

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

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULE**

**SINGLE AUDIT REPORT**

**With Independent Auditors' Report Thereon  
JUNE 30, 2006**



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

CONTENTS

	Page
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditor's Report	1-2
Required Supplemental Information (Part 1) Management's Discussion and Analysis	3-10
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Notes to basic financial statements	16-38
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplemental Information (Part II):	
Budgetary Comparison Schedule-General Fund	39
Notes to Budgetary Comparison Schedule-General Fund	40
Schedule of expenditures of federal awards	41-42
Notes to the schedule of expenditures of federal awards	43
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Independent auditor's report on compliance and on internal control over financial reporting based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i>	44-45

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

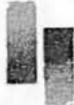
SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2006

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CONTENTS - (CONTINUED)

	Page
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u></b>	
Independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A- 133	46-47
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of findings and questioned cost	48-70
Summary schedule of prior year audit findings	71



**MENDOZA & RAMOS**  
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

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

INDEPENDENT AUDITOR'S REPORT

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, 2006, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

As 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, 2006, and the changes in financial position, thereof for the year then ended.

MUNICIPALITY OF PEÑUELAS  
INDEPENDENT AUDITOR'S REPORT  
PAGE 2

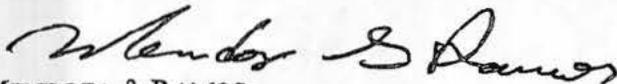
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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality of Peñuelas, Puerto Rico, as of June 30, 2006, 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.

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 a report dated February 28, 2007, on our consideration of the Municipality's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



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

Guayama, Puerto Rico  
December 1, 2006

Stamp number 2134171 was  
affixed to the original of this report.



PART I

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006

This discussion and analysis of the Municipality of Peñuelas (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2006. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2003, first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments.*" This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following mayor information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2006 deserve special mention:

1. Total assets of the Municipality amounted to \$34,145,597 which represents an increase of 2.5% compared to prior fiscal year.
2. At the end of fiscal year 2006, total liabilities amounted to \$31,787,738. Out of said amount, \$25,767,830 corresponded to long-term liabilities of which \$21,726,000 represented the outstanding balance of bonds issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$2,357,859 which represents an increase of 1,077% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$20,785,336, derived from the following sources: \$40,630 charges for services; \$7,035,772 from operating grants and contributions; \$1,030,386

#### FINANCIAL HIGHLIGHTS (CONTINUED)

from capital grants and contributions obtained from other sources, and \$12,668,548 from general revenues available.

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$18,175,212
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a increase in the Net Assets figure by \$2,610,124.
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$12,605,133.
8. As the end of the current fiscal year the Municipality's General Fund balance amounted to \$1,191,252, compared to a fund balance of \$164,096 in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in a favorable balance of \$972,114, caused mainly due to unexpected variances in revenue collections from interest and miscellaneous sources and savings in general government and public safety expenses.

#### FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2006. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

#### FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Peñuelas constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2006, shows total expenses incurred to afford the cost of all functions and programs amounted to \$18,175,212. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$8,106,788 was derived from the following sources: \$40,630 charges for services; \$7,035,772 from operating grants and contributions; and \$1,030,386 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$12,678,548. When such figure is added to the \$8,106,788 previously mentioned, total revenues available for the financing of activities amounted to \$20,785,336. There was an excess of revenues over expenses in the amount of \$2,610,124 which contributed with a increase to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

## INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

### Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Peñuelas, primary government liabilities exceeded total assets by \$2,357,859 at the end of 2006, compared to (\$242,265) at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condensed Statement of Net Assets	2006	2005	Change	%
<b>Assets</b>				
Current assets	\$ 18,246,414	\$ 20,185,042	\$ (1,938,628)	-9.6%
Capital assets	15,899,183	13,479,874	2,419,309	17.9%
<b>Total assets</b>	<b>34,145,597</b>	<b>33,664,916</b>	<b>480,681</b>	<b>1.4%</b>
<b>Liabilities</b>				
Current liabilities	7,218,987	8,977,088	(1,758,101)	-19.6%
Non-current liabilities:	24,568,751	24,930,093	(361,342)	-1.4%
<b>Total liabilities</b>	<b>31,787,738</b>	<b>33,906,181</b>	<b>(2,119,443)</b>	<b>-6.3%</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	459,183	(980,126)	1,439,309	-146.8%
Restricted	11,069,535	11,099,334	(29,799)	-0.3%
Unrestricted (deficit)	(9,170,859)	(10,361,473)	1,190,614	-11.5%
<b>Total net assets</b>	<b>\$ 2,357,859</b>	<b>\$ (242,265)</b>	<b>\$ 2,600,124</b>	<b>-1,073.3%</b>

