evidencia de que no tiene pendiente ninguna obligación legal derivada de la ejecución de la obra. El Ingeniero certificado contratado por EL MUNICIPIO será responsable de certificar la buena condición de la obra construida y aceptar finalmente el proyecto, siguiendo las mejores normas y procedimientos de construcción para la eventual devolución del importe retenido.

—SEIS: Una vez se firme este Contrato, se pondrá fecha para una reunión pre-construcción y en la misma se determinará la fecha de comienzo de la obra.

—SIETE: Una vez EL CONTRATISTA ofrezca evidencia de que ha cumplido con todas las obligaciones a las que se compromete relacionadas con la ejecución de la obra y el Ingeniero del Proyecto acepte a nombre de EL MUNICIPIO la misma, se le pagará a aquel el dinero retenido en un término no mayor de treinta (30) días laborables.

—OCHO: EL CONTRATISTA dará comienzo a los trabajos aquí contratados en la fecha que EL MUNICIPIO dé la orden de comienzo de las labores y deberá terminar y entregar la obra en un período de ciento cincuenta (150) días CALENDARIOS.

—NUEVE: Del CONTRATISTA no terminar y entregar los trabajos aquí contratados en el término antes convenido, éste será responsable y pagará a EL MUNICIPIO la suma de quinientos dólares (\$500) por cada día de retraso en la terminación y entrega del proyecto que le certifiquen a menos que el Alcalde apruebe por escrito dicho retraso justificado o haya un "Substantial Completion" del proyecto.

—DIEZ: EL CONTRATISTA se obliga a observar y cumplir con todas las Leyes y Reglamentos vigentes con la jurisdicción Federal, Estatal o Municipal que sean aplicables a este Contrato; incluyendo todo tipo de seguro, tanto de responsabilidad civil por cualquier daño que pudieran ocasionar él o sus empleados y cualquier otro seguro o fianza que se le requiera o sea necesario conforme a Ley o Reglamento aplicable.

—ONCE: EL CONTRATISTA se compromete a instalar señales o avisos necesarios que indiquen la obra en construcción y a todas las medidas necesarias para evitar cualquier tipo de accidente. Asimismo, EL CONTRATISTA protegerá las tuberías, cables y otras utilidades existentes de posibles daños y en caso de rotura reparará los mismos sin costo adicional para EL MUNICIPIO. Bajo ningún concepto EL CONTRATISTA cerrará calle alguna. Si fuere Departamento de Obras Públicas y con la Policía Municipal, con tiempo suficiente antes de comenzar la obra para tomar las medidas necesarias.

—DOCE: EL CONTRATISTA será responsable de dejar el área de trabajo limpia y de restituir las condiciones generales del área a su estado óptimo.

—TRECE: EL CONTRATISTA se obliga a no asignar, transferir, contratar o subcontratar la presente obra de este Contrato sin el previo consentimiento escrito de EL MUNICIPIO.

Deberá proveer los siguientes documentos para validar este Contrato:

- 1) Certificación negativa del CRIM
- 2) Póliza del Fondo del Seguro del Estado
- 3) Responsabilidad Pública
- 4) Certificación de Hacienda
- 5) Bid Bond
- 6) Performance Bond
- 7) Certificación del Fondo del Seguro del Estado

AS  
10/2

---CATORCE: EL CONTRATISTA aceptará órdenes de cambio ya sean éstas aditivas o deductivas, tanto en las partidas a licitar y/u otra partida adicional necesaria para completar el alcance del proyecto, de ser requerido por el Municipio.-----

---QUINCE: EL CONTRATISTA será responsable de obtener, todo permiso, licencia, autorización que sea necesario para la realización de la obra.-----

---DIECISEIS: EL CONTRATISTA certifica y garantiza que ha radicado sus Planillas de Contribución sobre Ingresos para los cinco (5) años contributivos previos al año en que se formaliza este Contrato. Certifica, además, que al presente no tiene deudas por concepto de Contribución Sobre Ingresos ni por ningún otro tipo de contribución, conforme se define dicho concepto en el Boletín Administrativo Número OE-1991-24, emitido por el Gobernador de Puerto Rico el 18 de junio del 1991. También, se reconoce que esta certificación es una condición esencial para el Contrato y de ésta no ser correcta en todo o en parte será causa suficiente para que EL MUNICIPIO pueda dejar sin efecto el mismo y EL CONTRATISTA tendrá que reintegrar EL MUNICIPIO toda suma de dinero recibida bajo este Contrato.-----

---DIECISIETE: Manifiesta EL CONTRATISTA que no tiene litigios en proceso contra alguna instrumentalidad gubernamental o municipal.-----

---DIECIOCHO: EL CONTRATISTA certifica que ningún funcionario o empleado de este Municipio o algún miembro de su unidad familiar tiene, directa o indirectamente, interés económico relacionado con este Contrato. Igualmente certifica que ningún funcionario o empleado tiene algún interés en las ganancias o beneficios producto de este Contrato, conforme a lo dispuesto en el Artículo 3.3. D y E de la Ley de Ética Gubernamental.-----

---DIECINUEVE: Certifica EL CONTRATISTA que no tiene otro contrato vigente con alguna agencia de Gobierno u otro Municipio que conflija con este Contrato.-----

---VEINTE: EL CONTRATISTA certifica que no recibe pago adicional o compensación extraordinaria de otro organismo gubernamental que esté en conflicto con este Contrato.-----

---VEINTIUNO: EL CONTRATISTA releva a EL MUNICIPIO de todo tipo de responsabilidad por accidentes como consecuencia de cualquier acción de EL CONTRATISTA o sus empleados en la ejecución de la obra aquí contratada.-----

---VEINTIDOS: EL CONTRATISTA se compromete y responsabiliza a conservar informes, facturas u otros documentos relacionados con el servicio contratado para ser examinados o copiados por la Oficina del Contralor de Puerto Rico en sus intervenciones. Dichos documentos lo conservará por un periodo no menor de seis (6) años o hasta que se efectúe una intervención por la Oficina del Contralor de Puerto Rico, lo que ocurra primero.-----

---VEINTITRES: EL MUNICIPIO podrá resolver o dar por terminado el presente contrato en cualquier momento antes de su terminación previa notificación escrita al efecto con quince (15) días de anticipación a la fecha en que se pretende resolver, disponiéndose que EL MUNICIPIO podrá ejercitar dicho derecho a su entera voluntad siempre que medie incumplimiento de Contrato alguno por parte de EL CONTRATISTA, y será por justa causa.

ABY  
MK

TAL ES EL CONTRATO que por el presente documento formalizan las partes suscribientes que así lo hacen constar por medio de sus firmas en la última página de este Contrato y sus iniciales en cada una de las páginas del mismo.

Dado en Naguabo, hoy 23 de agosto de 2001.

EL MUNICIPIO

*Robert Báez González*

Robert Báez González  
Alcalde  
Municipio de Naguabo  
Naguabo, Puerto Rico 00718

EL CONTRATISTA

*José Rafael Hernández Colón*

p.r. José Rafael Hernández Colón  
660-51-8337  
P.O. Box 7453  
San Juan, Puerto Rico 00916-7453

Yo, Luis A. Acevedo Ramos, Certifico que existen fondos para la construcción de este proyecto del programa E. D. A.

*Luis A. Acevedo Ramos*  
Luis A. Acevedo Ramos  
Director de Finanzas

*RAG*