

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE PEÑUELAS

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF PEÑUELAS

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF PEÑUELAS

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Peñuelas
Peñuelas, 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 Peñuelas, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 the provisions of the Office of Management and Budget 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 the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 12, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

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

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Peñuelas, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments, and has adopted paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, as of June 30, 2003. In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Peñuelas, Puerto Rico** taken as whole. 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 respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 8, 2003

Stamp No. 1942296 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

This discussion and analysis presents the highlights of financial activities and financial position for the **Municipality of Peñuelas** (Municipality). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Municipality.

FINANCIAL HIGHLIGHTS

The Municipality's net assets decreased by \$1,506,966 (or 17 %)

Governmental activities revenue amounted to \$20,737,707 for the year ended June 30, 2003:

Program Revenue	\$ 9,203,432
General Revenue	\$11,534,275

Overall Municipality's program costs amounted to \$ 16,081,669

Using This Annual Report

The Municipality's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the Municipality. The components of the report include the following:

Management's Discussion and Analysis. This section of the report provides financial highlights, overview and economic factors affecting the Municipality.

Basic Financial Statements. Includes Statements of Net Assets, Statement of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Municipality.

The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets that the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report (continued)

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The Municipality's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds". Budgetary comparison statements are presented for the General Fund and the Transit Fund (the sole major special revenue fund). Statements for the Municipality's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in fund net assets, and cash flows.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Municipality's financial condition.

Other Supplementary Information. Readers desiring additional information on non-major funds can find it in the combining Statements of Non-major Funds and/or the Supplementary Information-Budgetary comparison sections of this report. Components within this section include:

Combining Statements. Major funds are included within the Basic Financial Statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.

Budgetary Comparisons. Budgetary information for all funds, except General and Debt Service, which are presented within the Basic Financial Statements, is presented here.

Capital Assets and Other Financial Schedules complete the Financial Section of the report.

Statistical Section. Trend information and demographics.

Reports by Independent Certified Public Accountants. Supplemental communication on Municipality compliance and internal controls as required by Federal Agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the reporting of infrastructure assets during the current year. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined negative net assets (excess of liabilities over assets) totaled \$7,805,216 at the end of 2003, compared to negative net assets (excess of liabilities over assets) of \$9,312,182 at the end of the previous year.

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$12,613,730
Capital assets	<u>11,086,021</u>
Total assets	<u>23,699,751</u>
Current liabilities	4,796,973
Noncurrent liabilities	<u>23,558,922</u>
Total liabilities	<u>28,355,895</u>
Invested in capital assets, net of related debt	2,256,971
Restricted	9,765,047
Unrestricted	<u>(16,678,162)</u>
Total net assets	<u>\$ (4,656,144)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets

The Municipality's net assets increased by \$4,656,038. Approximately 42% percent of the Municipality's total revenue came from taxes, while 55% percent resulted from grants and contributions, including federal aid. Charges for Services provided less than 1% percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare, public works, general government, culture and recreation, and public safety. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities
June 30, 2003

Program revenues:	
Charges for services	\$194,933
Operating grants and contributions	5,233,569
Capital grants and contributions	3,774,930
General revenues:	
Property taxes	4,594,109
Municipal license tax	3,621,384
Other local taxes	586,922
Grants and contributions not restricted to specific programs	2,530,658
Interest and investment earnings	186,760
Miscellaneous	<u>14,442</u>
Total revenues	<u>\$20,737,707</u>
Expense:	
General government	3,844,571
Public safety	902,536
Public works	3,611,082
Culture and recreation	1,034,697
Health and welfare	5,520,382
Economic development	449,544
Community development	35,853
Education	130,084
Interest on long-term debt	<u>552,920</u>
Total expenses	<u>16,081,669</u>
Change in net assets	4,656,038
Net assets, beginning of year	<u>(9,312,182)</u>
Net assets, end of year	<u>\$(4,656,144)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$7,816,757, an increase of \$1,921,015 in comparison with the prior year. There are reservations of fund balance amounting to \$10,009,726. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$244,679), 2) to pay debt service (\$1,423,345), 3) to pay for capital projects (\$6,274,159) and 4) for other purposes (\$2,067,543).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a deficit of \$1,948,290.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$18,444,390, net of accumulated depreciation of \$7,358,369, leaving a net book value of \$11,086,021. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2,835,482. Depreciation charges for the year totaled \$672,696.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$1,994,317 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Debt Administration (continued)

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal year.

FINANCIAL CONTACT

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, please contact the Municipality's Finance Director at P.O. Box 10, Peñuelas, Puerto Rico 00624-0010.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,031,021
Cash with fiscal agent	3,492,146
Accounts receivable:	
Intergovernmental	117,844
Federal	972,719
Capital assets	
Land, improvements, and construction in progress	3,808,195
Other capital assets, net of depreciation	7,277,826
Total capital assets	<u>11,086,021</u>
Total assets	<u>23,699,751</u>
 Liabilities	
Accounts payable and accrued liabilities	585,318
Due to other governmental entities	1,236,561
Claims and Judgments	60,000
Deferred revenues:	
Municipal license tax	2,267,586
Federal grant revenues	647,508
Noncurrent liabilities:	
Due within one year	2,136,409
Due in more than one year	<u>21,422,513</u>
Total liabilities	<u>28,355,895</u>
 Net Assets	
Invested in capital assets, net of related debt	2,256,971
Restricted for:	
Capital projects	6,274,159
Debt service	1,423,345
Other purposes	2,067,543
Unrestricted (deficit)	<u>(16,678,162)</u>
Total net assets	<u>\$ (4,656,144)</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 3,844,571	\$ 1,350	\$ -	\$ 875	\$ (3,842,346)
Public safety	902,536	515	92,150	1,569	(808,302)
Public works	3,611,082	41,568	217,478	1,227,873	(2,124,163)
Health and welfare	5,520,382		4,545,209		(975,173)
Culture and recreation	1,034,697	51,500	140,007	2,454,613	1,611,423
Economic development	449,544		99,696		(349,848)
Community development	35,853		117,975	90,000	172,122
Education	130,084	100,000	21,054		(9,030)
Interest on long-term debt	552,920				(552,920)
Total governmental activities	\$ 16,081,669	\$ 194,933	\$ 5,233,569	\$ 3,774,930	(6,878,237)
General revenues:					
Property taxes					4,594,109
Municipal license tax					3,621,384
Other local taxes					586,922
Grants and contributions not restricted to specific programs					2,530,658
Interest and investment earnings					186,760
Miscellaneous					14,442
Total general revenues					11,534,275
Change in net assets					4,656,038
Net assets - beginning					(9,312,182)
Net assets - ending					\$ (4,656,144)

Commonwealth of Puerto Rico
Municipality of Peñuelas
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Other Federal Grants	Special Revenue Fund Head Start	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 141,115	\$ 2,594,901	\$ 318,432	\$ 379,561	\$ 4,279,842	\$ -	\$ 317,170	\$ 8,031,021
Cash with fiscal agent	67,066	7,418			1,994,317	1,423,345		3,492,146
Accounts receivable:								
Intergovernmental	45,410	72,434						117,844
Federal Grants			408,228	564,491				972,719
Due from other funds	<u>1,601,449</u>							<u>1,601,449</u>
Total assets	<u>\$ 1,855,040</u>	<u>\$ 2,674,753</u>	<u>\$ 726,660</u>	<u>\$ 944,052</u>	<u>\$ 6,274,159</u>	<u>\$ 1,423,345</u>	<u>\$ 317,170</u>	<u>\$ 14,215,179</u>
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities	\$ 239,183	\$ 125,647	\$ 420	\$ 220,068	\$ -	\$ -	\$ -	\$ 585,318
Due to other governmental entities	1,236,561							1,236,561
Due to other funds		481,563	448,753	584,153			86,980	1,601,449
Claim and Judgment	60,000							60,000
Deferred revenues:								
Municipal license tax	2,267,586							2,267,586
Federal grant revenues			277,487	139,831			230,190	647,508
Total liabilities	<u>3,803,330</u>	<u>607,210</u>	<u>726,660</u>	<u>944,052</u>	<u>-</u>	<u>-</u>	<u>317,170</u>	<u>6,398,422</u>
Fund balances:								
Reserved for:								
Encumbrances	244,679							244,679
Capital projects					6,274,159			6,274,159
Debt service fund						1,423,345		1,423,345
Other purposes		2,067,543						2,067,543
Reserved reported in nonmajor funds:								
Other purposes								
Unreserved:								
Undesigned (Deficit)	(2,192,969)							(2,192,969)
Total fund balances	<u>(1,948,290)</u>	<u>2,067,543</u>	<u>-</u>	<u>-</u>	<u>6,274,159</u>	<u>1,423,345</u>	<u>-</u>	<u>7,816,757</u>
Total liabilities and fund balances	<u>\$ 1,855,040</u>	<u>\$ 2,674,753</u>	<u>\$ 726,660</u>	<u>\$ 944,052</u>	<u>\$ 6,274,159</u>	<u>\$ 1,423,345</u>	<u>\$ 317,170</u>	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds								11,086,021
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds								(23,558,922)
Net assets of governmental activities								<u>\$ (4,656,144)</u>

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start Program	Special Revenue Fund Other Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 3,952,708	\$ -	\$ -	\$ -	\$ -	\$ 641,401	\$ -	\$ 4,594,109
Municipal license taxes	3,621,384							3,621,384
Licenses, permits and other local taxes	586,922							586,922
Charges for services	93,068							93,068
Intergovernmental	2,630,658	459,082			2,699,249			5,788,989
Interest	186,760							186,760
Federal grants			3,725,164	1,348,227			751,336	5,824,727
Miscellaneous	16,266						25,482	41,748
Total revenues	11,087,766	459,082	3,725,164	1,348,227	2,699,249	641,401	776,818	20,737,707
Expenditures								
Current:								
General government	3,893,286	183,003		89,750				4,166,039
Public safety	862,143			8,344				870,487
Public works	3,052,759	519,703		732,960	691,822			4,997,244
Health and welfare	789,403	18,011	3,725,164	187,526			776,818	5,496,922
Culture and recreation	782,647	116,839		264,613	1,305,102			2,469,201
Economic development		449,544						449,544
Community development	112,969	111,867		65,034				289,870
Education	99,164	6,301						105,465
Debt service:								
Principal						534,000		534,000
Interest						552,920		552,920
Total expenditures	9,592,371	1,405,268	3,725,164	1,348,227	1,996,924	1,086,920	776,818	19,931,692
Excess (deficiency) of revenues over (under) expenditures	1,495,395	(946,186)	-	-	702,325	(445,519)	-	806,015
Other financing sources (uses)								
Transfers in		2,055,887				231,500		2,287,387
Transfers out	(2,287,387)							(2,287,387)
Long-term debt issued					1,115,000			1,115,000
Total other financing sources (uses)	(2,287,387)	2,055,887	-	-	1,115,000	231,500	-	1,115,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(791,992)	1,109,701	-	-	1,817,325	(214,019)	-	1,921,015
Fund balance (deficit) beginning, as restated	(1,156,298)	957,842			4,456,834	1,637,361		5,895,742
Fund balance (deficit), ending	\$ (1,948,290)	\$ 2,067,543	\$ -	\$ -	\$ 6,274,159	\$ 1,423,345	\$ -	\$ 7,826,757

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ 1,921,015**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, excluding donated assets. 3,508,178

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds (672,696)

Some expenditures reported in the Governmental Funds require the use of current financial resources, but are not reported as expenses in the Statement of Activities. 480,541

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (581,000)

Change in Net Assets of Governmental Activities **\$ 4,656,038**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Peñuelas** (the Municipality) was founded on the year 1793. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a twelve member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 14.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Head Start- Is the accounting entity in which revenues derived from the federal agency are used to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddler (birth through age 3) so that the children will attain school readiness.

Special Revenue Fund - Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Project Fund - Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, 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 the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

- 6. Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

- 7. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

- 8. Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
- d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

10. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$223,320. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$306,511 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$11,086,021	
Deduct:		
Bonds Payable	(8,829,050)	\$2,256,971
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		6,274,159
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,423,345
<u>Net assets restricted for other purposes</u>		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

		<u>Total Net Assets - Governmental Activities</u>
Special revenue fund - state and local grants restricted		2,067,543
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$(1,948,290)	
Deduct:		
Bonds Payable	(3,206,950)	
Property Tax Debt - Treasury Department	(4,281,291)	
Treasury Department - Case 93-1611	(9,000)	
Treasury Department - Case 93-2579CCC	(55,670)	
Treasury Department - Case 95-1030	(3,263,085)	
Treasury Department -Social Security	(4,330)	
Property Tax Debt - CRIM-Law-42	(1,740,030)	
Property Tax Debt - CRIM-Law 146	(775,073)	
Compensated Absences	(1,229,953)	
Claims and judgments	<u>(164,490)</u>	<u>(16,678,162)</u>
Total net assets - governmental activities		<u>\$ (4,656,144)</u>

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$141,115, \$2,594,901, \$318,432, \$379,561, \$4,279,842 in the general fund, special revenue fund - federal grants, and capital project fund - local, state and federal grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$317,170, respectively, that were fully collateralized.