Municipality of Peñuelas  
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2006, the net effect of revenues derived from several programs plus current operating revenues compared to the total expenses, amounted to \$2,610,124 increase in the Municipality's net assets. Approximately 40 percent of the Municipality's total revenue came from taxes, while 55 percent resulted from grants and contributions, including federal aid. Charges for Services and other miscellaneous revenues provided 5 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, health and welfare services and public works. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statement of Activities	2006	2005	Change	%
<b>REVENUES</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 40,630	\$ 78,348	\$ (37,718)	-48.1%
Operating Grants and Contributions	7,035,772	6,643,600	392,172	5.9%
Capital Grants and Contributions	1,030,386	3,108,845	(2,078,459)	-66.9%
Total Program Revenues	8,106,788	9,830,793	(1,724,005)	-17.5%
<b>General Revenues and Special Items:</b>				
Property taxes	4,758,221	4,533,839	224,382	4.9%
Municipal license tax	2,949,607	2,577,699	371,908	14.4%
Other local taxes	652,471	921,362	(268,891)	-29.2%
Grants and contributions not restricted to specific programs	3,265,294	2,599,801	665,493	25.6%
Interest and investment earnings	447,307	113,559	333,748	293.9%
Miscellaneous	605,648	111,393	494,255	443.7%
Special items		2,627,754	(2,627,754)	100.0%
Total General Revenues and Special Items	12,678,548	13,485,407	(806,859)	-6.0%
Total Revenues	20,785,336	23,316,200	(2,530,864)	-10.9%
<b>EXPENSES</b>				
General government	4,498,630	4,462,603	36,027	0.8%
Public safety	1,418,401	812,050	606,351	74.7%
Public works	3,318,264	2,469,904	848,360	34.3%
Health and welfare	5,560,299	5,456,083	104,216	1.9%
Culture and recreation	589,014	1,181,973	(592,959)	-50.2%
Economic development	522,934	577,466	(54,532)	-9.4%
Community development	447,530	1,119,419	(671,889)	-60.0%
Education	159,733	253,340	( 93,607)	-36.9%
Public lighting	872,517	734,157	138,360	18.8%
Interest on long-term debt	787,890	580,801	207,089	35.7%
Total Expenses	18,175,212	17,647,796	527,416	3.0%
Change in net assets	2,610,124	5,668,404	(3,058,280)	-54.0%

Municipality of Peñuelas  
 Management's Discussion and Analysis

Net assets (deficit) - beginning, as restated	(242,265)	(5,910,669)	5,668,404	-95.9%
Net assets (deficit) - ending	<u>\$ 2,367,859</u>	<u>\$ (242,265)</u>	<u>\$ 2,610,124</u>	1,077.4%

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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 \$12,605,133 an increase of \$1,180,003 in comparison with the prior year. There are reservations of fund balance amounting to \$11,485,939. 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 (\$72,058), 2) to pay debt service (\$2,982,793), 3) to pay for capital projects (\$7,164,378) and 4) for other purposes (\$1,266,710).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2006, the general fund has an undesignated fund balance of \$1,119,194.

**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.

The actual General Fund budgetary activities resulted in a favorable balance of \$972,114, caused mainly due to unexpected variances in revenue collections from interest and miscellaneous sources and savings in general government and public safety expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

The Municipality has not maintained complete and adequate records related to the Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirement. The Municipal Administration expects to develop a broad and comprehensive identification and assessments project of all fixed assets owned by the local government in order to capitalize them in its Statement of Net Assets, and then, reflects the correct net assets figure of the Municipality as a whole.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality's investment in capital assets as of June 30, 2006, amounts to \$25,708,239, net of accumulated depreciation of \$9,809,056 (including depreciation charges for the year totaled \$903,927), leaving a net book value of \$15,899,183. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure and vehicles. 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 Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes 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, 2006, the Municipality has \$5,238,222 of unexpended proceeds mainly from bond and notes 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.

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").

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 and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)**

predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2006-2007.

**FINAL COMMENTS**

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2006. It further contemplates to improve its current figure of net assets, which has been identified as one of the main short and long-term objectives of the Municipality.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 10, Peñuelas, Puerto Rico 00624-0010, or call (787) 836-1218.

