

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

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

OFICIO DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2005

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

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

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

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

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

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

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

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13, and 30 and 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



INDEPENDENT AUDITORS' REPORT

Page 2

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

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

Caguas, Puerto Rico
November 9, 2005



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

As management of the Municipality of Orocovis (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 14).

HIGHLIGHTS

Financial Highlights

- The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$14.5 millions (net assets).
- As of June 30, 2005, the Municipality's General Fund (the primary operating fund) reported a deficit of \$272,903, a decrease of \$921,200 in comparison with the prior year. This total amount (\$272,903) will be covered adjusting the actual budget available for spend.
- The Municipality's activities expenses increased \$1.2 million (or 6.6%) in comparison with prior year and revenues show a slightly decrease behaving basically the same. This increase in expenses is primarily due to more resources needed to administrate general government (\$1.1 million or 92% of the total increase). The results of activities for fiscal year 2004-05 produced a decrease in net assets of \$1.1 million contrasting with fiscal year 2003-04 that produced an increase in net assets of \$ 443,925.
- The total cost of the Municipality's mayor programs (Head Start and SBGP) amounted to \$7.9 millions and \$8.1 millions during fiscal year 2004-05 and 2003-04 respectively. This represented a decrease of \$0.2 million (or 2.5%).
- The investment in capital assets for this year is \$0.8 million representing a decrease of \$1.5 million (or 65%) in comparison with prior year.
- Loans principal payments were \$214,000, decreasing long-term debt from \$1.6 millions in 2004. The balance due for compensated absences decreased by \$94,382 during this fiscal year.
- Resources available for appropriation were \$176,673 less than budgeted for the General Fund.

Municipality Highlights

- The Municipality continued with the \$1.2 million Cultural Center (Juan Cartagena Martínez) permanent improvements initiative which will significantly enhance existing cultural facilities for its citizens. Improvements are expected to be finished during next fiscal year.
- During this fiscal year the Municipality didn't continue the construction of the Athletic Track (Pista Atlética Bo. Saltos). The intention is to make an effort to complete it in the next two fiscal years. These facilities will provide sports and recreational activities to adults and children of all families.
- The Municipality continued the construction of a Child's City (Parque Del Niño) and will continue building it in the next two to three fiscal years. These facilities will provide educational and recreational activities to children of low-income families.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

- The Municipality began the construction of a \$3.5 millions (\$0.8 million loan with Government Development Bank and \$2.7 millions Grant from Rural Development Corporation) water and sewer system at Gato Community (Sistema de Alcantarillado para Bo. Gato) which will significantly enhance existing infrastructure facilities for its citizens. The water and sewer system is expected to be finished during next fiscal year.

USING THIS ANNUAL REPORT

The new financial statement's focus (implemented in fiscal year 2002-03) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 5. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 14), combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets (note: infrastructure incurred before July 1, 2002 will be added later) and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the City.

The Statement of Activities (see page 15) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's major funds begins on page 16. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see pages 16) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Notes to the Basic 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 20 to 29.

Infrastructure Assets

The Municipality implemented the major model portions of GASB Statement No. 34 during the last two and current fiscal year. Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The Municipality elected to depreciate these assets, which are planned to be included for fiscal year 2005-2006.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$14.5 million at the close of the recent fiscal year. The following table reflects the condensed statement of Net Assets compared to prior year. For more detailed information see the Statement of Net Assets (page 14).

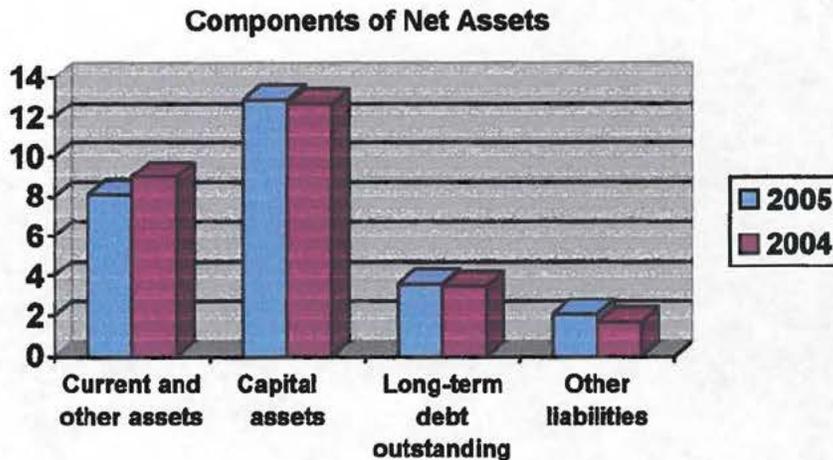
Table 1

**Net Assets
(In millions)**

	Governmental Activities	
	2005	2004
Current and other assets	\$ 8.2	\$ 9.0
Capital assets	<u>12.9</u>	<u>12.7</u>
Total assets	<u>21.1</u>	<u>21.7</u>
Current and other liabilities	2.2	1.7
Long-term debt outstanding	<u>4.4</u>	<u>3.5</u>
Total liabilities	<u>6.6</u>	<u>5.2</u>
Net assets:		
Invested in capital assets, net of debt	11.0	10.8
Restricted	6.4	6.7
Unrestricted	<u>(2.9)</u>	<u>(0.9)</u>
Total net assets	<u>\$ 14.5</u>	<u>\$ 16.6</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



The largest portion of the Municipality's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt that is still outstanding used to acquire those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (30 percent) represents resources that are subject to external restrictions on how they may be used. The remaining portion of the Municipality's net assets (negative 1 percent) of unrestricted deficit is more related to the effect of the new financial statements focus, than on the availability of resources that may be used to meet the Municipality's ongoing obligations to citizens and creditors, subject to certain law requirements. For example, the restricted balance for vested compensated absences established is for the total vested amount as of 6/30/2005, rather than by the final amount that is going to be paid in the future that usually is less than restricted due to vacation and sick leave taken over accumulated. Also the valuation of the capital assets under the new financial statements focus and the method used to compute its accumulated depreciation are factors of consideration to understand the unrestricted deficit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