The deposits at GDB of approximately \$67,066, that is restricted for other purposes in the general fund, the \$1,994,317, that is restricted principally for capital projects in the capital project fund - local and state grant, the 7,418 in the special revenue fund - state and local grant, and the \$1,423,345 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES

A. **Municipal License Tax**- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. **Intergovernmental Receivables**- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes. The amount receivable from governmental entities is as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	<u>\$ 45,410</u>
Total	<u>\$ 45,410</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by the local government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Comunidades Especiales	\$ 72,434
Total	<u>\$ 72,434</u>

Intergovernmental receivable in other governmental funds represent five expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 196,746
Head Start	564,491
Public Assistance Grant	26,802
Edward Byrne Memorial	5,277
Hazard Mitigation	<u>179,403</u>
Total	<u>\$ 972,719</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS (CONTINUED)

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - State and Local Grants	Payroll and related accruals paid and not reimbursed by the special revenue fund-	\$ 481,563
General Fund	Special Revenue Fund - Federal Grants	Payroll and related accruals paid and not reimbursed by the federal programs	448,753
General Fund	Special Revenue Fund - Head Start	Payroll and related accruals paid and not reimbursed by the federal program	584,153
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed by other funds	<u>86,980</u>
Total			<u>\$ 1,601,449</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Local and state grant	Transfer of funds for equipment acquisition and other purpose	\$2,055,887
General Fund	Debt Service Fund	Debt Retirement	<u>231,500</u>
Total			<u>\$2,287,387</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$ 659,123			\$ 659,123
Construction in progress	<u> </u>	\$ 3,149,072	<u> </u> -	<u>3,149,072</u>
Total capital assets not being depreciated	<u>659,123</u>	<u>\$3,149,072</u>	<u> </u> -	<u>\$3,808,195</u>
Capital assets, being depreciated:				
Buildings	\$5,706,896			\$5,706,896
Buildings improvements				
Infrastructure	4,429,863			4,429,863
Infrastructure improvements	228,502			228,502
Equipment	970,055	57,352		1,027,407
Furnishing				
Computers				
Vehicles	<u>2,941,773</u>	<u>301,754</u>	<u> </u> -	<u>3,243,527</u>
Total capital assets being depreciated	<u>\$14,277,089</u>	<u>\$359,106</u>	<u> </u> -	<u>\$14,636,195</u>
Less accumulated depreciation for:				
Buildings	\$(1,980,117)	\$(201,864)		\$(2,181,981)
Buildings improvements				
Infrastructure	(1,732,155)	(193,342)		(1,925,497)
Infrastructure improvements	(75,259)	(10,415)		(85,674)
Equipment	(753,197)	(76,549)		(829,746)
Furnishing				
Computers				
Vehicles	<u>(2,144,945)</u>	<u>(190,526)</u>	<u> </u> -	<u>(2,335,471)</u>
Total accumulated depreciation	<u>\$(6,685,673)</u>	<u>\$(672,696)</u>	<u> </u> -	<u>\$(7,358,369)</u>
Total capital assets being depreciated, net	<u>\$7,591,416</u>	<u>(313,590)</u>	<u> </u> -	<u>\$7,277,826</u>
Governmental activities capital assets, net	<u>\$8,250,539</u>	<u>\$2,835,482</u>	<u> </u> -	<u>\$11,086,021</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$465,438
Public safety	46,512
Public works	93,337
Culture and recreation	16,970
Health and welfare	24,894
Education	<u>25,545</u>

Total depreciation expense-governmental activities \$672,696

6. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Governmental activities:

General Services Administration	\$8,471
CRIM-Property Taxes	1,187,449
Puerto Rico Aqueduct and Sewer Authority	27,405
Department of Labor	<u>13,236</u>
Total	<u>\$1,236,561</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities. The following is the account's balances as of June 30, 2003:

Governmental activities:

Treasury Department - Case 93-1611	\$9,000
Treasury Department - Case 93-2579CCC	55,670
Treasury Department - Case 95-1030	3,263,085
Treasury Department-Property Tax Debt	4,281,291
Treasury Department-Social Security	4,330
Property Tax-Law 42	1,740,030
Property Tax Law 146	<u>\$775,073</u>
Total	<u>\$10,128,479</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$4,281,291.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money. A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government-wide statement of net assets includes an outstanding debt balance of \$1,740,030 and \$775,073 related to Law 42 and Law 146 respectively. In addition, the government-wide statement of net assets includes and outstanding balance of \$3,327,755 and 4,330 related to claims and judgments paid by the treasury department and prior year's social security debt respectively.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

The annual tax rate is 8.33% for real property and 6.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

8. DEFERRED REVENUES

- A. **Municipal License Tax-** The deferred revenues of approximately \$2,267,586 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.
- B. **Federal Government-** The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	\$230,190
Head Start Program	139,831
Emergency Management State and Local Assistance	11,268
Public Safety Partnership and Community Policing Grant	113,533
Public Assistance grant-Hortense	21,797
Local Law Enforcement Block Grant	2,658
Community Service Block Grant	9,975
Others	<u>118,256</u>
Total	<u>\$647,508</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$11,360,000	\$1,115,000	\$(439,000)	\$12,036,000	\$485,000
Notes Payable	95,000		(95,000)	-	-
Property Tax Debt- Treasury Department	4,341,291		(60,000)	4,281,291	310,000
Treasury Department-Case 93-1611	27,000		(18,000)	9,000	9,000
Treasury Department-Case 93-2579CCC	90,830		(35,160)	55,670	35,160
Treasury Department-Case 95-1030	3,359,085		(96,000)	3,263,085	162,000
Treasury Department- Social Security	35,530		(31,200)	4,330	4,330
Department of Labor- Payment Plan	18,813		(18,813)	-	-
Property Tax Debt-CRIM- Law-42	1,831,386		(91,356)	1,740,030	91,356
Property Tax Debt-CRIM- Law 146	775,073			775,073	775,073
Compensated Absences	1,329,965		(100,012)	1,229,953	100,000
Claims and judgments	<u>194,490</u>		<u>(30,000)</u>	<u>164,490</u>	<u>164,490</u>
Total	<u>\$23,458,463</u>	<u>\$1,115,000</u>	<u>\$(1,014,541)</u>	<u>\$23,558,922</u>	<u>\$2,136,409</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$1,115,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1983-Series	1-1-2005	182,000	5.00%	\$22,000
1985-Series	1-1-2005	125,000	5.00%	19,000
1990-Series	7-1-2004	315,000	3.26% to 8.40%	80,000
1994-Series	7-1-2003	1,175,000	5.00% to 8.00%	160,000
1999-Series	7-1-2018	2,630,000	5.00% to 7.81%	2,430,000
2000-Series	7-1-2026	1,760,000	5.00% to 7.00%	1,460,000
2001-Series	7-1-2010	1,300,000	5.00% to 8.00%	1,195,000
2001-Series	7-1-2017	1,070,000	5.00% to 8.00%	1,010,000
2002-Series	7-1-2026	135,000	5.00% to 7.00%	130,000
2002-Series	7-1-2021	475,000	5.00% to 7.00%	465,000
2002-Series	7-1-2026	1,965,000	5.00% to 7.00%	1,935,000
2002-Series	7-1-2026	2,085,000	5.00% to 7.00%	2,015,000
2003-Series	7-1-2027	\$1,115,000	5.00% to 6.50%	<u>1,115,000</u>
Total general obligation bonds				<u>\$12,036,000</u>

These bonds, except the 2000 and 2002 Series amounting to \$3,475,000. Bonds, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2004	\$485,000	\$622,945
2005	356,000	727,481
2006	315,000	709,579
2007	335,000	692,286
2008	360,000	673,647
2009-2013	2,235,000	3,018,095
2014-2018	3,170,000	2,226,645
2019-2023	2,600,000	1,266,135
2024-2028	<u>2,180,000</u>	<u>337,512</u>
Total	<u>\$12,036,000</u>	<u>\$10,274,325</u>

- 3. Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections and other debts.
- 4. Compensated absences-** The government-wide statement of net assets includes approximately \$777,248 of accrued sick leave benefits, and approximately \$452,705 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. PENSION PLAN (CONTINUED)

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$259,192 and \$290,514, respectively.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. PENSION PLAN (CONTINUED)

Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

11. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

12. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

13. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$164,490 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

13. CONTINGENCIES (continued)

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$91,451 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the correction of beginning cash balances.

The beginning Fund Balance for Special Revenue has been restated by approximately \$106,483 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the elimination of a liability.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$232,739 to properly presents the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2001-2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$2,094,563	\$4,082,419	\$4,082,419	\$-
Municipal license tax	2,568,865	2,458,558	2,429,003	(29,555)
Licenses, permits and other local taxes	502,300	540,150	586,922	46,772
Charges for service	45,500	67,467	93,068	25,601
Intergovernmental	3,991,741	3,909,857	3,903,187	(6,670)
Rent of property	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest	75,000	195,873	201,199	5,326
Miscellaneous	<u>721,835</u>	<u>845,480</u>	<u>1,387,122</u>	<u>541,642</u>
Total revenues and other financing sources	<u>9,999,804</u>	<u>12,099,804</u>	<u>12,682,920</u>	<u>583,116</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$4,169,489	\$6,317,928	\$6,169,622	\$148,306
Public safety	947,720	871,337	865,120	6,217
Public works	3,159,254	3,122,880	3,083,693	39,187
Health and welfare	812,075	767,795	790,987	(23,192)
Culture and recreation	658,193	802,731	793,728	9,003
Economic development				
Community development	156,829	116,589	112,970	3,619
Urban development				
Education	96,244	100,544	99,164	1,380
Operating transfer to other fund				
Total expenditures, encumbrances and other financing uses	<u>9,999,804</u>	<u>12,099,804</u>	<u>11,915,284</u>	<u>184,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	<u>-</u>	<u>-</u>	<u>767,636</u>	<u>767,636</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				<u>12,682,920</u>
Differences-budget to GAAP:				
Nonbudgeted revenues				<u>(1,595,154)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>11,087,766</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				<u>11,915,284</u>
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				<u>(2,287,387)</u>
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				115,818
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(151,344)</u>
				<u>\$9,592,371</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO THE BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 255,190
Total U.S. Department of Agriculture			<u>255,190</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		751,336
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	99-FD-51 00-FD-51	<u>624,002</u>
Total U.S. Department of Housing and Urban Development			<u>1,375,338</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Edward Byrne Memorial	16.580	2000DBMMJP01	65,034

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico- Department of Justice: Local Law and Enforcement Block Grant	16.592	2000-LB-VX-1085	6,775
Total U.S. Department of Justice			71,809
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management Performance Grant	83.552	Not Available	1,569
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR): Public Assistance Grant	83.544	1247-DRPR	32,725
Hazard Mitigation Grant	83.548	1247-DRPR	589,834
Total U.S. Federal Emergency Management Agency			624,128
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Family Preservation and Support Service	93.556	Not Available	27,730
Community Services Block Grant	93.569	Not Available	558
Head Start Program	93.600	02-CH-483-22	3,469,974
Total U.S. Department of Health and Human Services			3,498,262
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,824,727

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Peñuelas and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. 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*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund – Head Start Program, Special Revenue Fund – Other Federal Grants and Other Governmental Funds on the Municipality’s fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	Other Governmental Funds	Total
Expenditures of Federal Awards per Fund	\$ 3,725,164	\$ 1,348,227	\$ 751,336	\$5,824,727
Non federal expenditures per Fund	-	-	25,482	25,482
Total expenditures per Fund	<u>\$ 3,725,164</u>	<u>\$ 1,348,227</u>	<u>\$ 776,818</u>	<u>\$5,850,209</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the basic financial statements of the Municipality of Peñuelas as of and for the year ended June 30, 2003, and have issued our report thereon dated October 8, 2003, which was unqualified at the fund financial statements level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Peñuelas's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Peñuelas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Peñuelas's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 03-01 through 03-04.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item **03-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Peñuelas in a separate letter dated October 8, 2003.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 8, 2003

Stamp No. 1942297 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the **Municipality of Peñuelas** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Peñuelas's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Peñuelas's** management. Our responsibility is to express an opinion on the **Municipality of Peñuelas'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 of Peñuelas'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 of Peñuelas's** compliance with those requirements.

In our opinion, the **Municipality of Peñuelas's** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 03-05 through 03-18.

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

Internal Control Over Compliance

The management of the **Municipality of Peñuelas's** 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 of Peñuelas'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 internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Peñuelas's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **03-05** through **03-18**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on 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 material weakness. However, of the reportable conditions described above we consider items **03-08** through **03-11**, and **03-14** to be material weaknesses.



**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Peñuelas in a separate letter dated March 29, 2004.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 29, 2004

Stamp No. 1942298 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2003**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified, except for adverse
for government-wide financial
statements

Internal control over financial reporting:

Material weakness identified? Yes X No

Reportable conditions identified not considered to
be material weaknesses? Yes X None reported

Noncompliance material to financial statements
noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

Reportable conditions identified not considered to
be material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant-State Program
14.871	Section 8 Housing Choice Voucher Program
83.548	Hazard Mitigation Grant
93.600	Head Start Program

Dollar threshold used to distinguish
between Type A and Type B programs
Auditee qualified as low-risk auditee?