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Statement of Net Assets  
June 30, 2006

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 8,681,370
Cash with fiscal agent	8,046,231
Accounts receivable:	
Municipal license tax	-
Property tax	270,735
Intergovernmental	500,363
Federal	640,440
Other	107,275
Capital assets	
Land, improvements, and construction in progress	3,953,359
Other capital assets, net of depreciation	11,945,824
Total capital assets	15,899,183
<b>Total assets</b>	34,145,597
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	1,341,467
Due to other governmental entities	8,998
Claims and Judgments	
Deferred revenues:	
Municipal license tax	3,331,202
Federal grant revenues	921,837
Other	
Interest payable	416,404
Noncurrent liabilities:	
Due within one year	1,199,079
Due in more than one year	24,568,751
<b>Total liabilities</b>	31,787,738
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	459,183
Restricted for:	
Capital projects	7,164,378
Debt service	2,566,389
Other purposes	1,338,768
Unrestricted (deficit)	(9,170,859)
<b>Total net assets</b>	\$ 2,357,859

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, 2006**

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	4,498,630		1,200		\$ (4,497,430)
Public safety	1,418,401	372	493,537		(924,492)
Public works	3,318,264	5,820	260,426	457,243	(2,594,775)
Health and welfare	5,560,299		4,636,820		(923,479)
Culture and recreation	589,014	34,438		176,798	106,297
Economic development	522,934		484,075		(235,737)
Community development	447,530			396,345	821,332
Education	159,733		287,197		(159,733)
Public lighting	872,517		872,517		(872,517)
Interest on long-term debt	787,890				(787,890)
<b>Total governmental activities</b>	<b>\$ 18,175,212</b>	<b>\$ 40,630</b>	<b>\$ 7,035,772</b>	<b>\$ 1,030,386</b>	<b>(10,068,424)</b>
General revenues and special items:					
Property taxes					4,748,221
Municipal license tax					2,949,607
Other local taxes					652,471
Grants and contributions not restricted to specific programs					3,265,294
Interest and investment earnings					447,307
Miscellaneous					605,648
<b>Total general revenues</b>					<b>12,668,548</b>
Change in net assets					2,600,124
Net assets (deficit) - beginning, as restated					(242,265)
Net assets (deficit) - ending					<b>\$ 2,357,859</b>

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Balance Sheet-Governmental Funds  
June 30, 2006

	General Fund	Special Revenue Fund Head Start	Capital Project Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 3,422,606	\$ 254,466	\$ 2,717,932	\$ -	\$ 2,286,366	\$ 8,681,370
Cash with fiscal agent	70,757		5,238,222	2,729,834	7,418	8,046,231
Accounts receivable:						-
Intergovernmental	135,744	253,870	133,994	270,735	617,195	1,411,538
Other	60,408			9,090		69,498
Due from other funds	1,234,409					1,234,409
<b>Total assets</b>	<b>\$ 4,923,924</b>	<b>\$ 508,336</b>	<b>\$ 8,090,148</b>	<b>\$ 3,009,659</b>	<b>\$ 2,910,979</b>	<b>\$ 19,443,046</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities :</b>						
Accounts payable and accrued liabilities	\$ 392,472	\$ 137,240	\$ 728,378	\$ -	\$ 83,377	\$ 1,341,467
Due to other governmental entities	8,998					8,998
Due to other funds		244,017	197,392	26,866	766,134	1,234,409
Claim and Judgment						-
Deferred revenues:						-
Municipal license tax	3,331,202					3,331,202
Federal grant revenues		127,079			794,758	921,837
<b>Total liabilities</b>	<b>3,732,672</b>	<b>508,336</b>	<b>925,770</b>	<b>26,866</b>	<b>1,644,269</b>	<b>6,837,913</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Encumbrances	72,058					72,058
Capital projects			7,164,378			7,164,378
Debt service fund				2,982,793		2,982,793
Other purposes					1,266,710	1,266,710
<b>Reserved reported in nonmajor funds:</b>						
Other purposes						
<b>Unreserved:</b>						
Undesigned (Deficit)	1,119,194					1,119,194
<b>Total fund balances</b>	<b>1,191,252</b>	<b>-</b>	<b>7,164,378</b>	<b>2,982,793</b>	<b>1,266,710</b>	<b>12,605,133</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,923,924</b>	<b>\$ 508,336</b>	<b>\$ 8,090,148</b>	<b>\$ 3,009,659</b>	<b>\$ 2,910,979</b>	<b>\$ 19,443,046</b>