Table 2

**Changes in Net Assets
(in millions)**

	Governmental Activities	
	2005	2004
<u>REVENUES</u>		
Program Revenues:		
Charges for services	\$ 0.3	\$ 0.4
Federal grants-operating	8.4	9.6
State grants and entitlements-capital	-	-
General Revenues:		
Property taxes	0.3	1.3
Municipal license tax	0.4	0.3
Licenses and permits	0.1	0.1
Intergovernmental	7.6	5.6
Rent	0.1	0.1
Miscellaneous	<u>0.7</u>	<u>0.7</u>
Total Revenues	<u>17.9</u>	<u>18.1</u>
<u>EXPENSES</u>		
Program Expenses:		
General government	\$ 5.4	\$ 4.2
Public safety	0.4	0.3
Public works	2.9	2.4
Culture and Recreation	0.8	0.7
Sanitation	0.3	0.5
Human Services and welfare	1.0	1.1
Urban Development	1.2	1.7
Public Instruction	6.8	6.7
Interest on long-term debt	<u>0.1</u>	<u>0.1</u>
Total Expenses	<u>18.9</u>	<u>17.7</u>
Increase (decrease) in Net Assets	<u>\$ (1.0)</u>	<u>\$ 0.4</u>

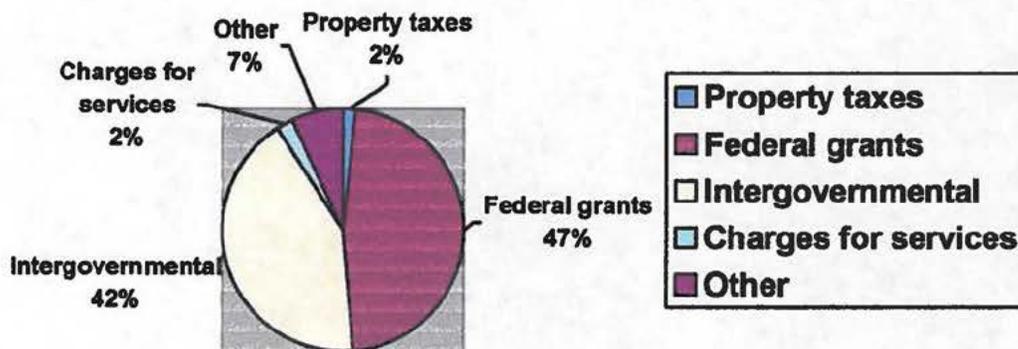
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Revenues

The apparent decrease in property taxes is due to a reclassification as intergovernmental revenue for presentation purposes. The property taxes revenue basically remained the same. The largest portion of the Municipality's revenue (47 percent) reflects its federal grants. Grants (federal and state) are considered recurring revenues, although minor changes from year to year are considered normal. An additional portion of the Municipality's revenue (42 percent) represents intergovernmental revenue. Such revenue consists primarily of funds received from Commonwealth of Puerto Rico, "In lieu of tax" payments from the quasi-public corporation, the Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. The overall decrease of 1.1% without the portion attributable to taxes and grants can be attributable to normal economic environment.

Revenues by Source - Governmental Activities 2004-05



Expenses

Total cost of all programs and services increased by \$1.2 millions. For the most part, increases in expenses paralleled inflation and growth in the demand for services. One significant variance however, was an increase in general government. Table 3 compares the cost of each of the Municipality of Orocovis largest programs with prior year.

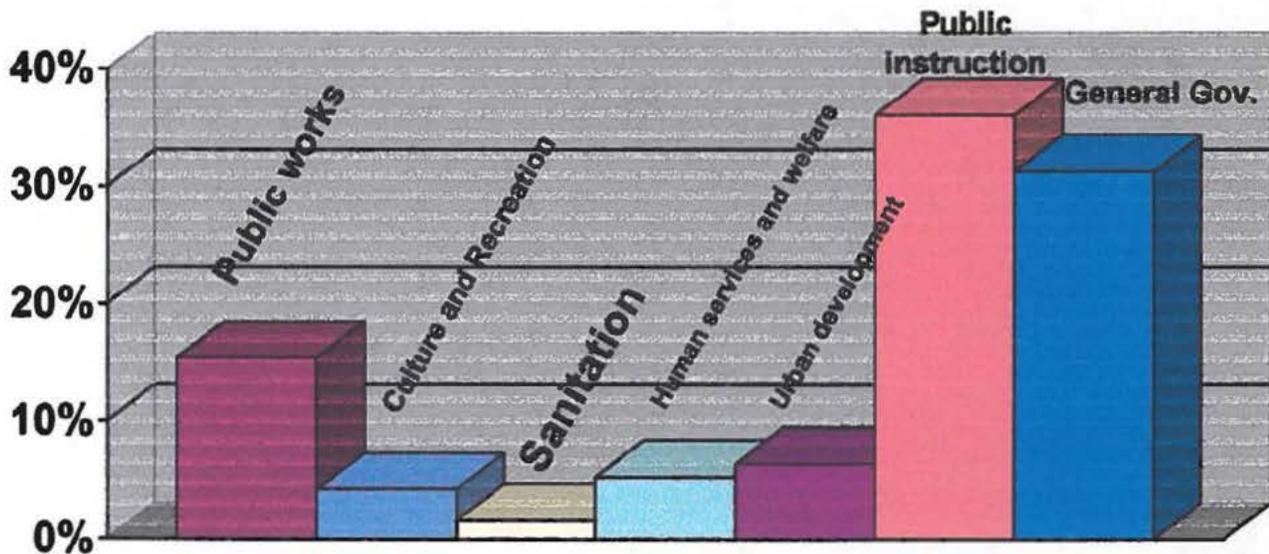
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Table 3
Governmental Activities
(in Millions)**

	Total cost Of services	
	2005	2004
Public works	2.9	2.4
Culture and Recreation	0.8	0.7
Sanitation	0.3	0.5
Human services and welfare	1.0	1.1
Urban development	1.2	1.7
Public instruction	6.8	6.7
General government and others	5.9	4.6
Totals	18.9	17.7

**Expenses by Use - Governmental Activities
2004-05**



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

THE MUNICIPALITY'S FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$1 million which is below last year's total of \$1.9 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$921,200 decrease from a fund balance of \$648,297 in the previous year to a deficit of \$272,903 at the end of the current year. The primary reason for the Governmental fund's deficit in the current year was an excess of expenditures over revenues from the General Fund funds of \$751,950 and a contribution (transfer) of \$169,250 to the Debt Service Fund.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$0.8 million (see page 30 for budget to actual comparisons). The current year operations resulted in a \$0.1 million net loss.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the Municipality had \$ 12.9 million invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$ 0.2 million or 1.57 % from the end of last year.