\$ 300,000
Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)
YEAR ENDED JUNE 30, 2003**

Section II - Financial Statements Findings

Finding Reference	03-01
Requirement	Fixed\ Capital Assets and Expenditures - Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-03
Requirement	Expenditures for Goods and Services and Account Payables – Purchasing and Receiving
Statement of Condition	<p>We performed a cash disbursement test and examined eighty seven (87) disbursement vouchers. The following summarized the exceptions observed:</p> <ul style="list-style-type: none">a. In four (4) Head Start disbursement vouchers, the purchase order, and the requisition were issued after the receiving of services.b. Six (6) Head Start disbursement vouchers did not include evidence of the quotation's analysis in the procurement process.c. Three (3) CDBG State Program disbursement vouchers were not available for examination.d. In one (1) CDBG State Program disbursement voucher, the purchase order was issued after the receiving of services.e. One (1) CDBG State Program cancelled check was not available for our examination.f. Fifteen (15) Housing Voucher Program cancelled checks were not available for our examination.
Criteria	<p>The Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, Chapter Eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.</p>
Cause of Condition	<p>The Municipality's controls and procedures failed to assure that all transactions include all the required documentation.</p>
Effect of Condition	<p>The Municipality is not in compliance with the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-03 (continued)
Recommendation	We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before the payment is made.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-04
Requirement	Expenditures for Goods and Services and Account Payables - Purchasing
Statement of Condition	<p>During our examination of the Municipality's procedures related to the formal procurement process we examined twenty five (25) bid files and other related documents and noted the following situations:</p> <p>a. We did not find evidence in the bid files or contract files regarding bonding, insurance or tax requirements:</p> <ol style="list-style-type: none">1. Payment and Performance Bond - Ten (10) cases2. Workmen's Compensation Insurance - Nine (9) cases3. Municipal Volume of Business Tax - Ten (10) cases4. Municipal Excise Construction Tax - Ten (10) cases5. General Liability Insurance - Nine (9) cases
Criteria	<p>Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board. Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.</p>
Cause of Condition	<p>The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-04 (continued)
Effect of Condition	The Municipality is not in compliance with the Article 8.016 (c) of State Act Number 81 of August 30, 1991, and with the Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-05
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Allowable Costs and Cost Principles
Statement of Condition	Section II - Financial Statement Findings - Finding Reference 03-03

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures, we noted that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$262,060. At June 30, 2003, the cash balance in book was \$258,168, \$25,855 of these funds were from operating reserve at June 30, 2003, as determined in the year-end settlement; and the remaining \$232,313 was not identified by us with respects to its origin. Also, an underpayment of \$16,736 was determined by HUD during the fiscal year 2002-03 year-end settlement.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>We performed an eligibility test and examined a sample of fifteen (15) participant files. The following summarized the situations found:</p> <ul style="list-style-type: none">a. In six (6) cases the Release of Information\Privacy Act Notice form was not provided by signature of head of household.b. In three (3) cases the Release of Information\Privacy Act Notice form was not provided by signature of another member of the family with eighteen years or older.
Criteria	<p>Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.</p> <p>Code of Federal Regulations 24, Subpart B, Section 5.212 (b) states that all assistance applicants shall be provided with a Privacy Act notice at the time of application. All participants shall be provided with a Privacy Act notice at each annual income recertification.</p>
Cause of Condition	<p>The Federal Program Department does control procedures fail to assure that the participant files include all required documentation and releases required by Program regulations.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07 (continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230 and 982.516.
Recommendation	We recommend the Program to establish monitoring procedures to assure that the participant's files include all documentation required by federal agencies.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	We found that the PHA did not select the participant from the top of the waiting list according to the PHA's applicant selection policies.
Criteria	<p>Code of Federal Regulations 24, sections 982.202 (d) states that the PHA must admit applicants for participation in accordance with HUD regulations and other requirements, and with PHA policies stated in the PHA administrative plan and the PHA plan.</p> <p>The PHA administrative plan states that, except for special admissions, participants must be selected from the PHA waiting list. The PHA must select participant from the waiting list on a first-come, first-served basis, in accordance with this same plan, which includes equal opportunity.</p>
Cause of Condition	The Municipality's controls and procedures failed to assure that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 982.202 (d) and with the PHA administrative plan.
Recommendation	We recommend management to improve its control procedures to assure that the participant are admitted to the program or are provided the opportunity to be admitted to the program according with the PHA administrative plan.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	<p>The determination of reasonable rent (reasonable rent certification) was not duly documented. We examined a sample of fifteen (15) participant's files and found the following situation:</p> <ul style="list-style-type: none">a. On five (5) new participant files the certification of reasonable rent did not include the comparable rent with other similar units.b. On four (4) participant files the determination of reasonable rent did not include comparable unassisted units in an increase of the rent to owner during fiscal year 2002-2003.
Criteria	<p>Code of Federal Regulations 24, Section 982.507 (a) (1) states that the PHA may not approve a lease until the PHA determines that the initial rent to owner is reasonable rent.</p> <p>Code of Federal Regulations 24, Section 982.507 (b) states that the PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.</p>
Cause of Condition	<p>The Federal Program Department did not maintain adequate documentation to support the basis for the determination that the rent paid to the owner is reasonable.</p>
Effect of Condition	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.507 (a) (1) and 982.507 (b).</p>
Recommendation	<p>We recommend that the Federal Program Department establish controls to assure appropriate documentation of the determination of reasonable rent is maintained in participant's files.</p>
Questioned Costs	<p>None</p>
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Utility Allowance Schedule
Statement of Condition	The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. There is no evidence of the last time that an Utility Allowance Schedule was actualized.
Criteria	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The Municipality did not follow the procedures established to review utility rate data each year.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)
Requirement	Financial Administration - Standard for Financial Management System
Statement of Condition	During our audit we noted that the Municipality did not maintain, for the Community Development Block Grant - State's Program, a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality did not maintain adequate controls procedures and actualized and accurate accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1).
Recommendation	We recommend that the Municipality should request training services to the Office of the Commissioner of Municipal Affairs (OCAM) to train the new Program accountant in order to actualize and to maintain an accurate set of accounting records.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-11 (continued)

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-12
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)
Requirement	Allowable Costs and Cost Principles
Statement of Condition	Section II - Financial Statement Findings - Finding Reference 03-03

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-13
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds from the pass-through grantor only for immediate needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend Municipality management to continue strengthen it's procederes to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)
Requirement	Equipment and Real Property Management
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 03-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)
Requirement	Reporting
Statement of Condition	The Financial Quarterly Reports for the quarters ended during the fiscal year 2002-2003 were not available for our examination. Therefore, we could not obtain evidence to assure us that the Financial Quarterly Reports were submitted timely to OCAM and prepared in accordance with the required accounting basis.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also, the Grant Agreement provisions have established that the Municipality should submit all of the reports required by the Pass-through Grantor.
Cause of Condition	The Municipality's record retention control and procedures fail to assure that those reports were maintained safeguarded and available to be examined by us during the application of planned audit procedures.
Effect of Condition	The Municipality could be not in compliance with Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1), and the Grant Agreement provisions.
Recommendation	We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic records, supporting documents, statistical records, and other records be adequately safeguarded.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-16
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)
Requirement	Allowable Costs and Cost Principles
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 03-03

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-17
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$241,414 was maintained during the fiscal year ended June 30, 2003.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
Cause of Condition	The cash advance procedures established by the Commonwealth of Puerto Rico Administration for Children and Families through grant agreement provide for only an advance per month.
Effect of Condition	The Municipality requested funds in excess of immediate needs and for that reason it's not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the Administration for Children and Families and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-18
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provisions test, we identified the following conditions: a. Four (4) contracts did not include provisions for contractual legal remedies when contract violates contract term, and did not provide such sanctions and penalties. b. Three (3) contracts did not include provisions for termination grantee for default.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.36 (I) (1-13), states that sub-grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	The Municipality procurement standard procedures failed to assure that contract provisions include provisions related to legal remedies and termination of contract to safeguard the public interest.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Section 92.36, (I) (1-13).
Recommendation	We recommend management to prepare a sample contract model, which include all contract provisions required by Federal statutes, Executive Orders, and implementing regulations.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-05	14.871	<p><u>The Municipality should periodically compare actual program cash requirements to the funds advanced from U. S. Treasury Department and prepare and submit a revised requisition to reduce monthly advances.</u></p> <p>No corrective action has been taken.</p>
02-06	14.871	<p><u>The Municipality should establish the following procedures: provide an application form to be filled by the participant and sign by all members of the family who are at least 18 years old; provide a Federal-Prescribed General Release Form for employment information and a privacy act notice to be signed by all members of the family who are at least 18 years old; implement internal control procedures to assure that the participant's files include all documentation required by federal agencies; establish monitoring procedures to assure that HAP's are duly computed as required by the Federal Regulations.</u></p> <p>No corrective action has been taken.</p>
02-07	14.871	<p><u>The Municipality should implement internal control procedures to maintain adequate and accurate accounting records throughout the entire fiscal year.</u></p> <p>Full corrective action has been taken.</p>
02-08	14.871	<p><u>The Municipality should establish adequate internal control procedures to assure that the program complies with federal regulations and maintain proper records to support SEMAP Report answers.</u></p> <p>No longer valid.</p>
02-09	14.871	<p><u>The Municipality should implement the following procedures in order to avoid those situations in the future: HUD 50058 Form, Family Report (OMB No. 2577-0083) should be printed and maintained in the participant file every time there is a change in family composition, family income or other situations that may affect the calculation of the total tenant payment; assign an employee to review the HUD 50058 Form, Family Report (OMB No. 2577-0083), to assure that the information submitted electronically to HUD did not contain errors in order to be evaluated correctly by HUD personal.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Full corrective action has been taken.
02-10	14.871	<u>The Municipality should evaluate utility allowance rate each year as established in the federal regulations.</u>
		No corrective action has been taken.
02-11	14.871	<u>The Municipality should implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented.</u>
		Full corrective action has been taken.
02-12	14.871	<u>The Municipality should explain in the file the reason for selection of participants which was not included in the waiting list. The Management should comply with all requirements of the program regulation and administrative plan.</u>
		No corrective action has been taken.
02-13	14.871	<u>The Municipality should implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participants file.</u>
		No corrective action has been taken.
02-14	93.600	<u>The Municipality should strength it's procedures to minimize the time elapsed between the transfer of funds from the Administration for Children and Families and the disbursements made by the Municipality.</u>
		No corrective action has been taken.
02-15	93.600	<u>The Municipality should follow monitoring system procedures developed, including obtaining contractor's and subcontractors weekly payrolls to be reviewed weekly by responsible Municipal Employee. Also, interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) in order to establish the degree of compliance and the nature and extend of violations, if any.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Full corrective action has been taken.
02-16	93.600	<u>The Municipality should modify the Computerized Accounting System chart of accounts to create separate accounts for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.</u> Full corrective action has been taken.
02-17	93.600	<u>The Municipality should maintain a formal participant's selection process which ensures compliance with the Head Start program requirements.</u> Full corrective action has been taken.
02-18	93.600	<u>The Municipality should establish routine visits to the different centers in order to assure that the centers are in conditions necessary to comply with the licensing requirement. We also recommend that the Municipality should review Centers files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files.</u> Full corrective action has been taken.
01-06	14.855 14.857	<u>Eligibility Test</u> No corrective action has been taken
01-07	14.855 14.857	<u>Reporting - Financial Reporting</u> Full corrective action has been taken.
01-08	14.855 14.857	<u>The SEMAP report was not available for our examination.</u> No longer valid.
01-09	14.855 14.857	<u>Reporting - Special Reporting</u> Full corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-10	14.855 14.857	<u>Special Test - Housing Quality Standards Inspections</u> Full corrective action has been taken.
01-11	14.855 14.857	<u>The waiting list maintained by the Municipality did not contain all required information</u> Full corrective action has been taken.
01-12	14.855 14.857	<u>Special Test - Reasonable Rent</u> No corrective action has been taken.
00-III-02	14.228	<u>Allowable Cost\Cost Principles</u> No corrective action has been taken.
00-III-07	14.855 14.857	<u>Reporting</u> Full corrective action has been taken.
00-III-08	14.855 14.857	<u>Special Tests and Provisions</u> Full corrective action has been taken.
00-III-09	14.855 14.857	<u>Special Tests and Provisions</u> Full corrective action has been taken.



ESTADO LIBRE ASOCIADO DE PUERTO RICO
Gobierno Municipal de Peñuelas
OFICINA DE AUDITORIA INTERNA
APARTADO NO. 10
PEÑUELAS, P.R. 00624

11 de marzo de 2003

Sr. Raymond Vega
Oficina Comisionado Asuntos Municipales
P.O. Box 70167
San Juan, Puerto Rico 00936-8167

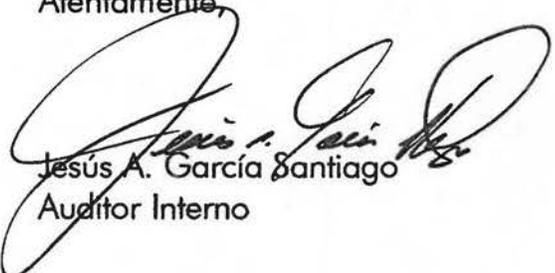
Estimado señor Vega:

Reciba un cordial saludo a nombre del personal que labora en la Oficina de Auditoría Interna del Municipio de Peñuelas.

Adjunto le incluimos copia del Plan de Acción Correctiva (PAC) para los Single Audit 2000 y 2001, según solicitado por usted.

Sin nada más sobre el particular, quedo de usted.

Atentamente,


Jesús A. García Santiago
Auditor Interno

mot

Anejo

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Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-01: Durante nuestra auditoría encontramos que el balance de comprobación que nos entregó la Agencia Delegada no tenía reflejado los ajustes de auditoría del año anterior.</p> <p>Recomendación: Recomendamos a la Agencia Delegada establecer controles para que los ajustes de auditoría se registren en los libros de contabilidad de forma inmediata.</p>	<p>Se acepta el hallazgo, aunque hay algunos de los ajustes que no se hicieron como los de las entradas de cierre, ya que el sistema de contabilidad lo hace automáticamente cuando se hace el cierre de cada año Programa.</p> <p>Los demás ajustes fueron entrados a sus partidas correspondientes.</p>	<p>Situación Corregida</p>
<p>Hallazgo 01-02: La partidas presupuestarias de la aportación federal de personal y otros gastos y de la aportación local de personal, materiales y otros gastos de la Agencia Delegada no fueron revisadas creando sobregiros de \$1,580, \$2,995, \$13,240, \$9,834 y \$8,435, respectivamente, sobre el presupuesto autorizado para cada partida.</p> <p>Recomendación: Recomendamos a la Agencia Delegada hacer las revisiones para mantener un presupuesto balanceado.</p>	<p>Se acepta el hallazgo. Hemos creado un sistema de control de presupuesto para tener un control más efectivo del presupuesto.</p>	<p>Situación corregida</p>

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-03: Durante la auditoría se encontró una diferencia entre el subsidiario de propiedad y el mayor general por la cantidad de \$6,544.55.</p> <p>Recomendación: Recomendamos a la Agencia Delegada revisar los registros y hacer los ajustes necesarios para identificar y actualizar el subsidiario de propiedad y que el balance de éste sea igual al mayor general.</p>	<p>Se acepta el hallazgo: hubo una diferencia entre el subsidiario de propiedad y el mayor general, esto por un error en suma del encargado de propiedad en el subsidiario de propiedad.</p>	<p>Situación corregida.</p>
<p>Hallazgo 01-04: Durante el año programa, la Agencia Delegada solicitó fondos en varias ocasiones en exceso a sus necesidades inmediatas.</p> <p>Recomendación: Recomendamos a la Agencia Delegada revisar el proceso de administración de efectivo para solicitar solamente los fondos necesarios para uso inmediato.</p>	<p>Estamos trabajando cada día para llevar un mejor control de efectivo; hemos identificado unas áreas en las cuales tenemos que mejorar, y estas son:</p> <p>a) Aunque se envían las peticiones de fondos a tiempo recibimos el dinero entre los días 18 y 22 de cada mes. Esto provoca que nos quedan menos días para realizar los desembolsos correspondientes de cada mes.</p> <p>b) El Municipio de Peñuelas cuenta con tan solo una persona encargada del área de preintervenciones, que a su vez se encarga de preintervenir todo lo relacionado a todas las dependencias municipales.</p>	<p>Se están tomando las medidas correspondientes para asegurar que haya una buena y mejor administración en el manejo y control de efectivo.</p> <p>Situación en proceso.</p>