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

	General Fund	Special Revenue Fund Head Start Program	Capital Project Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 3,520,022			\$ 1,228,199		\$ 4,748,221
Municipal license taxes	2,949,607					2,949,607
Licenses, permits and other local taxes	616,894					616,894
Charges for services	40,630					40,630
Intergovernmental	4,189,540		\$ 564,060		\$ 975,575	5,729,175
Interest	447,307					447,307
Federal grants		\$ 3,635,432			1,966,845	5,602,277
Miscellaneous	603,448					603,448
<b>Total revenues</b>	<b>12,367,448</b>	<b>3,635,432</b>	<b>564,060</b>	<b>1,228,199</b>	<b>2,942,420</b>	<b>20,737,559</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	4,721,613				104,702	4,826,315
Public safety	880,151				493,537	1,373,688
Public works	3,356,161		979,543		48,024	4,383,728
Health and welfare	854,963	3,635,432			1,040,863	5,531,258
Culture and recreation	766,202		1,345,501		96,108	2,207,811
Economic development					522,934	522,934
Community development					679,303	679,303
Education	135,635				8,994	144,629
Public lighting						-
<b>Debt service:</b>						
Principal				586,480		586,480
Interest				691,410		691,410
<b>Total expenditures</b>	<b>10,714,725</b>	<b>3,635,432</b>	<b>2,325,044</b>	<b>1,277,890</b>	<b>2,994,465</b>	<b>20,947,556</b>
Excess (deficiency) of revenues over (under) expenditures	1,652,723	-	(1,760,984)	(49,691)	147,955	(9,997)
<b>Other financing sources (uses)</b>						
Transfers in				425,567	359,504	785,071
Transfers out	(625,567)			(159,504)		(785,071)
Long-term debt issued			1,390,000			1,390,000
<b>Total other financing sources (uses)</b>	<b>(625,567)</b>	<b>-</b>	<b>1,390,000</b>	<b>266,063</b>	<b>359,504</b>	<b>1,390,000</b>
<b>Net change in fund balances</b>	<b>1,027,156</b>		<b>(370,984)</b>	<b>216,372</b>	<b>507,459</b>	<b>1,180,003</b>
Fund balance beginning, as restated	164,096		7,535,362	2,766,421	959,251	11,425,130
<b>Fund balance, ending</b>	<b>\$ 1,191,252</b>	<b>\$ -</b>	<b>\$ 7,164,378</b>	<b>\$ 2,982,793</b>	<b>\$ 1,466,710</b>	<b>\$ 12,605,133</b>

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, 2006

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Net Change in Fund Balances - Total Governmental Funds \$ 1,180,003

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. 3,328,236

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change 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. (908,927)

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year. (199,228)

Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. (900,000)

Repayment of long term Claims and Judgments debts is an expenditure in Governmental Funds, but the repayment reduces long -term Claims and Judgments debts in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 35,207

Accounts receivables not collected 60 days after the closing date are not recognize in Governmental Funds, but these receivables are reported n the Government-Wide Statements of Activities and Change in Net Assets. 37,777

Repayment of long term Treasury Department debt is an expenditure in Governmental Funds, but the repayment reduces long -term debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term debt with the Treasury Department from prior 91,158

Long-term compensated absences are 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, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior (64,102)

Change in Net Assets of Governmental Activities \$ 2,600,124

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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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 fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include 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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality has elected to delay the capitalization of infrastructure.

The following is a summary of the significant accounting policies of the Municipality:

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, as amended by GASB Statement No. 39. The basic, but not the only criterion for including a potential component unit within the

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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 - 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.

*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.

*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.

*Non Major Governmental Funds* - is the accounting entity in which revenues derived from local funds, state grants, federal grants or other restricted revenue source, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state and federal statutes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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* - 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 - 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.

*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.

*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.