**Table 4
Capital Assets at Year-end
(Net of Depreciation, in millions)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 1.1	\$ 1.1
Construction in progress	1.6	1.5
Building and improvements	6.5	6.4
Furniture and fixture	0.1	0.2
Equipment and vehicles	0.3	0.3
Heavy equipment	1.0	1.1
Infrastructure	<u>2.3</u>	<u>2.1</u>
Totals	<u>\$12.9</u>	<u>\$12.7</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

This year's major additions included (in millions):

Building improvements	\$ 0.1
Road improvements	0.2

Debt Outstanding

As of year-end, the Municipality had \$4.5 million in debt (bonds and other long-term debts) outstanding compared to the \$3.5 million last year, a 22.0% net increase (considering new issues and debt retirement).

**Table 5
Outstanding Debt at Year-end
(In millions)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
General obligation bonds and notes	\$ 1.9	\$ 1.6
Advances from CRIM	<u>1.2</u>	<u>0.3</u>
Sub-total	3.1	1.9
Compensated absences	<u>1.4</u>	<u>1.5</u>
Totals	<u>\$ 4.5</u>	<u>\$ 3.4</u>

Principal payments of \$ 0.1 million were made by the Municipality during the current year.

The Municipality levies an annual special tax of 1.50% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$ 1.9 million is below the legal limitation. More detailed information about the Municipality's long-term debts is presented in note 7 to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The Mayor and the Municipal Assembly are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The Municipality has maintained a higher than average population growth compared to that of Puerto Rico for the period from 1990 to 2000, averaging annual gains of 12.7%. The average family income of families in the Municipality has been one of the lowest of any of the municipalities of Puerto Rico, and during the period from 1990 to 2000 the growth rate for average family income in the Municipality was comparable to that of Puerto Rico, averaging annual gains of 44.5%. The Municipality has one reasonable unemployment rate compared to all municipalities in Puerto Rico. As of October 2005 the unemployment rate of the Municipality averaged 15.7% as compared to 12.5% in Puerto Rico (Source Department of Labor and Human Resources of the Commonwealth of Puerto Rico).

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2005-06. Amounts available for appropriations (revenues) in the General Fund Budget are \$ 8.5 million, an increase of 13.3% over the 2004-05 original budget of \$ 7.5 million. Property taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the deficit effect on the resources available to expend. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2005-06.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 2nd floor of the City Hall, State Road #156, P.O. Box 2106, Orocovis, Puerto Rico 00720.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

STATEMENT OF NET ASSETS

JUNE 30, 2005

**GOVERNMENTAL
ACTIVITIES**

ASSETS:

Cash and Cash Equivalents.....	\$ 317,486
Investments.....	1,620,202
Receivables (net):	
Federal Grants	5,549,455
Due from Governmental Units.....	122,444
Others	<u>673,818</u>
Capital Assets (Note 1 & 6):	
Land, Improvements, and Construction in Progress	2,707,268
Other Capital Assets, [Net of Depreciation].....	<u>10,186,989</u>
Total Capital Assets	<u>12,894,257</u>
TOTAL ASSETS	<u>21,177,662</u>

LIABILITIES:

Accounts Payable and Accrued Expenses	1,405,425
Accrued Interest.....	7,378
Christmas Bonus.....	167,053
Deferred Revenue.....	595,495
Long-Term Liabilities (Note 7):	
Due within One Year	1,360,167
Due in More than One Year.....	<u>3,145,258</u>
Total Liabilities	<u>6,680,776</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	10,966,257
Restricted for:	
Head Start	4,757,510
Debt Service.....	516,712
Community Development Projects	458,720
Other Purposes.....	692,624
Unrestricted (Deficit)	<u>(2,894,937)</u>
TOTAL NET ASSETS.....	<u>\$14,496,886</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Assembly	\$ 1,089,074	\$ -	\$ -	\$ -	(\$ 1,089,074)
General Government.....	4,280,690	294,000	-	-	(3,986,690)
Public Safety	368,190	-	-	-	(368,190)
Public Works	2,893,710	-	-	-	(2,893,710)
Culture and Recreation	811,154	-	-	-	(811,154)
Health and Sanitation.....	334,628	-	-	-	(334,628)
Human Services and Welfare	1,049,146	-	809,123	-	(240,023)
Urban Development	1,159,228	-	982,783	-	(176,445)
Public Instruction.....	6,767,712	-	6,599,990	-	(167,722)
Solid Waste Disposal	46,150	-	-	-	(46,150)
Interest on Long-Term Debt.....	82,923	-	-	-	(82,923)
Total Governmental Activities	<u>\$18,882,605</u>	<u>\$ 294,000</u>	<u>\$ 8,391,896</u>	<u>\$ -</u>	<u>(10,196,709)</u>

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	74,169
Property Taxes, levied for Debt Service.....	179,419
Volume of Business Taxes.....	398,260
Construction Taxes	113,049
Intergovernmental	7,596,207
Rent.....	115,315
Miscellaneous	<u>655,509</u>

Total General Revenues and Special Items..... 9,131,928

CHANGE IN NET ASSETS **(1,064,781)**

Net Assets – Beginning of Year, As Restated (Note 15)..... 15,561,667

NET ASSETS – ENDING OF YEAR..... **\$14,496,886**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>GENERAL</u>	<u>HEAD START FUND</u>	<u>SBGP FUND</u>	<u>DEBT SERVICE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
Cash and Investments (Note 1)	\$ -	\$ 77,515	\$ 52	\$ -	\$ 239,919	\$ 317,486
Cash with Fiscal Agent	-	-	-	527,000	1,093,202	1,620,202
Receivables:						
Federal Grant	-	4,726,978	602,685	-	219,792	5,549,455
Due from Governmental Units	122,444	-	-	-	-	122,444
Other Receivables	3,000	-	-	-	670,818	673,818
Others	<u>982,702</u>	<u>33,220</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>1,115,922</u>
Total Assets	<u>\$ 1,108,146</u>	<u>\$ 4,837,713</u>	<u>\$ 602,737</u>	<u>\$ 527,000</u>	<u>\$ 2,323,731</u>	<u>\$ 9,399,327</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable and Accrued Liabilities	\$ 826,855	\$ 80,203	\$ 109,743	\$ 85,000	\$ 323,518	\$ 1,425,319
Accrued Interest	-	-	-	7,378	-	7,378
Due to Governmental Units	65,106	-	-	-	-	65,106
Due to Other Funds	133,220	-	34,274	2,910	945,518	1,115,922
Deferred Revenues:						
Volume of Business Tax	272,342	-	-	-	-	272,342
Intergovernmental	83,526	-	-	-	-	83,526
Federal Grants	<u>-</u>	<u>4,558,312</u>	<u>456,808</u>	<u>-</u>	<u>362,071</u>	<u>5,377,191</u>
Total Liabilities	<u>1,381,049</u>	<u>4,638,515</u>	<u>600,825</u>	<u>95,288</u>	<u>1,631,107</u>	<u>8,346,784</u>
Fund Balances (Deficit):						
Reserve For:						
Encumbrances	571,055	-	-	-	-	571,055
Debt Service	-	-	-	431,712	-	431,712
Other Purposes	-	-	-	-	692,624	692,624
Unreserved (Deficit)	<u>(843,958)</u>	<u>199,198</u>	<u>1,912</u>	<u>-</u>	<u>-</u>	<u>(642,848)</u>
Total Fund Balances (Deficit)	<u>(272,903)</u>	<u>199,198</u>	<u>1,912</u>	<u>431,712</u>	<u>692,624</u>	<u>1,052,543</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ 1,108,146</u>	<u>\$ 4,837,713</u>	<u>\$ 602,737</u>	<u>\$ 527,000</u>	<u>\$ 2,323,731</u>	<u>\$ 9,399,327</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