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-05: Las pruebas de auditoría sobre los expedientes de los niños participantes reflejaron lo siguiente:</p> <ol style="list-style-type: none"> 1) Dos expedientes sin evidencia de ingreso o asistencia pública. 2) Un expediente sin la evidencia de la evaluación del dentista. 3) Un expediente sin evidencia de la certificación de la discusión de la Evaluación de Aspectos de Desarrollo. 4) Un expediente sin evidencia de las dos visitas al hogar. 5) Durante la selección de expedientes se escogió a dos niños que sobrepasan los niveles de pobreza del Programa, pero solo uno fue incluido en el informe de niños de altos ingresos. <p>Recomendación: Recomendamos a la Agencia Delegada que establezca procedimientos para la revisión de los expedientes de los niños participantes, completar los mismos y cumplir con los requisitos establecidos por la reglamentación del Programa.</p>	<ol style="list-style-type: none"> 1, 2, 3, & 4) Se Acepta el hallazgo; se llevó a cabo reunión con el personal concernido donde se ofreció reorientación de los documentos a ser incluidos en el expediente del niño. Se orientó para que se evidencie por escrito en el expediente cuando se ha removido algún documento. 5) Se acepta el hallazgo; se designó una líder del área que estará a cargo de mantener actualizado el listado de niños de alto ingreso. 	<p>Situación corregida.</p> <p>El consecionario distribuyó un memorando con fecha del 18 de junio de 2002, donde se indica que la evidencia de PAN será parte de la documentación requerida.</p>

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
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PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-06: Las pruebas de auditoría sobre la asistencia diaria promedio mensual de los niños participantes de seis centros evaluados presentó que cinco centros están por debajo del nivel de asistencia requerido.</p> <p>Recomendación: Recomendamos a la Agencia Delegada que establezca procedimientos para la revisión mensual de la asistencia diaria de los niños participantes, y cumplir con los requisitos establecidos por la reglamentación del Programa.</p> <p>Hallazgo 01-07: La auditoría reflejó que varios centros de la Agencia Delegada presentaban las siguientes deficiencias que pueden resultar peligrosas para los niños:</p> <p>a: En el centro Magas los abanicos estaban sucios y la lámpara de emergencia no trabajaba. b: En el centro Barinas la grama del área de patio estaba sin recortar y la lámpara de emergencia no trabajaba. c: En el centro Jagua Tuna la entrada principal estaba abierta a nuestra llegada, las puertas y ventanas no tenían "screens" y la lámpara de emergencia no trabajaba.</p>	<p>La Agencia tiene un plan de trabajo para cumplir con el 85% en asistencia. Se están realizando orientaciones y llevando seguimiento a la asistencia de los niños mensualmente.</p> <p>a: Centro Magas se limpiaron los abanicos y se reemplazó la lámpara de emergencia. b: Centro Barinas se recortó la grama del patio y se reemplazó la lámpara de emergencia. c: Centro Jagua Tuna se cerró el portón de la entrada principal, los "screens" fueron puestos en las ventanas y las puertas y la lámpara de emergencia fue reemplazada.</p>	<p>Situación en proceso. Se está ofreciendo seguimiento constante, así podremos cumplir con la asistencia.</p> <p>Situación Corregida. Situación Corregida. Situación Corregida.</p>

Proyecto Head Start
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PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Continuación Hallazgo 01-07:</p> <p>d: En el centro Muñoz Rivera el acceso del área de patio para sillones de rueda estaba bloqueado con una manguera. Habían receptáculos sin tapas y el interruptor del aire acondicionado estaba suelto exponiendo la cablería eléctrica.</p> <p>e: En el centro Kennedy I y II las ventanas de los baños no tenían "screens", la luz del salón II no trabajaba correctamente y materiales de limpieza y juguetes eran almacenados en el baño de las niñas.</p> <p>Recomendación: Recomendamos a la Agencia Delegada dar seguimiento a las medidas de seguridad que deben existir en los Centros según requeridas por la reglamentación del Programa.</p>	<p>d: Centro Muñoz Rivera se removió la manguera del acceso para sillones de rueda, de inmediato y se le colocaron las tapas a los receptáculos y se corrigió el problema del interruptor del aire acondicionado.</p> <p>e: Centro Kennedy I y II los "screens" están en proceso de ser puestos en las ventanas de los baños, la luz del salón II ahora trabaja correctamente, y se ubicaron los materiales de limpieza y los juguetes en sus respectivos lugares. Se orientó al personal al respecto.</p>	<p>Situación Corregida.</p> <p>Situación Corregida.</p> <p>Situación en proceso.</p>

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS
PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-08: La auditoría reflejó que los seis contratos evaluados de servicios profesionales no contenían las siguientes cláusulas: Acceso a registros u otra información a intervenciones de la agencia, la Orden Ejecutiva 11246 EEO y las cláusulas relacionadas con remedios y terminación requeridas por la reglamentación federal.</p> <p>Recomendación: Recomendamos a la Agencia Delegada que establezca procedimientos para revisar los contratos y asegurarse que éstos cumplen con la reglamentación del Programa.</p>	<p>Se acepta el hallazgo. Se ofreció la información a la división del Secretario Municipal donde se redactan todos los contratos de nuestra Agencia.</p>	<p>Situación corregida Situación en Proceso.</p>
<p>Hallazgo 01-09: Durante el examen de personal de (15) expedientes de empleados encontramos en un caso que el empleado se ausentó un día y este día no le fue descontado de sus vacaciones por enfermedad. Además el informe de vacaciones acumuladas al cierre del año programa presenta que (4) empleados tienen sobre 30 días acumulados de vacaciones regulares.</p> <p>Recomendación: Recomendamos a la Agencia Delegada mantener un control adecuado sobre la jornada de los empleados para cumplir con lo establecido en la reglamentación federal y evitar pagarle días a empleados que no laboraron y/o no tienen días de vacaciones acumuladas. En adición establecer los mecanismos para que el personal disfrute de sus vacaciones acumuladas en exceso de 30 días.</p>	<p>En la tarjeta acumulativa se reflejaba el descuento del día por enfermedad. El error fue que el descuento correspondiente no estaba registrado en la semana indicada. <u>Dicho error fue corregido en el momento</u>, aunque el descuento de la ausencia estaba reflejado en los balances de días por enfermedad.(La Empleada Lidya Rosario Colón es la persona en cuestión).</p> <p>Según la ley de Municipios Autónomos (Ley 81 de agosto de 1991, según enmendada) los empleados del Proyecto Head Start del Municipio, pueden acumular 60 días de vacaciones regulares y 90 días por vacaciones por enfermedad.</p>	<p>Situación corregida.</p> <p><<--->>Esto prevalece según la carta circular del 20 de octubre de 1997 de la oficina de OCAP, donde indica la ley 81 de agosto de 1991, según enmendada. Ver copia carta circular.</p>

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

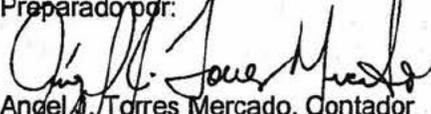
PLAN DE ACCION CORRECTIVA
AUDITORIA ADFAN 2000-2001

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Hallazgo 01-10: La Agencia Delegada pagó \$2,620 a Banquetes y Algo Más (Comprobante # 4152) sin que estos bienes o servicios fueran cotizados por otros suplidores como requiere la ley.</p> <p>Recomendación: Recomendamos a la Agencia Delegada que establezca procedimientos para mantener la libre competencia de proveedores de servicios y/o bienes del Programa. En el caso que sea el único suplidor para el bien o servicio solicitado, según lo demuestran las subastas formales e informales anteriores, esta condición debe indicarse en la orden de compra para usar el método alterno de solo comprarle a este suplidor.</p>	<p>El Proyecto Head Start de Peñuelas, junto con el Municipio de Peñuelas, siempre hemos trabajado para salvaguardar los mejores intereses del Programa Head Start de nuestro pueblo.</p> <p>Se acepta el hallazgo de la orden de compra # 4152 de que no habían otras cotizaciones, aunque si se gestionaron las cotizaciones con otros suplidores, estos no nos quisieron cotizar. Se evidenciará en las órdenes de surgir en un futuro.</p>	<p>Situación Corregida.</p> <p>Se llevó a subasta pública todo lo referente a desayunos, almuerzos, cena y actividades especiales.</p>

Verificado por:


Wanda B. Jaime Rivera, Directora
7 de septiembre del 2002

Preparado por:


Angel A. Torres Mercado, Contador
7 de septiembre del 2002



ADMINISTRACION DE FAMILIAS
Y NIÑOS
PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

Calle Dr. Loyola #615, Peñuelas, P.R. 00624
Tels. 836-4077 , 836-4646 , 836-1565
Fax 836-2727

Wanda B. Jaime Rivera-Directora

HOJA DE TRAMITE

FECHA: 1 DE OCTUBRE DE 2002

A: JESUS A. GARCIA-AUDITOR INTERNO MUNICIPIO DE PEÑUELAS

DE: ANGEL J. TORRES MERCADO - CONTADOR H.S. PEÑUELAS

ASUNTO: PLAN DE ACCION CORRECTIVA 2000-2001

ENTREGADO POR: Jaime Burgos Rodríguez

RECIBIDO POR: Jesús García

HORA: 4:01 PM

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

03 MAR 12 PM 3:49
 DIVISION REGULACION
 INTERVENCION
 OCAM

PLAN DE ACCION CORRECTIVA
Single Audit for Year ended June 30, 2000

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Finding: Number 00-III-04</p> <p>Federal Program: Head Start</p> <p>Requirement: Compliance and Internal Control</p> <p>Non-Compliance: Davis Act</p> <p>Condition: During our evaluation of compliance with Davis Bacon Act for four (4) construction contracts with Cordero Maintenance, we noted that the Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages payments according to Department of Labor.</p> <p>Page 38</p>	<p>Head Start develop a monitoring system to compliance with Davis Bacon Act as requirement. Our monitoring system include questions about the minimum salaries paid by the employer in according of Department of Labor.</p>	<p>This condition is not accepted by Head Start Program, because the monitoring was realized in accordance of law and Davis Bancon Act requirements.</p> <p>Situation to discuss...</p>



Wanda R. Jaime Guerra
Directora
 10 de mayo de 2001

DIVISION REGULACION
 INTERVENCION
 03 MAR 12 PM 2:15
 UNIDAD DE SERVICIO

Proyecto Head Start
Municipio de Peñuelas

PROYECTO HEAD START
MUNICIPIO DE PEÑUELAS

PLAN DE ACCION CORRECTIVA
Single Audit for Year ended June 30, 2000

Hallazgos	PLAN DE ACCION CORRECTIVA	RESULTADO
<p>Finding: Number 00-III-06</p> <p>Federal Program: Head Start</p> <p>Requirement: Compliance and Internal Control</p> <p>Non-Compliance: Procurement and Suspension and Debarment</p> <p>Condition: No evidence were found on five (5) contracts about provisions related to contractual legal remedies when contractor violates contract term; four (4) for the provision for termination by grantee for default; one (1) for provision for compliance with Executive Order 11246 EEO; one (1) for provision of compliance with Davis Bacon Act; one (1) for provision with contract work hours and safety satandar act; one (1) for provision for granting access to GAO or other agency to books and other documentation; and one (1) for provision for compliance with Energy Policy and Conservation Act.</p> <p>Page 40</p>	<p>The next contracts, we'll include and review the provisions related to contractual legal remedies in the contract. We require of the auditors help to redact the full contract including the provisions founded in the single audit for the year ended June 30, 2000. (All provisons related to contractual legal remedies)</p>	<p>We accepted the finding; remember, we required help of the auditors to redact future contracts were includes this provisions...</p> <p>Situation in progress...</p>



Wanda B. Jaime Rivera
Directora
1^{no} de mayo de 2001

Proyecto Head Start
Municipio de Peñuelas

PLAN DE MONITORIA
Revisión y Auditorias de las Nóminas de Contratistas

Estimado Contratista:

La ley "Davis Bacon Act" según enmendada, nos exige que a toda persona que brinde contratos de construcción u otras obras a las agencias gubernamentales, se le debe hacer una monitoría en los salarios que usted le paga a sus empleados. Esto incluye: entrevistar a sus empleados, auditar las nóminas y revisar los salarios pagados a sus empleados. Esperamos su más sincera cooperación respecto a esta monitoría, muchas gracias.

INFORMACION DEL PATRONO FECHA: 5/23/2000

Nombre: Luis M. Cordero Trizany

Nombre de su Compañía: Cordero Maintenance Corp.

Seguro Social Federal (Personal): 582-53-3122

Seguro Social Patronal: 66-0565099

Dirección Postal: Hc-01 13402 Peñuelas, P.R. 00624

Dirección Física: Taliboa Encarnación Calle 3 # 172

Teléfono (s): 836-5028

Años en este Negocio: 1 Años

Yo, Luis M. Cordero Trizany, certifico que la información suministrada al Proyecto Head Start - Municipio de Peñuelas, es una cierta y correcta tanto en el aspecto personal como de mis negocios. Que estoy dispuesto a cooperar en todo lo relacionado a esta monitoría que represente los mejores intereses y requisitos del Proyecto Head Start. Además de cumplir con las normas y procedimientos que requiere la ley "Davis Bacon Act" según enmendada. Para que así conste firmo y certifico la misma hoy 23 de Mayo de 2000.