*Other Funds- 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 are accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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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  
YEAR ENDED JUNE 30, 2006

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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  
YEAR ENDED JUNE 30, 2006

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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 represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on revenue estimates made by the PREPA and actual transactions during the current fiscal year, because the final contribution amount from the PREPA was not available at the date of release of the basic financial statements. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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.
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 Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2006 amounted to approximately \$170,359. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$376,116 for workers compensation insurance covering all municipal employees.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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

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</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 15,899,183	
Deduct:		
Bonds Payable	<u>(15,440,000)</u>	\$ 459,183
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		7,164,378
<u>Net assets restricted for debt service</u>		
Debt service fund - fund balance	\$ 2,982,793	
Deduct:		
Interest payable	<u>(416,404)</u>	2,566,389
<u>Net assets restricted for other purposes</u>		
Special revenue fund - local and state grants restricted		1,338,768
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$ 1,119,194	
Add: Accounts Receivables	37,777	
Deduct:		
Bonds Payable	(6,286,000)	
Property Tax Debt	(2,556,799)	
Compensated Absences	(1,373,808)	
Claims and judgment debts	<u>(111,223)</u>	<u>(9,170,859)</u>
Total net assets - governmental activities		<u>\$ 2,357,859</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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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 \$3,422,606 in the general fund, \$254,466 in the special revenue fund - head start, and \$2,717,932 in the capital project fund - local, state and federal grants were fully collateralized at June 30, 2006. In the other governmental funds there were deposits with commercial banks of approximately \$2,286,366 that were fully collateralized.

The deposits at GDB of approximately \$70,757, that is restricted for other purposes in the general fund, the \$7,418 in the other governmental funds, the \$5,238,222 that is restricted principally for capital projects in the capital project fund - local, state and federal grants, and the \$2,729,834 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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, 2006, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.40% 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, 2006, 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

3. RECEIVABLES (CONTINUED)

B. *Intergovernmental Receivables*- Intergovernmental receivables in the general fund principally consist of the amount due from the Municipal Revenue Collection Center ("CRIM") because the property tax advances remitted to the Municipality during the fiscal year 2005-2006 was less than the tax actually collected. In addition, intergovernmental receivables in the general fund consist of the amount owned by the Department of Education of the Commonwealth of Puerto Rico resulting for transportation services rendered by the Municipality. The amount receivable from governmental entities is as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 131,744
Department of Education	<u>4,000</u>
Total	<u>\$ 135,744</u>

On September 7, 2004, Act Num. 255 was enacted and a new formula as described in Note 1 (E) (2), was established for the calculation of the contribution in lieu of taxes to be paid to the municipalities by PREPA. Since the final liquidation following such formula was not available for fiscal year 2005-2006, an estimated amount was recognized, based on the estimate contributions in lieu of taxes determined by PREPA for the current fiscal year.

Intergovernmental receivable of \$253,870 in special revenue fund - head start represent expenditures incurred not yet reimbursed by the pass-through grantor.

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by the following program:

<u>Program Description</u>	<u>Amount</u>
Department of Labor- Law 52 Grant	\$ 230,625
Community Development Block Grant	359,625
Public Assistance Grant	5,768
Edward Byrne Memorial	552
Hazard Mitigation	<u>20,625</u>
Total	<u>\$ 617,195</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in capital project fund – local, state and federal grants represent expenditures incurred not yet reimbursed by another governmental entity. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Rural Development Corporation	\$ <u>133,994</u>
Total	\$ <u>133,994</u>

Intergovernmental receivable in the debt service fund represents the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ <u>270,735</u>
Total	\$ <u>270,735</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2006, and interfund transfers during the fiscal year ended at June 30, 2006, are summarized as follows:

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 - Head Start	Payroll and related accruals paid and not reimbursed.	244,017
General Fund	Capital Project Fund – Local, State and Federal Grants	Reimbursable expenditures	197,392
General Fund	Debt Service Fund	Interest Revenue	26,866
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures.	<u>766,134</u>
Total			<u>\$ 1,234,409</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	\$ 425,567
General Fund	Special Revenue Fund - Local and State Grants	Public works	200,000
Debt Service Fund	Special Revenue Fund - Local and State Grants	Equipment acquisition	<u>159,504</u>
Total			<u>\$ 785,071</u>