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

JUNE 30, 2005

Total Fund Balances – Governmental Funds (Page 16) \$ 1,052,543

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 14)
are different because:

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

Non Depreciable Capital Assets	\$ 2,707,268	
Depreciable Capital Assets	11,385,736	
Infrastructure Assets	2,531,924	
Accumulated Depreciation	<u>(3,730,671)</u>	
Total Capital Assets		12,894,257

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

Head Start.....	4,558,312	
Community Development Block Grant.....	456,808	
Christmas Bonus Reimbursement	83,526	
Municipal Revenue Collection Center.....	<u>38,918</u>	
Total Deferred Revenues		5,137,569

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	768,000	
Special Bond.....	1,075,000	
Christmas Bonus.....	167,053	
Compensated Absences.....	1,402,228	
Property Tax Advances.....	<u>1,175,197</u>	
Total Long-Term Liabilities.....		<u>(4,587,478)</u>

Total Net Assets of Governmental Activities (Page 14)..... \$14,496,886

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	GENERAL	HEAD START FUND	SBGP FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Property Taxes	\$ 74,169	\$ -	\$ -	\$ 179,419	\$ -	\$ 253,588
Volume of Business Taxes	398,260	-	-	-	-	398,260
Federal Assistances	-	6,770,776	1,185,076	-	809,123	8,764,975
Intergovernmental	6,691,424	-	-	-	861,744	7,553,168
Licenses and Permits	113,049	-	-	-	-	113,049
Rent	115,315	-	-	-	-	115,315
Miscellaneous	949,509	-	-	-	-	949,509
Total Revenues	<u>8,341,726</u>	<u>6,770,776</u>	<u>1,185,076</u>	<u>179,419</u>	<u>1,670,867</u>	<u>18,147,864</u>
EXPENDITURES						
Current:						
Mayor and Municipal Legislature	1,078,484	-	-	-	10,590	1,089,074
General Government	3,605,396	-	-	-	740,166	4,345,562
Public Safety	332,664	-	-	-	-	332,664
Public Works	2,543,141	-	84,762	-	37,410	2,665,313
Health and Sanitation	332,243	-	-	-	-	332,243
Culture and Recreation	632,967	-	-	-	16,697	649,664
Human Services and Welfare	251,878	-	-	-	797,268	1,049,146
Urban Development	265,977	-	1,104,406	-	432,225	1,802,608
Education	-	6,756,872	-	-	-	6,756,872
Solid Waste Disposal	46,150	-	-	-	-	46,150
Capital Outlay	4,776	-	-	-	12,187	16,963
Debt Service:						
Principal	-	-	-	214,000	-	214,000
Interest and Other Charges	-	-	-	82,923	-	82,923
Total Expenditures	<u>9,093,676</u>	<u>6,756,872</u>	<u>1,189,168</u>	<u>296,923</u>	<u>2,046,543</u>	<u>19,383,182</u>
OTHER FINANCING SOURCES (USES)						
Proceed of Note	-	-	-	-	440,000	440,000
Operating Transfers – In	-	-	-	169,250	-	169,250
Operating Transfers – Out	(169,250)	-	-	-	-	(169,250)
Total Other Financing Sources and Uses	<u>(169,250)</u>	<u>-</u>	<u>-</u>	<u>169,250</u>	<u>440,000</u>	<u>440,000</u>
Net Change in Fund Balances	(921,200)	13,904	(4,092)	51,746	64,324	(795,318)
Fund Balance – Beginning, As Restated (Note 14)	548,297	185,294	6,004	379,966	628,300	1,847,861
FUND BALANCES (DEFICIT) – ENDING	<u>\$ 272,903</u>	<u>\$ 199,198</u>	<u>\$ 1,912</u>	<u>\$ 431,712</u>	<u>\$ 692,624</u>	<u>\$ 1,052,543</u>

04/06/2005

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances – Total Governmental Funds (Page 18) (\$ 795,318)

Amounts reported for Governmental Activities in the Statement of Activities (Page 15)
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:

Capital Asset.....	\$ 755,697	
Depreciation Expense.....	<u>(555,258)</u>	
Excess of Capital Outlay over Depreciation Expense.....		200,439

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

Head Start.....	(170,786)	
Community Development Block Grant.....	(202,293)	
Municipal Revenue Collection Center.....	<u>38,918</u>	(334,161)

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..... (440,000)

Governmental funds only report the proceeds received in the current financial
resources and are not reported as revenues in the funds..... (4,123)

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..... 214,000

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

Decrease in Compensated Absences.....		<u>94,382</u>
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Change in Net Assets of Governmental Activities (Page 15)..... (\$ 1,064,781)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Financial Reporting Entity

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

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

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

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

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

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

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

B. Financial Statement Presentation

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

Government-wide Financial Statements

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

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

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:

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Financial Statement Presentation (continuation)

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

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

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

Governmental Fund Financial Statements

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

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

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide

statements, reconciliation is presented and separate explanation for each differences.

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

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

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

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Measurement Focus and Basis of Accounting (continuation)

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

The Municipality reports the following major fund:

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

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

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.