Luis Cordero

Firma del Contratista

PROYECTO HEAD START
 Municipio de Peñuelas
 PLAN DE MONITORIA
 "DAVIS BACON ACT"

QUESTIONARIO AL PATRONO

PREGUNTAS	RESPUESTAS	COMENTARIOS
¿Es usted ciudadano de los Estados Unidos de Norte América?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Ha radicado sus contribuciones sobre ingresos en los últimos 5 años, o desde que comenzó su compañía?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/> Si, constató NO, ¿desde cuando? _____	
¿Radica y paga las contribuciones para el Seguro por Desempleo e Incapacidad Trimestralmente? Favor de mostrar evidencia del último trimestre.	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Paga usted la Póliza del Fondo del Seguro del Estado para cada contrato que usted realiza?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Pagó usted la Póliza del Fondo del Seguro del Estado para éste contrato? Muestre evidencia.	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Tiene usted una póliza del Fondo del Seguro del Estado adicional a la de éste contrato?	SI <input type="checkbox"/> NO <input checked="" type="checkbox"/>	
¿Radica usted la Forma 941-PR del Seguro Social de sus empleados trimestralmente?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Hace los pagos de retención y aportación patronal para el pago del Seguro Social de sus empleados?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Cuando hace los pagos al Seguro Social de sus empleados: Semanal, Quincenal, Mensual, Trimestral o Anual?	Semanal _____ Quincenal _____ Mensual _____ Trimestral <input checked="" type="checkbox"/> _____ Anual _____	

PROYECTO HEAD START
Municipio de Peñuelas
PLAN DE MONITORIA
"DAVIS BACON ACT"

QUESTIONARIO AL PATRONO

PREGUNTAS	RESPUESTAS	COMENTARIOS
¿Le hace la retención de contribución sobre ingresos del salario devengado a sus empleados?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Paga usted mensualmente la retención de contribución sobre ingresos de sus empleados? Muestre evidencia del pago.	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Radica usted trimestralmente la Forma 499-R1B de la Planilla Trimestral del Patrono de Contribución Sobre Ingresos Retenida de sus Empleados? (Informativa)	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Tiene usted Beneficios Marginales para sus empleados?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
Mencione los Beneficios Marginales que usted le brinda a sus empleados. Ej. aportaciones a planes medicos, seguros, retiro, bono de navidad, incentivos de producción, etc. ... Muestre evidencia (A discreción del patrono, no es necesario mostrar evidencia a ésta pregunta)	1) <u>Seg. Soc.</u> 2) <u>Desempleo</u> 3) <u>Incapacidad</u> 4) _____ 5) _____	
¿Trata bien a sus empleados?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Existe igualdad de oportunidad de empleo en su compañía?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Paga usted el mínimo federal?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Cuántos empleados trabajan para su compañía actualmente?	4	

Proyecto Head Start
Municipio de Peñuelas

PLAN DE MONITORIA
Revisión y Auditorias de las Nóminas de Contratistas

Estimado Empleado:

La ley "Davis Bacon Act" según enmendada, nos exige que a toda persona que brinde contratos de construcción u otras obras a las agencias gubernamentales, se le debe hacer una monitoría en los salarios que usted le paga a sus empleados. Esto incluye: entrevistar a sus empleados, auditar las nóminas y revisar los salarios pagados a sus empleados. Esperamos su más sincera cooperación respecto a esta monitoría, muchas gracias.

INFORMACION DEL EMPLEADO

FECHA: 5/23/2000

Nombre: Miguel L. Cordero Trizamp

Nombre de la Compañía: Cordero Maintenance, Corp.

Seguro Social Federal (Personal): 582-53-3418

Dirección Postal: Hc-01 Box 13373, Peñuelas, P.R. 00624

Dirección Física: Calle 3 #214 Tallebra Etc. Peñuelas, P.R. 00624

Teléfono (s): 836-2674

Años en este trabajo: 1 Años

Yo, Miguel L. Cordero Trizamp, certifico que la información suministrada al Proyecto Head Start - Municipio de Peñuelas, es una cierta y correcta tanto en el aspecto personal como de mis negocios. Que estoy dispuesto a cooperar en todo lo relacionado a esta monitoría que represente los mejores intereses y requisitos del Proyecto Head Start. Además de cumplir con las normas y procedimientos que requiere la ley "Davis Bacon Act" según enmendada. Para que así conste firmo y certifico la misma hoy

23 de Mayo de 2000.

Miguel Cordero
Firma del Empleado

PROYECTO HEAD START
 Municipio de Peñuelas
 PLAN DE MONITORIA
 "DAVIS BACON ACT"

Nombre del Empleado:

Miguel L. Cordero Trizarray

QUESTIONARIO AL EMPLEADO

PREGUNTAS	RESPUESTAS	COMENTARIOS
¿Cuánto gana usted en su trabajo?	\$ <u>5.75</u>	
¿Ha radicado sus contribuciones sobre ingresos en los últimos 5 años, o desde que comenzó a trabajar?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/> Si, constestó NO, ¿desde cuando? _____	
¿ Su patrono radica y paga las contribuciones para el Seguro por Desempleo e Incapacidad Trimestralmente?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Su patrono paga la Póliza del Fondo del Seguro del Estado?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Se ha accidentado alguna vez en su trabajo?	SI <input type="checkbox"/> NO <input checked="" type="checkbox"/>	
¿Alguna vez ha reclamado los beneficios del Fondo del Seguro del Estado, por concepto de accidentes en su trabajo?	SI <input type="checkbox"/> NO <input checked="" type="checkbox"/>	
¿Está usted seguro que su patrono paga el Seguro Social por el salario que usted devenga?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Su patrono lo ha orientadoo alguna vez sobre la retención de su Seguro Social y la aportación Patronal al mismo?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Cuándo usted cobra en su trabajo; Semanal, Quincenal, Mensual, Trimestral o Anual?	Semanal <input checked="" type="checkbox"/> Quincenal _____ Mensual _____ Trimestral _____ Anual _____	

PROYECTO HEAD START
 Municipio de Peñuelas
 PLAN DE MONITORIA
 "DAVIS BACON ACT"

Nombre del Empleado:

Miguel L. Cordero Izquierdo

QUESTIONARIO AL EMPLEADO

PREGUNTAS	RESPUESTAS	COMENTARIOS
¿Es usted ciudadano de los Estados Unidos de Norte América?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Su patrono le retiene a usted mensualmente contribución sobre ingresos del Salario que usted devenga?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Su patrono le paga a usted el mínimo federal?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Su patrono, le brinda a usted Beneficios Marginales como empleado?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
Mencione los Beneficios Marginales que su patrono le brinda a usted como empleado. Ej. aportaciones a planes medicos, seguros, retiro, bono de navidad, incentivos de producción, etc. ...	1) <u>Seg. Soc.</u> 2) <u>Dieta</u> 3) <u>Despues</u> 4) <u>Fondo Seg.</u> 5) <u>Vacaciones</u>	
¿Su patrono lo trata bien como empleado?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Existe igualdad de oportunidad de empleo en la compañía para la que usted trabaja?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Han discriminado contra usted en la empresa para la cual trabaja actualmente?	SI <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
¿Usted ha sido víctima alguna vez de hostigamiento sexual en su trabajo?	SI <input type="checkbox"/> NO <input checked="" type="checkbox"/>	

**PLANILLA PARA LA DECLARACION TRIMESTRAL DEL PATRONO
—LA CONTRIBUCION FEDERAL AL SEGURO SOCIAL Y AL SEGURO MEDICARE**

Rev. January 1999

Vea la Circular PR para obtener información adicional acerca de contribuciones sobre el empleo.

OMB No 1545-00

Department of the Treasury
Internal Revenue Service

Los patronos de Puerto Rico deberán radicar esta planilla en la oficina del "Internal Revenue Service Center,"
Philadelphia, PA 19255

T
FF
FD
FP
I
T

Nombre del contribuyente o del negocio

Fecha en que terminó el trimestre
(mes y año)

Nombre comercial, si existe

3/00

CORDERO MAINTENANCE

Dirección y código postal "ZIP"

Número de identificación patronal

HC-01 BOX 13402
PUNUCLA, PR 00624

660-565099

Si su dirección no es la misma que apareció en su planilla anterior, marque este encasillado

Para el IRS

6	7	8	8	9	8	8	8	8	8	2	3	3	3	3	3	3	3	3	4	4	4	5	5	5

Si no está obligado a radicar planillas en el futuro, marque este encasillado y anote la fecha en que efectuó el último pago de salarios sujetos a la contribución.

Si usted es patrono estacional (por temporadas), vea Patronos estacionales en la página 2 y marque este encasillado

Complete la línea 1 sólo en el primer trimestre

1	Número de empleados (excepto domésticos) durante el período de nómina en el que cae el 12 de marzo	1	4		
2-5					
6	Salarios sujetos a la contribución al seguro social (Complete la línea 7)	6a	\$ 4035.00 x 12.4% (.124) =	6b	500.36
	Propinas sujetas a la contribución al seguro social	6c	\$ 0.00 x 12.4% (.124) =	6d	0.00
7	Salarios y propinas sujetos a la contribución al Medicare	7a	\$ 4035.00 x 2.9% (.029) =	7b	117.01
8	Total de contribuciones al seguro social y al Medicare (suma las líneas 6b, 6d y 7b)	8			617.37
9	Ajustes a las contribuciones al seguro social y al Medicare (vea las instrucciones acerca de la explicación que debe incluir)	9			
10	Total ajustado de contribuciones al seguro social y al Medicare. Si es de \$1,000 ó más, deberá ser igual al total de la línea 17, columna (d), abajo, o de la línea D del Anexo B (Forma 941-PR).	10			617.36
11-13					
14	Total de depósitos hechos en este trimestre, incluyendo cualquier pago en exceso de un trimestre anterior aplicado a este trimestre	14			0.00
15	Balance pendiente de pago (reste la línea 14 de la línea 10). Vea las instrucciones	15			617.36
16	Contribución pagada en exceso. Si la línea 14 es mayor que la línea 10, anote el exceso aquí				
	\$ _____ y marque si es para:	<input type="checkbox"/>	aplicarse a su próxima planilla	<input type="checkbox"/>	que se le reembolse

- Todos los contribuyentes: Si la línea 10 es menos de \$1,000, no tiene que completar la línea 17 ni el Anexo B (Forma 941-PR).
- Depositantes de itinerario mensual: Complete la línea 17, de la columna (a) a la (d), y marque aquí
- Depositantes de itinerario bisemanal: Complete el Anexo B (Forma 941-PR) y marque aquí

17 Resumen Mensual de la Obligación Contributiva Federal

(a) Obligación del primer mes	(b) Obligación del segundo mes	(c) Obligación del tercer mes	(d) Obligación total para el trimestre
0	0	617.36	617.36

Firme Aquí

Bajo pena de perjurio declaro que he examinado esta planilla (incluyendo los anexos e informes adjuntos) y que, a mi mejor saber y entender, es verdadera, completa y correcta.

Firma

[Signature]

Nombre y título

Propietario

Fecha

4-28-00

COMERCIO
Mant.

COMERCIO MAINTENANCE
E. LLABOA ENCARNACION
CALLE 3 #172
PEÑUELAS, PR 00624

11
101-20

Date: 5/1/00

P

Pay to the Order of I.R.S.

\$ 617.36

Seiscientos Diecisiete con 36/100

BANCO POPULAR
BANCO POPULAR DE PUERTO RICO
Yuma Plaza
Yuma, Puerto Rico

941-72 1872 - 2000 #SP 660-565.099

Luis Cot

⑈001199⑈ ⑈021502011⑈ 153⑈067608⑈



PARA USO DE LA AGENCIA - FOR AGENCY USE ONLY									
FECHA DE PAGO	MES	DIA	AÑO	FORMA DE PAGO	CK	EFE.	COD/SAL	NUM.RECIBO	VERIF.

CORDERO MAINTENANCE
HC-01 BOX 13402
PENUELAS,
PR 00624

SOLICITADO, N
SE HA RECIBIDO
NUMERO CUENTA PATRONAL EST.
STATE EMPLOYER ACCOUNT NUM
Trimestre terminado en: Quarter e
03/31/00 001

Marque algún cambio en su condición de patrono o su dirección. Añote al reverso.
Check if there was change on your employer status, or your mailing address.
Write change on back.

NUMERO EMPLEADOS EN NOMINA		
1er mes	2do mes	3er mes
		4

Numero de trabajadores en su nomina para el periodo de pago que incluye el día 12 de cada mes de este trimestre.
Number of workers on your payroll during the pay period which includes the 12 th day of each month in this quarter.

A	B
SEGURO POR DESEMPLEO UNEMPLOYMENT INSURANCE	SEGURO POR INCAPAC DISABILITY INSURANCE

Total Salarios Pagados (anote en columnas A y B)
Total Wages Paid (enter in columns A and B) 4035.00 4035.0

Salarios Pagados Sujetos a Contribucion
Taxable Wages 4,035.00 4,035.0

Contribucion a Pagar (multiplique por los porcentos en A y B)
Contribution Due (multiply by percentage on A and B) A 5.4 B .008 217.89 242.

Aportacion Especial (multiplique por este porciento)
Special Assessment (multiply item no. 3 by this percentage) 1.00 40.35

Importe del Cheque (sume las cantidades en los encasillados 4 y 5 para el total de la columna A)
Amount of the check (add amounts in items 4 and 5 for total in column A) 258.24

Firma del Patrono u Oficial Autorizado: SIGNATURE OF EMPLOYER OR AUTHORIZED AGENT
8 Titulo/Position PRESIDENTE
9 Fecha/Date 4-28-00



DEPARTAMENTO DEL TRABAJO Y RECURSOS HUMANOS
NEGOCIADO DE SEGURIDAD DE EMPLEO
PO BOX 1020
San Juan, PUERTO RICO 00919-1020

DECLARACION TRIMESTRAL DE SALARIOS PAGADOS A CADA EMPLEADO
QUARTERLY REPORT OF WAGES PAID TO EACH EMPLOYEE

CORDERO MAINTENANCE
HC-01 BOX 13402
PENUELAS PR 00624

Marque si informo los salarios en Cinta Magnetica o Disco Flexible.
Check if you sent the wages in Magnetic Tape or Diskette.