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live 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 2006, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital asset, not being depreciated:				
Land	\$ 659,123			\$ 659,123
Construction in progress	<u>2,935,595</u>	<u>\$ 3,294,236</u>	<u>\$ (2,935,595)</u>	<u>3,294,236</u>
Total capital assets not being depreciated	<u>\$ 3,594,718</u>	<u>\$ 3,294,236</u>	<u>\$ (2,935,595)</u>	<u>\$ 3,953,359</u>
Capital assets, being depreciated:				
Buildings	\$ 7,454,958		\$ 1,209,582	\$ 8,664,541
Buildings improvements				
Infrastructure	5,830,872		1,726,013	7,556,885
Infrastructure improvements	228,502			228,502
Equipment	1,318,126	\$ 33,400		1,352,126
Furnishing				
Computers				
Vehicles	<u>3,952,826</u>	<u>          -</u>	<u>          -</u>	<u>3,952,826</u>
Total capital assets being depreciated	<u>\$ 18,785,285</u>	<u>\$ 33,400</u>	<u>\$ 2,935,596</u>	<u>\$ 21,754,880</u>
Less accumulated depreciation for:				
Buildings	\$ (2,631,334)	\$ (288,023)		\$ (2,919,357)
Buildings improvements				
Infrastructure	(2,368,751)	(317,321)		(2,686,072)
Infrastructure Improvements	(106,533)	(10,411)		(116,944)
Equipment	(1,019,916)	(89,912)		(1,109,828)
Furnishing				
Computers				
Vehicles	<u>(2,773,595)</u>	<u>(203,260)</u>	<u>          -</u>	<u>(2,976,855)</u>
Total accumulated depreciation	<u>\$ (8,900,129)</u>	<u>\$ (908,927)</u>	<u>\$          -</u>	<u>\$ (9,809,056)</u>
Total capital assets being depreciated, net	<u>\$ 9,885,156</u>	<u>\$ (874,928)</u>	<u>\$          -</u>	<u>\$ 11,945,824</u>
Governmental activities capital assets, net	<u>\$ 13,479,875</u>	<u>\$ 2,419,308</u>	<u>\$          -</u>	<u>\$ 15,899,183</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 480,283
Public safety	36,380
Public works	260,716
Culture and recreation	93,812
Education	14,464
Health and welfare	<u>23,272</u>
Total depreciation expense-governmental activities	<u>\$ 908,927</u>

6. PROPERTY TAXES

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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6. PROPERTY TAXES (CONTINUED)

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.

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 Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the Indicated Law.

The government-wide statement of net assets includes an outstanding debt balance of \$1,463,291 and \$775,073 related to Law 42 and Law 146, respectively at June 30, 2006.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

6. PROPERTY TAXES (CONTINUED)

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.

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.

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 528
General Services Administration	<u>8,470</u>
Total	<u>\$ 8,998</u>

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$3,331,202 in the general fund relates to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

Federal Government- The deferred revenues presented in the special revenue fund - head start represents the portion of federal grant 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>
Child and Adult Care Food Program	<u>\$ 127,079</u>
Total	<u>\$ 127,079</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

8. DEFERRED REVENUES (CONTINUED)

The deferred revenues presented in other governmental funds represent 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	\$ 676,677
Public Assistance Grant	47,724
Emergency Management - State and Local Assistance	4,355
Local Law Enforcement Block Grant	2,661
Others	<u>63,340</u>
Total	<u>\$ 794,758</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, 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	\$20,826,000	\$1,390,000	\$ (490,000)	\$21,726,000	\$ 580,000
Property Tax Debt	2,647,957		(91,158)	2,556,799	409,593
Treasury Department-Claims	146,430		(35,207)	111,223	35,207
Compensated Absences	1,309,706	943,552	(878,450)	1,373,808	174,280
Claims and Judgments	-	-	-	-	-
Total	<u>\$24,930,093</u>	<u>\$2,332,552</u>	<u>\$(1,494,815)</u>	<u>\$25,767,830</u>	<u>\$1,199,079</u>

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, is paid with unrestricted funds.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED)

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 Assembly authorized a bonds issuance for approximately \$1,390,000, as described in the Note 3 (B). Bonds payable outstanding at June 30, 2006 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, 2006</u>
1999-Series	7-1-2018	\$ 2,630,000	5.00% to 7.81%	2,160,000
2000-Series	7-1-2026	1,760,000	5.00% to 7.00%	1,380,000
2001-Series	7-1-2010	1,300,000	5.00% to 8.00%	1,135,000
2001-Series	7-1-2017	1,070,000	5.00% to 8.00%	890,000
2002-Series	7-1-2026	135,000	5.00% to 7.00%	115,000
2002-Series	7-1-2021	475,000	5.00% to 7.00%	425,000
2002-Series	7-1-2026	1,965,000	5.00% to 7.00%	1,825,000
2002-Series	7-1-2026	2,085,000	5.00% to 7.00%	1,890,000
2004-Series	7-1-2027	1,115,000	5.00% to 6.50%	1,060,000
2004-Series	7-1-2014	1,195,000	5.00%	1,100,000
2005-Series	7-1-2030	1,730,000	5.00%	1,730,000
2005-Series	7-1-2030	3,021,000	5.00%	3,016,000
2005-Series	7-1-2030	3,685,000	5.00%	3,610,000
2006-Series	7-1-2030	1,390,000	6.25% to 7.25%	<u>1,390,000</u>
Total general obligation bonds				<u>\$ 21,726,000</u>