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

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

D. Budgetary Data

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

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

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

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

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

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

E. Cash and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit 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.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

E. Cash and Investment (continuation)

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

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$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	50-60
Improvement Other Than Buildings	45
Infrastructure	10-20
Vehicles and Furniture	5-10
Machinery and Equipment	10-15

I. Compensated Absences

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

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

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

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2005. (See Table 2)

BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2005	CURRENT PORTION	LONG-TERM PORTION
\$1,496,610	\$ -	\$ 94,382	\$1,402,228	\$ 950,523	\$ 451,705

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.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Interfund Transactions

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

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

L. Reservations of Fund Balance – Governmental Funds

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

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 Debt Account includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

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

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.

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2005, no investment is outstanding.

NOTE 3 OTHERS RECEIVABLES

As of June 30, 2005, the amount of \$38,918 corresponds to Intergovernmental Revenue from Municipal Revenue Collection Center.

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>\$169,250</u>	Debt payments
Total		<u>\$169,250</u>	

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows: (See Table 4)

INTERFUND RECEIVABLE	INTERFUND PAYABLE	TABLE 4 AMOUNT
Head Start	General Fund	\$ 33,220
General Fund	SBGP	34,274
General Fund	Debt Service Fund	2,910
General Fund	Other Fund	945,518
Other Fund	General Fund	<u>100,000</u>
Total		<u>\$1,115,922</u>

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2005, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 5)

TABLE 5	AMOUNT
Water and Sewer Authority.....	\$ 13,809
Retirement System Administration	33,761
Department of Labor and Human Resources.....	12,762
Others Agencies	<u>4,774</u>
Total Due to Governmental Units	<u>\$ 65,106</u>

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 7)

TABLE 7	AMOUNT
General Government.....	\$116,620
Public Safety.....	35,526
Public Works and Transportation	228,397
Health and Welfare.....	2,385
Culture and Recreation.....	161,490
Education.....	<u>10,840</u>
Total Depreciation Expenses.....	<u>\$555,258</u>

NOTE 6 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows (See Table 6)

TABLE 6	BALANCE JULY 1, 2004	ADJUSTMENTS	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:					
Land	\$ 1,074,478	\$ -	\$ 24,000	\$ -	\$ 1,098,478
Construction in Progress.....	<u>1,510,942</u>	<u>(167,524)</u>	<u>265,372</u>	<u>-</u>	<u>1,608,790</u>
Total Non-Depreciable Capital Assets	<u>2,585,420</u>	<u>(167,524)</u>	<u>289,372</u>	<u>-</u>	<u>2,707,268</u>
Depreciable Capital Assets:					
Buildings and Buildings Improvements....	8,087,425	167,524	1,995	-	8,256,944
Equipment and Vehicles	710,008	-	78,066	-	788,074
Furniture and Fixtures	329,993	-	34,251	-	364,244
Heavy Equipment.....	1,976,474	-	-	-	1,976,474
Infrastructure	<u>2,179,911</u>	<u>-</u>	<u>352,013</u>	<u>-</u>	<u>2,531,924</u>
Total Depreciable Capital Assets	<u>13,283,811</u>	<u>167,524</u>	<u>466,325</u>	<u>-</u>	<u>13,917,660</u>
Less Accumulated Depreciation:					
Buildings and Buildings Improvements....	(1,662,777)	-	(178,722)	-	(1,841,499)
Equipment and Vehicles	(407,694)	-	(123,143)	-	(530,837)
Furniture and Fixtures	(159,663)	-	(27,802)	-	(187,465)
Heavy Equipment.....	(866,664)	-	(125,989)	-	(992,653)
Infrastructure	<u>(78,615)</u>	<u>-</u>	<u>(99,602)</u>	<u>-</u>	<u>(178,217)</u>
Total Accumulated Depreciation	<u>(3,175,413)</u>	<u>-</u>	<u>(555,258)</u>	<u>-</u>	<u>(3,730,671)</u>
Total Depreciable Capital Assets (Net)....	<u>10,108,398</u>	<u>167,524</u>	<u>(88,933)</u>	<u>-</u>	<u>10,186,989</u>
CAPITAL ASSETS, NET.....	<u>\$12,693,818</u>	<u>\$ -</u>	<u>\$ 200,439</u>	<u>\$ -</u>	<u>\$12,894,257</u>

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS

B. OTHER LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

Following are the Other Long-Term Debts (See Table 9):

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 sent to the Municipality.

TABLE 9	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
DESCRIPTION				
Property Taxes – MRCC.....	\$ 318,599	\$ -	\$ 802,743	\$1,121,342
Property Taxes – Treasury.....	14,022	-	-	14,022
LIMS.....	-	44,723	(4,890)	39,833
Compensated Absences.....	1,496,610	-	(94,382)	1,402,228
TOTAL	\$1,829,231	\$ 44,723	\$ 703,471	\$2,577,425

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

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2005: (See Table 10)

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$441,000, Series 1990, for construction purposes, payable in annual installments ranging from \$9,000 to \$30,000, excluding interests at 5.00% through July 1, 2015	\$ 248,000
\$215,000, Series 2003, for purchase of equipment, payable in semiannual installments ranging from \$25,000 to \$40,000, excluding variable interests up to 4.10% through July 1, 2009	165,000
\$440,000, Series 2005, for purchase of equipment, payable in semiannual installments ranging from \$55,000 to \$70,000, excluding variable interests up to 5.00% through July 1, 2011	440,000
Total General Obligations Bonds	853,000
Special Obligations Notes:	
\$1,220,000, Series 2002, for purchase of equipment, payable in semiannual installments ranging from \$45,000 to \$140,000, excluding variable interest up to 8.00% through July 1, 2016	1,020,000
\$1,100,000, Series 1986, for construction purposes, payable in semiannual installments ranging from \$35,000 to \$55,000, excluding variable interests up to 8.50%, through July 1, 2006	55,000
Total Special Obligations Notes.....	1,075,000
Total General and Special Obligations	\$1,928,000

TABLE 10	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
DESCRIPTION						
General	\$ 457,000	\$ 440,000	(\$ 44,000)	\$ 853,000	\$ 105,000	\$ 748,000
Special	1,185,000	-	(110,000)	1,075,000	115,000	960,000
Others Debts...	1,829,231	44,723	703,471	2,577,425	1,140,167	1,437,258
TOTAL	\$3,471,231	\$ 484,723	\$ 549,471	\$4,505,425	\$1,360,167	\$3,145,258