SOLICITADO, N
SE HA RECIBIDO
NUMERO CUENTA PATRONAL EST.
STATE EMPLOYER ACCOUNT NUM
Trimestre terminado en: Quarter e
03/31/00 001

1 Num. de Seguro Social del Empleado Employee's Social Security Account Number	2 Nombre del Empleado (Apellido, nombre, inicial) Employee's Name (last name, first, middle initial)	3 Salarios Pagados al Empleado en Trimestre Total Wages Paid to Employee in the Quarter
582-53-34118	CORDERO ENIZARRY, MIGUEL	994.74
584-08-03910	ROSARIO ROSADO, HERIBERTO	1032.13
581-85-08719	Torres Rodriguez, Victoria J.	1,026.36
582-41-47015	Torres Rodriguez, Julio N.	981.75
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

4 Total Salarios Pagados (debe ser igual al encasillado 2 del PR-SD-10)
Total Wages Paid in Quarter (same as item 2 OF PR-UI-10) 4035.00

Esta Declaracion de Salarios debe acompañarse con la Declaracion de Contribuciones y con cualquier otro Listado de Salarios sometido. This Wage Report should be sent along with any other wage list submitted and with the Contributions Report.

Total de Empleados en la declaracion 4



CORDERO MAINTENANCE
BO TALLABOA ENCARNACION
CALLE 3 #172
PEÑUELAS, PR 00624

1198

101-201/215

Date 5/1/00

Pay to the Order of

Secretario De Hacienda

Veinty Cuatro con _____ 21%

\$ 24.21

Dollars []

BANCO POPULAR

BANCO POPULAR DE PUERTO RICO
Yaqui Plaza
Yaqui Puerto Rico

Let recapite

S.P
660.565099

Luis Cit

⑈001198⑈ ⑆021502011⑆ 153⑈067608⑈



CORDERO MAINTENANCE
BO TALLABOA ENCARNACION
CALLE 3 #172
PEÑUELAS, PR 00624

1197

101-201/215

Date 5/1/00

Pay to the Order of

Secretario De Hacienda

Docientos con cuarenta y ocho con 24%

\$ 258.24

Dollars []

BANCO POPULAR

BANCO POPULAR DE PUERTO RICO
Yaqui Plaza
Yaqui Puerto Rico

Let desempleo 1/2000

S.P
660.565099

Luis Cit

⑈001197⑈ ⑆021502011⑆ 153⑈067608⑈

Investigado por:

Fecha

R M N

PLANILLA TRIMESTRAL DE PATRONO DE CONTRIBUCION SOBRE INGRESOS RETENIDA
EMPLOYER'S QUARTERLY RETURN OF INCOME TAX WITHHELD

PLANILLA ENMENDADA - AMENDED RE

Sello de Recibo
Receipt Stamp

Trimestre que termina el 31 de MARZO de 2000
 Quarter ending on

Nombre del Negocio - Business Name
CORDERO MAINTENAN CE

Número de Identificación Patronal
 Employers Identification Number
660565099

Código Industrial - Industrial Code

Nombre del Patrono o de la Persona Contacto
 Name of Employer or Contact Person

Número de Teléfono - Telephone Number
7878365028

Dirección Postal - Postal Address
HC-01 BOX 13402
PEÑUELAS, PR 00624

Código Postal - Zip Code

Marque uno - Check one:

Corporación Pública
 Public Corporation

Corporación Privada
 Private Corporation

Sociedad - Partnership
 Individuo - Individual

Localización de la Industria o Negocio - Location of Industry or Business
TALLABIA ENCARNAION
CALLE 3 #172, PEÑUELAS, PR 00624

Agencia - Agency:

Federal - Federal
 Estatal - State
 Municipal - Municipal
 Otros - Others

Categoría de depositante - Type of depositor

- Marque una Check one
- (1) Depositante mensual (Complete Partes I y II) - Monthly depositor (Complete Parts I and II)
 - (2) Depositante bisemanal (Complete Partes I y III) - Semiweekly depositor (Complete Parts I and III)
 - (3) Patronos cuya retención no excede \$500 en el trimestre (Complete Partes I y II) - Employers whose withholding do not exceed \$500 in the quarter (Complete Parts I and II)

1. Número máximo de empleados en el período de pago. Maximum number of employees in the pay period..... (1)	4
2. Total de salarios y compensaciones sujetas a retención Total wages and compensations subject to withholding..... (2)	4035.00
3. Total de propinas sujetas a retención Total tips subject to withholding..... (3)	0.00
4. Total de contribución retenida sobre salarios, propinas, pensiones, anualidades y otros Total income tax withheld from wages, tips, pensions, annuities and others..... (4)	.00
5. Crédito por contribución retenida en exceso durante los trimestres anteriores Credit for income tax withheld in excess on previous quarters (5)	0.00
6. Total ajustado de la contribución retenida (Línea 4 menos línea 5) Total adjusted income tax withheld (Subtract line 5 from line 4)..... (6)	198.60
7. Total de depósitos para el trimestre Total deposits for the quarter..... (7)	0.00
8. Balance pendiente de pago (Línea 6 menos línea 7) Balance due (Subtract line 7 from line 6) (8)	198.60
9. Contribución depositada en exceso para acreditar al próximo trimestre Tax deposited in excess to be credited to next quarter..... (9)	0.00

Detalle Retención Mensual Monthly Withholding Detail	(a) Primer mes First month	(b) Segundo mes Second month	(c) Tercer mes Third month	(d) Total trimestre Total quarter
1 Deuda del mes - Month liability	0.00	0.00	198.60	198.60
2 Contribución depositada - Tax deposited	0.00	0.00	0.00	0.00
3 Diferencia - Difference	0.00	0.00	198.60	198.60

Primer mes del trimestre - First month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

1 Deuda del mes - Month liability (1)

2 Depósito total primer mes del trimestre - Total deposit first month of the quarter (2)

Segundo mes del trimestre - Second month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

3 Deuda del mes - Month liability (3)

4 Depósito total segundo mes del trimestre - Total deposit second month of the quarter (4)

Tercer mes del trimestre - Third month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

5 Deuda del mes - Month liability (5)

6 Depósito total tercer mes del trimestre - Total deposit third month of the quarter (6)

7 Total deuda del trimestre (Sume líneas 1, 3 y 5. Igual que la Parte I, línea 4) - Total liability for the quarter (Add lines 1, 3 and 5. Same as Part I, line 4) (7)

8 Total depósitos del trimestre (Sume líneas 2, 4 y 6. Esta cantidad debe ser igual que la Parte I, línea 7) - Total quarter deposits (Add lines 2, 4 and 6. Same as Part I, line 7) (8)

JURAMENTO - OATH

Juro (o afirmo) como agente retenedor, representante legal u oficial autorizado, que esta planilla es cierta, correcta y completa y que la retención se hizo de acuerdo con el Código de Rentas Internas de Puerto Rico de 1994, según enmendado, y sus reglamentos.
 swear (or affirm) as withholding agent, legal representative or authorized official, that this return is true, correct and complete and that the tax withholding was made pursuant to the Puerto Rico Internal Revenue Code of 1994, as amended, and its regulations.

4-28-00
Fecha - Date

PRESIDENTE
Título - Title

Luis C...
Firma del Agente Retenedor, Representante u Oficial Autorizado
Signature of Withholding Agent, Representative or Authorized Official

PARA USO DEL ESPECIALISTA SOLAMENTE - SPECIALIST'S USE ONLY

Nombre del Especialista - Specialist's Name	Numero de Registro - Registration Number	Fecha - Date	Empleado por cuenta propia - Check if self employed <input type="checkbox"/>	Numero Seguro Social del Especialista - Specialist's Social Security Number
Firma del Especialista - Specialist's Signature	Nombre de la Firma - Firm's Name	Número de Identificación Patronal - Employer's Identification Number		
Direccion - Address				
Código Postal - Zip Code				

ORDEN
Mant.

ORDEN MAINTENANCE
BO... ABOA ENCARNACION
CALLE 3 #172
PEÑUELAS, PR 00624

1200
101-201215

5/1/00

P

Pay to the
Order of

Secretaria De Hacienda

\$ 198.60

Ciento noventa y ocho con 00/100

 **BANCO POPULAR**

BANCO POPULAR DE PUERTO RICO
Yucos, Puerto Rico

Income tax retained 3/00 # 58 660-565099

Cur Cit

⑈001200⑈ ⑆021502011⑆ 153⑈067608⑈

**PLANILLA PARA LA DECLARACION TRIMESTRAL DEL PATRONO
—LA CONTRIBUCION FEDERAL AL SEGURO SOCIAL Y AL SEGURO MEDICARE**

Vea la Circular PR para obtener información adicional acerca de contribuciones sobre el empleo.

Department of the Treasury
Internal Revenue Service

Los patronos de Puerto Rico deberán radicar esta planilla en la oficina del "Internal Revenue Service Center," Philadelphia, PA 19255.

T
FF
FD
FP
I
T

Nombre (el de usted, no el del negocio)

Fecha en que terminó el trimestre
(mes y año)

TRADING
Nombre comercial, si existe

03-2000

Dirección y código postal "ZIP"

Número de identificación patronal

4001 AVE 13407 - Ponce, PR

66056-5007

Si su dirección no es la misma que apareció en su planilla anterior, marque este encasillado

Para el IRS

1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	3	3	3	3	3	4	4	4	4	4	4	4	5	5	5	5	5	5	5
6	7	8	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	9	9	9	9	9	9	10	10	10	10	10	10	10	10	10	10	10	10		

Si no está obligado a radicar planillas en el futuro, marque este encasillado y anote la fecha en que efectuó el último pago de salarios sujetos a la contribución.

Si usted es patrono estacional (por temporadas), vea Patronos estacionales en la página 2 y marque este encasillado

Complete la línea 1 sólo en el primer trimestre

1	Número de empleados (excepto domésticos) durante el periodo de nómina en el que cae el 12 de marzo	1	
2-5			
6	Salarios sujetos a la contribución al seguro social (Complete la línea 7)	6a	\$ 7970.90 x 12.4% (.124) = 988.59
	Propinas sujetas a la contribución al seguro social	6c	\$ 0.00 x 12.4% (.124) = 0.00
7	Salarios y propinas sujetos a la contribución al Medicare	7a	\$ 7970.90 x 2.9% (.029) = 231.16
8	Total de contribuciones al seguro social y al Medicare (sume las líneas 6b, 6d y 7b)	8	1219.59
9	Ajustes a las contribuciones al seguro social y al Medicare (vea las instrucciones acerca de la explicación que debe incluir) Compensación por enfermedad \$ 0 ± Fracciones de centavos \$ 0 ± Otro \$ 0 =	9	0.00
10	Total ajustado de contribuciones al seguro social y al Medicare. Si es de \$1,000 ó más, deberá ser igual al total de la línea 17, columna (d), abajo, o de la línea D del Anexo B (Forma 941-PR).	10	1219.59
11-13			
14	Total de depósitos hechos en este trimestre, incluyendo cualquier pago en exceso de un trimestre anterior aplicado a este trimestre	14	0.00
15	Balance pendiente de pago (reste la línea 14 de la línea 10). Vea las instrucciones	15	1219.59
16	Contribución pagada en exceso. Si la línea 14 es mayor que la línea 10, anote el exceso aquí ▶ \$ _____ y marque si es para: <input type="checkbox"/> aplicarse a su próxima planilla <input type="checkbox"/> que se le reembolse		

- Todos los contribuyentes: Si la línea 10 es menos de \$1,000, no tiene que completar la línea 17 ni el Anexo B (Forma 941-PR).
- Depositantes de itinerario mensual: Complete la línea 17, de la columna (a) a la (d), y marque aquí
- Depositantes de itinerario bisemanal: Complete el Anexo B (Forma 941-PR) y marque aquí

17 Resumen Mensual de la Obligación Contributiva Federal

(a) Obligación del primer mes	(b) Obligación del segundo mes	(c) Obligación del tercer mes	(d) Obligación total para el trimestre
<i>345.60</i>	<i>755.10</i>	<i>112.84</i>	<i>1213.54</i>

Firme Aquí

Bajo pena de perjurio, declaro que he examinado esta planilla (incluyendo los anexos e informes adjuntos) y que, a mi mejor saber y entender, es verídica, completa y correcta.