These bonds, except the \$1,760,000 Bonds 2000 Series, \$ 2,085,000 Bonds 2002 Series and the \$3,021,000 Bonds 2005 Series, 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.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 580,000	\$ 1,242,360
2008	620,000	1,195,097
2009	655,000	1,194,945
2010	710,000	1,158,967
2011	750,000	1,115,165
2012-2016	4,595,000	4,841,789
2017-2021	4,970,000	3,423,598
2022-2026	5,475,000	2,065,663
2027-2031	<u>3,421,000</u>	<u>820,650</u>
Total	<u>\$ 21,726,000</u>	<u>\$ 17,058,234</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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9. LONG-TERM LIABILITIES (CONTINUED)

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, 2006 as described in Note 6.
4. Treasury Department Debt- These amounts represent the balance owned to the Treasury Department at June 30, 2006, for payments of claims and judgments to third parties disbursed by the Treasury Department and related to claims and judgments unfavorable outcomes or final settlements against the Municipality. The Municipality agreed with the treasury Department to reimburse to it such amount in monthly installments to be retained by the Municipal Revenue Collection Center from the monthly property tax advances.
5. Compensated absences- The government-wide statement of net assets includes approximately \$879,245 of accrued sick leave benefits, and approximately \$494,563 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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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10. PENSION PLAN (CONTINUED)

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, 2006 amounted to approximately \$278,895 and \$312,598, 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.

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, 2006, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

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**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 related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets.

**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.

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.

END OF NOTES

PART II

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES AND OTHER FINANCING SOURCES:</b>				
Property taxes	\$ 3,388,278	\$ 3,388,278	\$ 3,388,278	\$ 0
Municipal license tax	2,089,882	2,948,853	2,954,508	5,655
Licenses, permits and other local taxes	198,350	348,378	615,894	267,517
Charges for service	20,500	43,036	36,658	(6,378)
Intergovernmental	4,190,996	4,071,968	4,240,540	168,572
Interest	50,000	275,190	358,378	83,188
Miscellaneous	<u>60,928</u>	<u>607,930</u>	<u>593,641</u>	<u>(14,289)</u>
Total revenues and other financing sources	<u>\$ 9,998,934</u>	<u>\$11,683,632</u>	<u>\$ 12,187,897</u>	<u>\$ 504,265</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	4,145,641	4,993,155	4,806,174	(186,981)
Public safety	3,234,919	3,568,035	3,354,806	213,229
Public works	568,034	887,579	878,406	9,173
Health and welfare	856,234	867,159	842,775	(24,384)
Culture and recreation	777,551	802,011	772,419	(29,592)
Education	100,354	135,693	135,635	(57)
Operating transfer to other funds	<u>316,200</u>	<u>430,000</u>	<u>425,567</u>	<u>(4,433)</u>
Total expenditures, encumbrances and other financing uses	<u>9,998,934</u>	<u>11,683,632</u>	<u>11,215,783</u>	<u>467,849</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>972,114</u>	<u>972,114</u>
<b>Explanation of Differences:</b>				
<b>Sources/Inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 12,187,897
<b>Differences-budget to GAAP:</b>				
No budgeted revenues				<u>179,551</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$12,367,448</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$11,215,783
<b>Differences-budget to GAAP:</b>				
GAAP adjustments to expenditures				<u>124,809</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$11,340,292</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
YEAR ENDED JUNE 30, 2006

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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, 2006 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2006.