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.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2005 are as follows (See Table 8):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TABLE 8 TOTAL PAYMENT
2006	\$ 220,000	\$ 118,190	\$ 338,190
2007	171,000	110,617	281,617
2008	182,000	100,479	282,479
2009	198,000	89,444	287,444
2010	214,000	77,545	291,545
2011-2015	803,000	216,750	1,019,750
2016	140,000	11,200	151,200
TOTAL	\$1,928,000	\$ 724,225	\$2,652,225

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The remaining portion belonging to the **Municipality** of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 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** exonerates impositions and payment of property contributions, for a 15-year term, to all natural or judicial persons that comply with the following conditions: new creation and continuing operation of an industry, business or company of private investment that has a payroll of 100 employees or more; within the geographic limits of Orocovis and during the whole previous natural year of the payment date of the property tax contributions. In addition, all industries, businesses or companies that comply with the conditions mentioned above, would receive a credit on the Volume of Business Tax equivalent to the salaries paid. This credit will apply to the contributive year subsequent to the creation or maintenance of a payroll in excess of 100 or more employees. The remaining credit, if any, can not be carried forward to subsequent contributive years and can not be reimbursed to the taxpayer.

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

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

NOTE 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. 0.40% for all other organizations.

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

NOTE 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.

Recognized as a special item is the legal case settlement from the Puerto Rico Electric Power Authority, a component unit of the Commonwealth of Puerto Rico.

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.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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

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

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

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define 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 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 11)

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 11
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.	
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.	
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).	

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

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2005 was approximately \$178,023. 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.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN (continuation)

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

NOTE 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.

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** has expended certain funds in a manner that infringe certain of its restrictive provisions. Of the federal expenditures incurred for the Child and Adult Care Food Program during the Fiscal Year 2004-05, the auditors determined that costs amounting \$100,000 are disallowed. The pass through agency will make the final determination as to the allowability of such costs. Accordingly, a provision for a liability resulting from a reimbursement, if any, to be requested by the Federal Government has been made in the accompanying financial statements, as a Due from General Fund.

NOTE 14 FUND BALANCE RESTATEMENT

Table 12 reconciles the June 30, 2004 Head Start Fund Balance, as previously reported to Beginning Fund Balance as restated, July 1, 2004.

FUND BALANCE RESTATED	Table 12
	HEAD START FUND
Fund Balance, as Previously Reported, At June 30, 2004.....	\$353,442
Adjustment to Revenues.....	(168,148)
Beginning Fund Balance, as Restated, At July 1, 2004	<u>\$185,294</u>

NOTE 15 NET ASSETS RESTATEMENT

Table 13 reconciles the June 30, 2004 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2004.

Net Assets, as Previously Reported, At June 30, 2004	\$16,606,795
Adjustment to Head Start Revenues	(114,377)
Adjustment to SBGP Revenues	(8,770)
Adjustment Due to Christmas Bonus.....	(79,405)
Adjustment to Long-Term Debts.....	<u>(842,576)</u>
Beginning Net Assets, Restated, At July 1, 2004.....	<u>\$15,561,667</u>

NOTE 16 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

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

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

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

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

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

END OF NOTES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2004	\$ 380,974	\$ 380,974	\$ 380,974	\$ -
Resources (Inflows):				
Property Taxes	74,169	74,169	74,169	-
Volume of Business Taxes	291,000	404,577	398,260	(6,317)
Intergovernmental Revenues	6,337,302	6,373,424	6,424,418	50,994
License and Permits	56,000	111,313	113,049	1,736
Rent	60,000	116,000	115,315	(685)
Miscellaneous	<u>653,600</u>	<u>1,171,910</u>	<u>949,509</u>	<u>(222,401)</u>
Total Resources (Inflows).....	<u>7,472,071</u>	<u>8,251,393</u>	<u>8,074,720</u>	<u>(176,673)</u>
Amounts Available for Appropriation.....	<u>7,853,045</u>	<u>8,632,367</u>	<u>8,455,694</u>	<u>(176,673)</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	928,164	1,081,835	1,256,238	(174,403)
General Government	2,741,707	2,857,587	3,240,130	(382,543)
Public Safety.....	387,324	333,482	333,464	18
Public Works.....	1,697,431	2,210,775	2,670,242	(459,467)
Health and Sanitation	419,606	361,421	477,615	(116,194)
Culture and Recreation.....	584,486	630,303	638,771	(8,468)
Solid Waste Disposal.....	160,000	160,000	46,150	113,850
Urban Development.....	80,000	181,713	312,227	(130,514)
Human Services and Welfare.....	258,003	259,999	259,566	433
Capital Outlays	10,000	5,028	5,029	(1)
Transfer to Other Funds	<u>205,350</u>	<u>169,250</u>	<u>169,250</u>	<u>-</u>
Total Charges to Appropriations.....	<u>7,472,071</u>	<u>8,251,393</u>	<u>9,408,682</u>	<u>(1,157,289)</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005.....	\$ 380,974	\$ 380,974	(\$ 952,988)	(\$ 1,333,962)

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Sources/Inflows of Resources:

Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 30).....	\$ 8,455,694
Difference – Budget to GAAP:	
Prior-Year Revenue is not inflows of budgetary resources but are <i>revenues</i> for financial reporting purposes.	267,006
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.	<u>(380,974)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 8,341,726</u>

Uses/Outflows of Resources:

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 30).....	\$ 9,408,682
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.	(571,055)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes.....	425,299
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(169,250)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 9,093,676</u>

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

Budgetary Fund Balance, June 30, 2005 (See Page 30)	(\$ 952,988)
Timing Differences:	
Net Change in Encumbrances.....	145,756
Non-budgetary Items	<u>(36,726)</u>
Unrestricted Fund Balance, June 30, 2005 (See Page 16)	<u>(\$ 843,958)</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 OROCOVIS, PUERTO RICO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program.....	10.558	CCC-007-O	<u>\$ 481,355</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871		205,636
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228		<u>1,189,168</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,394,804</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through State – Office of Governor Authorized Representative (GAR):			
Public Assistant Grants.....	83.544	1136-DR-PR-121	<u>29,905</u>
U.S. Department of Health and Human Services:			
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program	93.600	02-CH-0483	<u>6,756,872</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$8,662,936</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Orocovis, 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 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matter involving internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention 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 data consistent with the assertions of management in the financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-II-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to 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 weakness. However, the reportable condition described above, is also a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-II-01.



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

Page 2

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

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

Caguas, Puerto Rico
November 9, 2005





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

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

Compliance

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

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

In our opinion, **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2005. However, the results of our auditing procedures disclosed other of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-III-02 through 05-III-06.