Firma *[Signature]* Nombre y título _____ Fecha *[Date]*



CORDERO MAINTENANCE
 BO LALLAROA ENG. ASSOCIATION
 CALLE 3 #172
 PENUELAS, PR 00983

HANCO POPULAR DE PUERTO RICO
 CAJERA PR
 TEL. 201-275

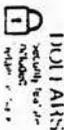
1322

7/31/00

PAY TO THE ORDER OF

T.R.S
will do this for dressmaker car - 55%

\$ 1,219.55



MEMO 2477.200 # 660-565099

⑈001322⑈ ⑈02150201⑈ 153⑈067608⑈

Caro est

PLANILLA TRIMESTRAL DE PATRONO DE CONTRIBUCION
 SOBRE INGRESOS RETENIDA

EMPLOYERS QUARTERLY RETURN OF INCOME TAX WITHHELD

PLANILLA ENMIENDADA - AMENDED RETURN

Sello de Recibo
 Receipt Stamp

Fecha: Trimestre que termina el 30 de JUNIO de 2000
 Quarter ending on

Nombre del Negocio - Business Name
ORDER MAINTENANCE

Nombre del Patrono o de la Persona Contacto
J. Otero

Calle y P.O. Box - Street Address
Box 13402

Ciudad - City
Turkey PK 00624 Código Postal - Zip Code

Lugar de la Industria o Negocio - Location of Industry or Business

Numero de Identificación Patronal
 Employer's Identification Number
660565099

Código Industrial - Industrial Code
1500

Numero de Telefono
 Telephone Number
787 836 5028

Marque uno - Check one

Corporación Pública
 Public Corporation

Corporación Privada
 Private Corporation

Sociedad - Partnership

Individuo - Individual

Agencia - Agency

Federal - Federal

Estatal - State

Municipal - Municipal

Otros - Others

Categoría de depositante - Type of depositor

- Marque una
 Check one
- 1. Depositante mensual (Complete Partes I y II) - Monthly depositor (Complete Parts I and II)
 - 2. Depositante bisemanal (Complete Partes I y III) - Semweekly depositor (Complete Parts I and III)
 - 3. Patronos cuya retención no excede \$500 en el trimestre (Complete Partes I y II) - Employers whose withholding do not exceed \$500 in the quarter (Complete Parts I and II)

Numero maximo de empleados en el periodo de pago Maximum number of employees in the pay period	1	7
Total de salarios y compensaciones sujetas a retención Total wages and compensation subject to withholding	2	7970.00
Total de propinas sujetas a retención Total tips subject to withholding	3	-
Total de contribución retenida sobre salarios, propinas, pensiones, anualidades y otros Total income tax withheld from wages, tips, pensions, annuities and others	4	2.50
Crédito por contribución retenida en exceso durante los trimestres anteriores Credit for income tax withheld in excess on previous quarters	5	0.00
Total ajustado de la contribución retenida (Linea 4 menos línea 5) Total adjusted income tax withheld (Subtract line 5 from line 4)	6	2.50
Total de depósitos para el trimestre Total deposits for the quarter	7	0
Balance pendiente de pago (Linea 6 menos línea 7) Balance due (Subtract line 7 from line 6)	8	374.00
Contribución depositada en exceso para acreditar al próximo trimestre Tax deposited in excess to be credited to next quarter	9	0

Detalle Mensual Retención Monthly Withholding Detail	(a) Primer mes First month	(b) Segundo mes Second month	(c) Tercer mes Third month	(d) Total trimestre Total quarter
Deuda del mes - Month liability	112.95	223.00	38.05	374.00
Contribución depositada - Tax deposited	0.00	0.00	0.00	0.00
Diferencia - Difference	112.95	223.00	38.05	374.00

Parte III Detalle de la contribución retenida durante cada mes del trimestre
Part III Detail of the tax withheld during each month of the quarter

Primer mes del trimestre - First month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

1 Deuda del mes - Month liability
 2 Depósito total primer mes del trimestre - Total deposit first month of the quarter 2

Segundo mes del trimestre - Second month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

3 Deuda del mes - Month liability 3
 4 Depósito total segundo mes del trimestre - Total deposit second month of the quarter 4

Tercer mes del trimestre - Third month of the quarter

1	9	17	25
2	10	18	26
3	11	19	27
4	12	20	28
5	13	21	29
6	14	22	30
7	15	23	31
8	16	24	

5 Deuda del mes - Month liability (5)
 6 Depósito total tercer mes del trimestre - Total deposit third month of the quarter (6)
 7 Total deuda del trimestre (Suma líneas 1, 3 y 5. Igual que la Parte I, línea 4) - Total liability for the quarter (Add lines 1, 3 and 5. Same as Part I, line 4) (7)
 8 Total depósitos del trimestre (Suma líneas 2, 4 y 6. Esta cantidad debe ser igual que la Parte I, línea 7) - Total quarter deposits (Add lines 2, 4 and 6. Same as Part I, line 7) (8)

JURAMENTO - OATH

Juro (o afirmo) como agente retenedor, representante legal u oficial autorizado, que esta planilla es cierta, correcta y completa y que retención se hizo de acuerdo con el Código de Rentas Internas de Puerto Rico de 1994, según enmendado.
 I swear (or affirm) as withholding agent, legal representative or authorized official, that this return is true, correct and complete and that the tax withheld was made pursuant to the Puerto Rico Internal Revenue Code of 1994, as amended.

7/3/00 [Signature] [Signature]
 Fecha - Date Título - Title Firma del Agente Retenedor, Representante u Oficial Autorizado
 Signature of Withholding Agent, Representative or Authorized Official

Para Uso del Especialista Solamente - Specialist's Use Only

Nombre del Especialista - Specialist's Name Número de Registro / Registration Number Fecha - Date Empleado por cuenta propia / Check if self employed Núm. Seguro Social del Especialista / Specialist's Social Security Number
 Firma del Especialista - Specialist's Signature Nombre de la Firma - Firm's Name Número de Identificación Patronal / Employer's Identification Number

Dirección - Address



ORDERO MAINTENANCE
 BO TALLABOA ENCARNACION
 CALLE 3 #172
 PENUELAS, PR 00624

BANCO POPULAR DE PUERTO RICO
 YAUCO,
 101-201/210

1315

7/31/00

PAY TO THE
 ORDER OF

Secretaria de Hacienda

\$ 374.84

Trescientos setenta y cuatro con 84%

DOLLARS
 Security features:
 MICR
 Details on back

MEMO Inc. Ret. 2 QTR - 2000

Cum cd

⑈001315⑈ ⑆021502011⑆ 153⑈067608⑈

ORDERO MAINTENANCE

1315

Secretaria de Hacienda

374.84

Inc Ret 2 QTR. 2000

ORDERO MAINTENANCE

1315

OFICINA DEL COMISIONADO
DE PLANEACION Y PRESUPUESTO

0-070-2 JUN 9 31

RECIBIDO
UNIDAD DE CURSO

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF PEÑUELAS

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Peñuelas
Peñuelas, 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 Peñuelas, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 12, the Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

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

INDEPENDENT AUDITORS' REPORT (Continued)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Peñuelas, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments, and has adopted paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, as of June 30, 2003. In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 8, 2003

Stamp No. 1942244 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

This discussion and analysis presents the highlights of financial activities and financial position for the Municipality of Peñuelas (Municipality). The analysis focuses on significant financial issues, major financial activities and resulting changes in financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Municipality.

FINANCIAL HIGHLIGHTS

The Municipality's net assets decreased by \$1,506,966 (or 17 %)

Governmental activities revenue amounted to \$20,737,707 for the year ended June 30, 2003:

Program Revenue	\$ 9,203,432
General Revenue	\$11,534,275

Overall Municipality's program costs amounted to \$ 16,081,669

Using This Annual Report

The Municipality's annual financial report consists of several sections. Taken together they provide a comprehensive financial look at the Municipality. The components of the report include the following:

Management's Discussion and Analysis. This section of the report provides financial highlights, overview and economic factors affecting the Municipality.

Basic Financial Statements. Includes Statements of Net Assets, Statement of Activities, fund financial statements and the notes to the financial statements. Statements of Net Assets and Activities focus on an entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Municipality.

The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets that the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report (continued)

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The Municipality's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds". Budgetary comparison statements are presented for the General Fund and the Transit Fund (the sole major special revenue fund). Statements for the Municipality's proprietary funds follow the governmental funds and include net assets, revenues, expenses and changes in fund net assets, and cash flows.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Municipality's financial condition.

Other Supplementary Information. Readers desiring additional information on non-major funds can find it in the combining Statements of Non-major Funds and/or the Supplementary Information-Budgetary comparison sections of this report. Components within this section include:

Combining Statements. Major funds are included within the Basic Financial Statements, whereas non-major funds are presented here. These statements include balance sheets and statements of revenues, expenditures and changes in fund balances.

Budgetary Comparisons. Budgetary information for all funds, except General and Debt Service, which are presented within the Basic Financial Statements, is presented here.

Capital Assets and Other Financial Schedules complete the Financial Section of the report.

Statistical Section. Trend information and demographics.

Reports by Independent Certified Public Accountants. Supplemental communication on Municipality compliance and internal controls as required by Federal Agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2002, the Municipality commenced the reporting of infrastructure assets during the current year. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2003. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined negative net assets (excess of liabilities over assets) totaled \$7,805,216 at the end of 2003, compared to negative net assets (excess of liabilities over assets) of \$9,312,182 at the end of the previous year.

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$12,613,730
Capital assets	<u>11,086,021</u>
Total assets	<u>23,699,751</u>
Current liabilities	4,796,973
Noncurrent liabilities	<u>23,558,922</u>
Total liabilities	<u>28,355,895</u>
Invested in capital assets, net of related debt	2,256,971
Restricted	9,765,047
Unrestricted	<u>(16,678,162)</u>
Total net assets	<u>\$ (4,656,144)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets

The Municipality's net assets increased by \$4,656,038. Approximately 42% percent of the Municipality's total revenue came from taxes, while 55% percent resulted from grants and contributions, including federal aid. Charges for Services provided less than 1% percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare, public works, general government, culture and recreation, and public safety. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities
June 30, 2003

Program revenues:

Charges for services	\$194,933
Operating grants and contributions	5,233,569
Capital grants and contributions	3,774,930

General revenues:

Property taxes	4,594,109
Municipal license tax	3,621,384
Other local taxes	586,922
Grants and contributions not restricted to specific programs	2,530,658
Interest and investment earnings	186,760
Miscellaneous	<u>14,442</u>

Total revenues \$20,737,707

Expense:

General government	3,844,571
Public safety	902,536
Public works	3,611,082
Culture and recreation	1,034,697
Health and welfare	5,520,382
Economic development	449,544
Community development	35,853
Education	130,084
Interest on long-term debt	<u>552,920</u>

Total expenses 16,081,669

Change in net assets 4,656,038

Net assets, beginning of year (9,312,182)

Net assets, end of year \$(4,656,144)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$7,816,757, an increase of \$1,921,015 in comparison with the prior year. There are reservations of fund balance amounting to \$10,009,726. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$244,679), 2) to pay debt service (\$1,423,345), 3) to pay for capital projects (\$6,274,159) and 4) for other purposes (\$2,067,543).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a deficit of \$1,948,290.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$18,444,390, net of accumulated depreciation of \$7,358,369, leaving a net book value of \$11,086,021. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2,835,482. Depreciation charges for the year totaled \$672,696.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$1,994,317 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Debt Administration (continued)

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal year.

FINANCIAL CONTACT

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, please contact the Municipality's Finance Director at P.O. Box 10, Peñuelas, Puerto Rico 00624-0010.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,031,021
Cash with fiscal agent	3,492,146
Accounts receivable:	
Intergovernmental	117,844
Federal	972,719
Capital assets	
Land, improvements, and construction in progress	3,808,195
Other capital assets, net of depreciation	7,277,826
Total capital assets	<u>11,086,021</u>
Total assets	<u>23,699,751</u>
 Liabilities	
Accounts payable and accrued liabilities	585,318
Due to other governmental entities	1,236,561
Claims and Judgments	60,000
Deferred revenues:	
Municipal license tax	2,267,586
Federal grant revenues	647,508
Noncurrent liabilities:	
Due within one year	2,136,409
Due in more than one year	<u>21,422,513</u>
Total liabilities	<u>28,355,895</u>
 Net Assets	
Invested in capital assets, net of related debt	2,256,971
Restricted for:	
Capital projects	6,274,159
Debt service	1,423,345
Other purposes	2,067,543
Unrestricted (deficit)	<u>(16,678,162)</u>
Total net assets	<u>\$ (4,656,144)</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 3,844,571	\$ 1,350	\$ -	\$ 875	\$ (3,842,346)
Public safety	902,536	515	92,150	1,569	(808,302)
Public works	3,611,082	41,568	217,478	1,227,873	(2,124,163)
Health and welfare	5,520,382		4,545,209		(975,173)
Culture and recreation	1,034,697	51,500	140,007	2,454,613	1,611,423
Economic development	449,544		99,696		(349,848)
Community development	35,853		117,975	90,000	172,122
Education	130,084	100,000	21,054		(9,030)
Interest on long-term debt	552,920				(552,920)
Total governmental activities	\$ 16,081,669	\$ 194,933	\$ 5,233,569	\$ 3,774,930	(6,878,237)
General revenues:					
Property taxes					4,594,109
Municipal license tax					3,621,384
Other local taxes					586,922
Grants and contributions not restricted to specific programs					2,530,658
Interest and investment earnings					186,760
Miscellaneous					14,442
Total general revenues					11,534,275
Change in net assets					4,656,038
Net assets - beginning					(9,312,182)
Net assets - ending					\$ (4,656,144)

Commonwealth of Puerto Rico
Municipality of Peñuelas
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Other Federal Grants	Special Revenue Fund Head Start	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 141,115	\$ 2,594,901	\$ 318,432	\$ 379,561	\$ 4,279,842	\$ -	\$ 317,170	\$ 8,031,021
Cash with fiscal agent	67,066	7,418			1,994,317	1,423,345		3,492,146
Accounts receivable:								
Intergovernmental	45,410	72,434						117,844
Federal Grants			408,228	564,491				972,719
Due from other funds	1,601,449							1,601,449
Total assets	\$ 1,855,040	\$ 2,674,753	\$ 726,660	\$ 944,052	\$ 6,274,159	\$ 1,423,345	\$ 317,170	\$ 14,215,179
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities	\$ 239,183	\$ 125,647	\$ 420	\$ 220,068	\$ -	\$ -	\$ -	\$ 585,318
Due to other governmental entities	1,236,561							1,236,561
Due to other funds		481,563	448,753	584,153			86,980	1,601,449
Claim and Judgment	60,000							60,000
Deferred revenues:								
Municipal license tax	2,267,586							2,267,586
Federal grant revenues			277,487	139,831			230,190	647,508
Total liabilities	3,803,330	607,210	726,660	944,052	-	-	317,170	6,398,422
Fund balances:								
Reserved for:								
Encumbrances	244,679							244,679
Capital projects					6,274,159			6,274,159
Debt service fund						1,423,345		1,423,345
Other purposes		2,067,543						2,067,543
Reserved reported in nonmajor funds:								
Other purposes								
Unreserved:								
Undesigned (Deficit)	(2,192,969)							(2,192,969)
Total fund balances	(1,948,290)	2,067,543	-	-	6,274,159	1,423,345	-	7,816,757
Total liabilities and fund balances	\$ 1,855,040	\$ 2,674,753	\$ 726,660	\$ 944,052	\$ 6,274,159	\$ 1,423,345	\$ 317,170	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	11,086,021
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(23,558,922)
Net assets of governmental activities	\$ (4,656,144)