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

Page 2

Internal Control Over Compliance

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

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-III-01 and 05-III-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. However, of the reportable conditions described above we consider item 05-III-02 to be material weakness.

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

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

Caguas, Puerto Rico
November 9, 2005



PART III

FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

- Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Internal control over financial reporting:
- Reportable condition(s) identified? Yes None Reported
 - Material weakness(es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

- Internal control over major programs:
- Reportable condition(s) identified? Yes None Reported
 - Material weakness (es) identified? Yes No
- Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Voucher
93.600	Head Start Program
10.558	Child and Adult Care Food 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 OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 05-II-01 (SEE FINDING 05-III-02)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE PASS-THROUGH STATE – ADMINISTRATION FOR CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of internal control over the disbursement process, that the Municipality made a transfer of funds for the amount of \$100,000 from the Child Care bank account to the Municipality's current operations bank account to pay general government expenditures.
CRITERIA	According to OMB Circular A-87, Attachment A (C) (1) (b) states that to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of this Circular.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-01
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION FOR CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENTS	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of internal control over the disbursement process that supporting documents related to one (1) issued check were not available for our evaluation, one (1) voucher did not have the required signatures, and one (1) payment was not pre-audited.
CRITERIA	Code of Federal Regulations, 45 CFR, Part 74, Subpart C, Section 74.21(b)(3), states that the recipient's financial management systems shall provide for effective control over, and accountability for all funds, property and other assets. In addition, regulation states that recipients shall adequately safeguard all such assets and assure them are used solely for authorized purposes. According to OMB Circular A-87, Attachment A (C) (1) (c), and (j) states that to be allowable under Federal awards, costs must be authorized or not prohibited under State or local laws or regulations, and be adequately documented.
CAUSE	Municipality has not established adequate internal controls to assure that before a payment is made, it is authorized, has all the supporting documents and is pre-audited.
EFFECT	Municipality made payments that were not authorized, did not have all the supporting documents and were not pre-audited.
RECOMMENDATION	We recommend Municipality to establish the necessary procedures to ensure that payment vouchers are properly processed before approving any disbursement of funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-02
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE PASS-THROUGH STATE – ADMINISTRATION FOR CHILDHOOD CARE AND INTEGRAL DEVELOPMENT
REQUIREMENTS	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of internal control over the disbursement process, that the Municipality made a transfer of funds for the amount of \$100,000 from the Child Care bank account to the Municipality's current operations bank account to pay general government expenditures.
CRITERIA	According to OMB Circular A-87, Attachment A (C) (1) (b) states that to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of this Circular.
CAUSE	Municipality used Federal Funds to paid general government expenditures not related to the Child and Adult Care Food Program.
EFFECT	Municipality incurred in illegal transfer of funds, causing questioned costs.
RECOMMENDATION	We recommend Municipality to refund the amount of \$100,000 to the Child and Adult Care Food Program. Also, we recommend Municipality to establish the internal controls necessary to be sure that the federal funds are used for their designated purposes.
QUESTIONED COSTS	\$100,000
MANAGEMENT RESPONSE	We reimbursed the amount of \$100,000 on December 19, 2005. Internal control procedures were placed in order to prevent similar situations.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-03
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Housing Quality Standard Inspections test, we noticed that the Municipality did not perform supervisory quality control HQS inspections as required by federal regulation. <i>This is a prior year audit finding.</i>
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.405 (b) states that the Municipality must conduct supervisory quality control HQS inspections. Also, 24 CFR, Subpart A, Section 985.2 (b) states that in order to conduct the supervisory quality control HQS inspection the Municipality must select an annual sample of files or records drawn in an unbiased manner and have them reviewed by a Municipality's supervisor (or by another qualified person other than the one who performed the original work) to determine if the work documented conforms to program requirements.
CAUSE	Municipality did not perform supervisory quality control HQS inspections as required by federal regulation. Also, Municipality did not fully comply with HUD requirements related to the SEMAP report.
EFFECT	Municipality can not ascertain if the houses comply with the minimum requirements of the regulation.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to make sure that inspections are performed in accordance to, and in compliance with federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-04
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our verification of Housing Quality Standards inspections, we noticed that the Municipality did not verify or document if corrections were made at the end of the correction period for those files submitted for verification of repairs. <i>This is a prior year audit finding.</i>
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 states that the Municipality must not make any housing assistance payments for a dwelling unit that fails to meet the Housing Quality Standards, unless the responsible person (owner and/or participant) corrects the defect within the period specified by the Municipality , and the Municipality verifies the correction. Section 982.404(b) states that the family is responsible for a breach of the HQS that is caused by them. If an HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family – caused defects, the family must correct the defect within no more than 30 calendar days.
CAUSE	Federal Programs Department did not implement the necessary procedures to assure the HQS Enforcement was made. Also, Municipality did not fully comply with HUD requirements related to the SEMAP report.
EFFECT	Federal Programs Department is not enforcing the family's obligations and applying the sanctions established by the regulations.
RECOMMENDATION	We recommend management to take all necessary measures to make sure that the HQS Enforcement is made.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-05
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test we noticed that participant's files do not have evidence of an annual unit inspection and evidence of a periodic unit inspection during the fiscal year 2004-05. Also, we noticed that there was a file that did not have evidence that a unit inspection report were made.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.405 (a) states that the Municipality must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards. 24 CFR Section 982.305 (b) (1) establishes that for approval the HA has inspected the unit and determined that the place is satisfactory. Also, 24 CFR, Subpart D, Section 982.158 states that the Municipality must prepare unit inspection reports.
CAUSE	Federal Programs Department did not implement the necessary procedures to assure that the houses within the program are safe for the participants.
EFFECT	The Federal Programs Department of the Municipality could have participants living in unsafe houses.
RECOMMENDATION	We recommend management to take all necessary measures to make sure that all the required inspections are made.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 05-III-06
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our utility allowance schedule test, we noticed that the schedule has not been reviewed as required by Federal Regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.517 (4) (c) states that the Municipality must review its schedule of utility allowance each year, and must adjust its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. Also, the Municipality must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.
CAUSE	Federal Programs Department did not implement the necessary procedures to assure that the utility schedule is being revised in accordance with regulations. Also, the Municipality did not fully comply with HUD requirements related to the SEMAP report.
EFFECT	If there is a change of 10% or more in the utility rate and that change is not revised, the Federal Programs Department of the Municipality will not update the utility allowance schedule as required.
RECOMMENDATION	We recommend management to take all necessary measures to be sure that the utility schedule is being revised as required.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF OROCOVIS, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2004

Finding Number 04-III-01 **Special Tests and Provisions**
CFDA Number 93.600
Questioned Cost None
Auditee Comments System and procedures corrected.

FISCAL YEAR 2003

Finding Number 03-III-02 **Special Tests and Provisions**
CFDA Number 93.600
Questioned Cost None
Auditee Comments System and procedures corrected..

FISCAL YEAR 2002

Finding Number 02-III-03 **Special Tests and Provisions**
CFDA Number 93.600
Questioned Cost None
Auditee Comments System and procedures corrected.

FISCAL YEAR 2001

Finding Number 01-III-02 **Special Tests and Provisions**
CFDA Number 93.600
Questioned Cost None
Auditee Comments System and procedures corrected.

continue

FORM **SF-SAC**
(5-2004)

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

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

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

**RETURN
TO**

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

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

1. Fiscal period ending date for this submission Month Day Year 06 / 30 / 2005 Fiscal Period End Dates Must Be In 2004, 2005, or 2006		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - <input type="text"/> Months		4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse	
5. Auditee Identification Numbers			
a. Primary Employer Identification Number (EIN) 66 - 0433491		b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	
d. Data Universal Numbering System (DUNS) Number <input type="text"/> - <input type="text"/> - <input type="text"/>		c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.	
		e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	
		f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.	

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF OROCOVIS

b. Auditee address (Number and street)
P.O. BOX 2106
City
OROCOVIS
State ZIP + 4 Code
PR 00720 -

c. Auditee contact Name
JESUS E. COLON-BERLINGER
Title
MAYOR

d. Auditee contact telephone
(787) 867 - 5000

e. Auditee contact FAX
(787) 867 - 0455

f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
CPA DIAZ-MARTINEZ, PSC

b. Auditor address (Number and street)
P.O. BOX 8369
City
CAGUAS
State ZIP + 4 Code
PR 00726 - 8369

c. Auditor contact Name
JOSE E. DIAZ MARTINEZ
Title
PRESIDENT

d. Auditor contact telephone
(787) 746 - 0510

e. Auditor contact FAX
(787) 746 - 0525

f. Auditor contact E-mail
CPADIAZMARTINEZ@HOTMAIL.COM

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

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

Signature of certifying official Date
Month Day Year
01 / 13 / 06

Printed Name of certifying official
HON JESUS E COLON BERLINGERI

Printed Title of certifying official
MAYOR

Signature of auditor Date
Month Day Year
01 / 11 / 06

CPA Diaz-Martinez, PSC

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

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

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

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

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

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

PART III FEDERAL PROGRAMS (To be completed by auditor)

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

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

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

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

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

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

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

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

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

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

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

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

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

FORM SF-SAC (6-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
Federal Agency Prefix ¹ (a)	Extension ² (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	If yes, type of audit report 3 (h)		
1 0	.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 481,355.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	B	05-III-02
1 4	.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 205,636.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	N	05-III-03, 05-II-04, 05-III-05, 05-III-06
1 4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 1,189,168.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 3	.544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 29,905.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 6,756,872.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	B	05-III-01
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED				\$ 8,662,936.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

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

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

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

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

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

⁵ N/A for NONE

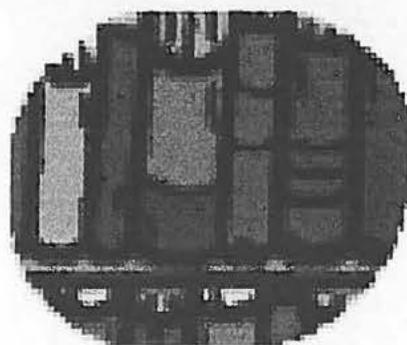
PART I Item 5 Continuation Sheet

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

f. List the multiple DUNS covered in the report.

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

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



MUNICIPIO DE OROCOVIS

**PLAN DE ACCIÓN CORRECTIVA
SINGLE AUDIT**

30 DE JUNIO DE 2005

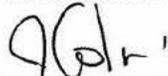
MUNICIPALITY OF OROCOVIS

**CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2005**

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
05-III-01	Mr. Ernesto Mercado Head Start Project Accountant	The Municipality of Orocovis established the necessary procedures to ensure that payment vouchers are properly processed before approving any disbursement of funds.	Establish adequate internal controls to assure that before a payment is made, it is authorized have all the supporting documents and pre-audited.	February 28, 2006
05-III-02	Mr. Rafael Rivera Finance Director	The Municipality of Orocovis refunded the amount of \$100,000 to the Child and Adult Care Food Program, and establishes the internal controls necessary to be sure that the federal funds are used for their designated purposes.	The internal controls have been implemented to make sure that the federal funds are used for the designated purposes.	February 28, 2006
05-III-03	Mr. Francisco Guevara Director Federal Programs	The housing inspector will take in consideration the spaces provided in the inspection sheet to qualify the inspected dwelling unit if it pass, fail or is in conclusion in order to comply with the Code of Federal Regulations, 24 CFR Subpart 1, Section 982.40 (b).	The Director will record the quality control of the inspections. He will visit a 10% of the units.	April 2006

DEL COMISIONADO.
 AGUSTOS MUNICIPIO
 06 FEB 23 AM 10:41
 RECIBIDO
 UNIDAD DE CORREO

The information stated above has been determined to be accurate based upon information available as of _____


Jesús E. Colón Berlinger
 Name
 Position: Mayor

MUNICIPALITY OF OROCOVIS

**CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2005**

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
05-III-04	Mr. Manuel Rivera	The Municipality of Orocovis, take all necessary measures to make sure that the HQS Enforcement is made.	The inspector will be responsible to notify the owner in writing the deficiencies of the unit. He should re inspect the units to verify that the repairs have been done.	March 2006
05-III-05	Mrs. Karina Rivera Section 8 Coordinator	During the Fiscal year 04-05, the inspections were not made, because there was not an appointed person for that position.	The Municipality of Orocovis appointed an inspector, Mr. Manuel Rivera, who is going to be responsible for the inspections of the units. He will be responsible to verify (make certain) that the requirements are met.	February 1 to 28, 2006
05-III-06	Mrs. Karina Rivera Section 8 Coordinator	The Federal Programs Department of the Municipality of Orocovis, take all necessary measures to be sure that the utility schedule is being revised as required.	Participants were required to bring evidence of utilities (water and electricity bills), to determine if it requires a change of a 100% or more.	February 2006

Initials SEB