Commonwealth of Puerto Rico
Municipality of Peñuelas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start Program	Special Revenue Fund Other Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 3,952,708	\$ -	\$ -	\$ -	\$ -	\$ 641,401	\$ -	\$ 4,594,109
Municipal license taxes	3,621,384							3,621,384
Licenses, permits and other local taxes	586,922							586,922
Charges for services	93,068							93,068
Intergovernmental	2,630,658	459,082			2,699,249			5,788,989
Interest	186,760							186,760
Federal grants			3,725,164	1,348,227			751,336	5,824,727
Miscellaneous	16,266						25,482	41,748
Total revenues	11,087,766	459,082	3,725,164	1,348,227	2,699,249	641,401	776,818	20,737,707
Expenditures								
Current:								
General government	3,893,286	183,003		89,750				4,166,039
Public safety	862,143			8,344				870,487
Public works	3,052,759	519,703		732,960	691,822			4,997,244
Health and welfare	789,403	18,011	3,725,164	187,526			776,818	5,496,922
Culture and recreation	782,647	116,839		264,613	1,305,102			2,469,201
Economic development		449,544						449,544
Community development	112,969	111,867		65,034				289,870
Education	99,164	6,301						105,465
Debt service:								
Principal						534,000		534,000
Interest						552,920		552,920
Total expenditures	9,592,371	1,405,268	3,725,164	1,348,227	1,996,924	1,086,920	776,818	19,931,692
Excess (deficiency) of revenues over (under) expenditures	1,495,395	(946,186)	-	-	702,325	(445,519)	-	806,015
Other financing sources (uses)								
Transfers in		2,055,887				231,500		2,287,387
Transfers out	(2,287,387)							(2,287,387)
Long-term debt issued					1,115,000			1,115,000
Total other financing sources (uses)	(2,287,387)	2,055,887	-	-	1,115,000	231,500	-	1,115,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(791,992)	1,109,701	-	-	1,817,325	(214,019)	-	1,921,015
Fund balance (deficit) beginning, as restated	(1,156,298)	957,842			4,456,834	1,637,364		5,895,742
Fund balance (deficit), ending	\$ (1,948,290)	\$ 2,067,543	\$ -	\$ -	\$ 6,274,159	\$ 1,423,345	\$ -	\$ 7,816,757

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Peñuelas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 1,921,015

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, excluding donated assets. 3,508,178

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds (672,696)

Some expenditures reported in the Governmental Funds require the use of current financial resources, but are not reported as expenses in the Statement of Activities. 480,541

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (581,000)

Change in Net Assets of Governmental Activities \$ 4,656,038

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Peñuelas (the Municipality) was founded on the year 1793. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a twelve member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 14.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Head Start- Is the accounting entity in which revenues derived from the federal agency are used to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) and infants and toddler (birth through age 3) so that the children will attain school readiness.

Special Revenue Fund - Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Project Fund - Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, 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 the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

- 5. Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
- d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

10. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$223,320. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$306,511 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets – Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$11,086,021	
Deduct:		
Bonds Payable	(8,829,050)	\$2,256,971
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		6,274,159
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,423,345
<u>Net assets restricted for other purposes</u>		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

		<u>Total Net Assets - Governmental Activities</u>
Special revenue fund - state and local grants restricted		2,067,543
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$(1,948,290)	
Deduct:		
Bonds Payable	(3,206,950)	
Property Tax Debt - Treasury Department	(4,281,291)	
Treasury Department -Case 93-1611	(9,000)	
Treasury Department - Case 93-2579CCC	(55,670)	
Treasury Department - Case 95-1030	(3,263,085)	
Treasury Department -Social Security	(4,330)	
Property Tax Debt - CRIM-Law-42	(1,740,030)	
Property Tax Debt - CRIM-Law 146	(775,073)	
Compensated Absences	(1,229,953)	
Claims and judgments	<u>(164,490)</u>	<u>(16,678,162)</u>
Total net assets - governmental activities		<u>\$ (4,656,144)</u>

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$141,115, \$2,594,901, \$318,432, \$379,561, \$4,279,842 in the general fund, special revenue fund - federal grants, and capital project fund - local, state and federal grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$317,170, respectively, that were fully collateralized.

The deposits at GDB of approximately \$67,066, that is restricted for other purposes in the general fund, the \$1,994,317, that is restricted principally for capital projects in the capital project fund - local and state grant, the 7,418 in the special revenue fund - state and local grant, and the \$1,423,345 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES

A. **Municipal License Tax**- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. **Intergovernmental Receivables**- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes. The amount receivable from governmental entities is as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	<u>\$ 45,410</u>
Total	<u>\$ 45,410</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by the local government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Comunidades Especiales	\$ 72,434
Total	<u>\$ 72,434</u>

Intergovernmental receivable in other governmental funds represent five expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant	\$ 196,746
Head Start	564,491
Public Assistance Grant	26,802
Edward Byrne Memorial	5,277
Hazard Mitigation	<u>179,403</u>
Total	<u>\$ 972,719</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS (CONTINUED)

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – State and Local Grants	Payroll and related accruals paid and not reimbursed by the special revenue fund-	\$ 481,563
General Fund	Special Revenue Fund – Federal Grants	Payroll and related accruals paid and not reimbursed by the federal programs	448,753
General Fund	Special Revenue Fund – Head Start	Payroll and related accruals paid and not reimbursed by the federal program	584,153
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed by other funds	<u>86,980</u>
Total			<u>\$ 1,601,449</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Local and state grant	Transfer of funds for equipment acquisition and other purpose	\$2,055,887
General Fund	Debt Service Fund	Debt Retirement	<u>231,500</u>
Total			<u>\$2,287,387</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$ 659,123			\$ 659,123
Construction in progress	<u> </u>	<u>\$ 3,149,072</u>	<u> </u>	<u>3,149,072</u>
Total capital assets not being depreciated	<u>659,123</u>	<u>\$3,149,072</u>	<u> </u>	<u>\$3,808,195</u>
Capital assets, being depreciated:				
Buildings	\$5,706,896			\$5,706,896
Buildings improvements				
Infrastructure	4,429,863			4,429,863
Infrastructure improvements	228,502			228,502
Equipment	970,055	57,352		1,027,407
Furnishing				
Computers				
Vehicles	<u>2,941,773</u>	<u>301,754</u>	<u> </u>	<u>3,243,527</u>
Total capital assets being depreciated	<u>\$14,277,089</u>	<u>\$359,106</u>	<u> </u>	<u>\$14,636,195</u>
Less accumulated depreciation for:				
Buildings	\$(1,980,117)	\$(201,864)		\$(2,181,981)
Buildings improvements				
Infrastructure	(1,732,155)	(193,342)		(1,925,497)
Infrastructure improvements	(75,259)	(10,415)		(85,674)
Equipment	(753,197)	(76,549)		(829,746)
Furnishing				
Computers				
Vehicles	<u>(2,144,945)</u>	<u>(190,526)</u>	<u> </u>	<u>(2,335,471)</u>
Total accumulated depreciation	<u>\$(6,685,673)</u>	<u>\$(672,696)</u>	<u> </u>	<u>\$(7,358,369)</u>
Total capital assets being depreciated, net	<u>\$7,591,416</u>	<u>(313,590)</u>	<u> </u>	<u>\$7,277,826</u>
Governmental activities capital assets, net	<u>\$8,250,539</u>	<u>\$2,835,482</u>	<u> </u>	<u>\$11,086,021</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$465,438
Public safety	46,512
Public works	93,337
Culture and recreation	16,970
Health and welfare	24,894
Education	<u>25,545</u>
Total depreciation expense-governmental activities	<u>\$672,696</u>

6. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

Governmental activities:

General Services Administration	\$8,471
CRIM-Property Taxes	1,187,449
Puerto Rico Aqueduct and Sewer Authority	27,405
Department of Labor	<u>13,236</u>
Total	<u>\$1,236,561</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities. The following is the account's balances as of June 30, 2003:

Governmental activities:

Treasury Department - Case 93-1611	\$9,000
Treasury Department - Case 93-2579CCC	55,670
Treasury Department - Case 95-1030	3,263,085
Treasury Department-Property Tax Debt	4,281,291
Treasury Department-Social Security	4,330
Property Tax-Law 42	1,740,030
Property Tax Law 146	<u>\$775,073</u>
Total	<u>\$10,128,479</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$4,281,291.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money. A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government-wide statement of net assets includes an outstanding debt balance of \$1,740,030 and \$775,073 related to Law 42 and Law 146 respectively. In addition, the government-wide statement of net assets includes an outstanding balance of \$3,327,755 and 4,330 related to claims and judgments paid by the treasury department and prior year's social security debt respectively.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. PROPERTY TAXES (CONTINUED)

The annual tax rate is 8.33% for real property and 6.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

8. DEFERRED REVENUES

- A. Municipal License Tax-** The deferred revenues of approximately \$2,267,586 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.
- B. Federal Government-** The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	\$230,190
Head Start Program	139,831
Emergency Management State and Local Assistance	11,268
Public Safety Partnership and Community Policing Grant	113,533
Public Assistance grant-Hortense	21,797
Local Law Enforcement Block Grant	2,658
Community Service Block Grant	9,975
Others	<u>118,256</u>
Total	<u>\$647,508</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$11,360,000	\$1,115,000	\$(439,000)	\$12,036,000	\$485,000
Notes Payable	95,000		(95,000)	-	-
Property Tax Debt- Treasury Department	4,341,291		(60,000)	4,281,291	310,000
Treasury Department-Case 93-1611	27,000		(18,000)	9,000	9,000
Treasury Department-Case 93-2579CCC	90,830		(35,160)	55,670	35,160
Treasury Department-Case 95-1030	3,359,085		(96,000)	3,263,085	162,000
Treasury Department- Social Security	35,530		(31,200)	4,330	4,330
Department of Labor- Payment Plan	18,813		(18,813)	-	-
Property Tax Debt-CRIM- Law-42	1,831,386		(91,356)	1,740,030	91,356
Property Tax Debt-CRIM- Law 146	775,073			775,073	775,073
Compensated Absences	1,329,965		(100,012)	1,229,953	100,000
Claims and judgments	<u>194,490</u>	<u> </u>	<u>(30,000)</u>	<u>164,490</u>	<u>164,490</u>
Total	<u>\$23,458,463</u>	<u>\$1,115,000</u>	<u>\$(1,014,541)</u>	<u>\$23,558,922</u>	<u>\$2,136,409</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$1,115,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1983-Series	1-1-2005	182,000	5.00%	\$22,000
1985-Series	1-1-2005	125,000	5.00%	19,000
1990-Series	7-1-2004	315,000	3.26% to 8.40%	80,000
1994-Series	7-1-2003	1,175,000	5.00% to 8.00%	160,000
1999-Series	7-1-2018	2,630,000	5.00% to 7.81%	2,430,000
2000-Series	7-1-2026	1,760,000	5.00% to 7.00%	1,460,000
2001-Series	7-1-2010	1,300,000	5.00% to 8.00%	1,195,000
2001-Series	7-1-2017	1,070,000	5.00% to 8.00%	1,010,000
2002-Series	7-1-2026	135,000	5.00% to 7.00%	130,000
2002-Series	7-1-2021	475,000	5.00% to 7.00%	465,000
2002-Series	7-1-2026	1,965,000	5.00% to 7.00%	1,935,000
2002-Series	7-1-2026	2,085,000	5.00% to 7.00%	2,015,000
2003-Series	7-1-2027	\$1,115,000	5.00% to 6.50%	<u>1,115,000</u>
Total general obligation bonds				<u>\$12,036,000</u>

These bonds, except the 2000 and 2002 Series amounting to \$3,475,000. Bonds, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$485,000	\$622,945
2005	356,000	727,481
2006	315,000	709,579
2007	335,000	692,286
2008	360,000	673,647
2009-2013	2,235,000	3,018,095
2014-2018	3,170,000	2,226,645
2019-2023	2,600,000	1,266,135
2024-2028	<u>2,180,000</u>	<u>337,512</u>
Total	<u>\$12,036,000</u>	<u>\$10,274,325</u>

3. Property Tax Debt- These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections and other debts.

4. Compensated absences- The government-wide statement of net assets includes approximately \$777,248 of accrued sick leave benefits, and approximately \$452,705 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. PENSION PLAN (CONTINUED)

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$259,192 and \$290,514, respectively.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. PENSION PLAN (CONTINUED)

Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

11. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

12. CAPITAL ASSETS REPORTED VALUE:

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

13. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$164,490 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

13. CONTINGENCIES (continued)

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$91,451 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the correction of beginning cash balances.

The beginning Fund Balance for Special Revenue has been restated by approximately \$106,483 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the elimination of a liability.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$232,739 to properly presents the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2001-2002.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$2,094,563	\$4,082,419	\$4,082,419	\$-
Municipal license tax	2,568,865	2,458,558	2,429,003	(29,555)
Licenses, permits and other local taxes	502,300	540,150	586,922	46,772
Charges for service	45,500	67,467	93,068	25,601
Intergovernmental	3,991,741	3,909,857	3,903,187	(6,670)
Rent of property	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest	75,000	195,873	201,199	5,326
Miscellaneous	<u>721,835</u>	<u>845,480</u>	<u>1,387,122</u>	<u>541,642</u>
Total revenues and other financing sources	<u>9,999,804</u>	<u>12,099,804</u>	<u>12,682,920</u>	<u>583,116</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$4,169,489	\$6,317,928	\$6,169,622	\$148,306
Public safety	947,720	871,337	865,120	6,217
Public works	3,159,254	3,122,880	3,083,693	39,187
Health and welfare	812,075	767,795	790,987	(23,192)
Culture and recreation	658,193	802,731	793,728	9,003
Economic development				
Community development	156,829	116,589	112,970	3,619
Urban development				
Education	96,244	100,544	99,164	1,380
Operating transfer to other fund				
Total expenditures, encumbrances and other financing uses	<u>9,999,804</u>	<u>12,099,804</u>	<u>11,915,284</u>	<u>184,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>767,636</u>	<u>767,636</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				<u>12,682,920</u>
Differences-budget to GAAP:				
Nonbudgeted revenues				<u>(1,595,154)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>11,087,766</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				<u>11,915,284</u>
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				<u>(2,287,387)</u>
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				115,818
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(151,344)</u>
				<u>\$9,592,371</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PEÑUELAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.