END OF NOTE

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<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>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ <u>270,544</u>
Total U.S. Department of Agriculture			<u>270,544</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Section 8 Housing Choice Vouchers	14.871		994,232
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs: Community Development Block Grant / Small Cities	14.219	01-FD-51 02-AB-FC-51 03-AB-FC-51 04-AB-FC-51	
			<u>395,793</u>
Total U.S. Department of Housing and Urban Development			<u>1,660,569</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Services Block Grant	93.569	Not Available	9,819
Head Start Program	93.600	02-CH-483-22	<u>3,393,487</u>
Total U.S. Department of Health and Human Services			<u>3,403,306</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	5,019
Citizen Corps	97.053	Not Available	1,212
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	1247-DRPR	601
Hazard Mitigation Grant	83.548	1247-DRPR	<u>38,118</u>
Total U.S. Department of Homeland Security			<u>44,950</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 5,108,825</u>

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, 2006

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 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	Other Governmental Funds	Total
Expenditures of Federal Awards per Fund	\$ 3,635,432	\$ 1,473,393	\$ 5,108,825
Non federal expenditures per Fund	-	1,521,072	1,521,072
Total expenditures per Fund	\$ 3,635,432	\$ 2,994,465	\$ 6,639,897



**MENDOZA & RAMOS**  
Contadores Públicos Autorizados, C.S.P.

P.O. Box 35 • Guayama, Puerto Rico 00785

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

To the Honorable Mayor and  
Members of the Municipal Legislature  
MUNICIPALITY OF PEÑUELAS, PUERTO RICO

We have audited the financial statements of Municipality of Peñuelas, Puerto Rico (the "Municipality"), as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06-01.

Internal Control Over Financial Reporting

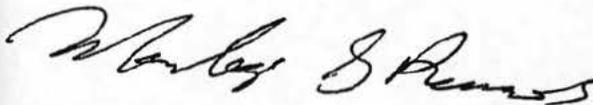
In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 financial reporting that, in our judgment, could adversely affect the Municipality's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-01.

## INDEPENDENT AUDITORS' REPORT

---

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-01 to be material weakness.

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



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

Guayama, Puerto Rico  
February 28, 2007

Stamp number 2134172 was  
affixed to the original of this  
report.





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

To the Honorable Mayor and  
Members of the Municipal Legislature  
MUNICIPALITY OF PEÑUELAS, PUERTO RICO

Compliance

We have audited the compliance of the Municipality of Peñuelas, Puerto Rico (the "Municipality") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

As described in items 06-04, 06-05, 06-08, 06-09, 06-10, 06-11 and 06-12, in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the cash management, eligibility, reporting, special tests and provisions – selection from the waiting list, special tests – incorrect determination of HAP, special tests – utility allowance schedule and special test – reasonable rent requirements that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 06-03, 06-06 and 06-07 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the activities cash management, equipment and real property management and reporting requirements that are applicable to its Community Development Block Grants Program - State-Administered Small Cities Program. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to this program.

## INDEPENDENT AUDITORS' REPORT

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In our opinion, based on our audit and the report of the other auditors, except for the instances of noncompliance described in the preceding paragraphs for the Section 8 Housing Choice Voucher Program and the Community Development Block Grants Program – State-Administered Small Cities Program, the Municipality of Pefuelas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2006. However, the results of our auditing procedures disclosed other instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-02.

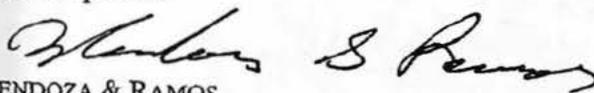
### Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-03 to 06-12.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we believe consider items 06-03 to 06-12 to be material weakness.

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

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

Guayama, Puerto Rico  
February 28, 2007

Stamp number 2134173 was  
affixed to the original of this  
report.



FINDINGS AND QUESTIONED COST:

- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION I-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Financial Statements

Type of auditors' report issued:

- Unqualified Opinion, except for adverse opinion for government-wide financial statement
- Qualified Opinion
- Adverse Opinion
- Disclaimer Opinion

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

- Yes  No

Federal Awards

Internal control over major programs:

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

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

- Unqualified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with OMB Circular A-133?

- Yes  No

The Municipality's major programs were:

CFDA Number	Name of Federal Program
14.219	Community Development Block Grant / Small Cities
14.871	Section 8 Housing Choice Vouchers
93.600	Head Start Program

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

\$300,000

Auditee qualified as low-risk auditee?

- Yes  No

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION II – FINANCIAL STATEMENT FINDINGS

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FINDING	06-01
CATEGORY	INTERNAL CONTROL
NONCOMPLIANCE	CAPITAL ASSETS
TOPIC SENTENCE	Fixed \ Capital Assets and Expenditures – Subsidiary Ledger.
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 Statements No. 34 requires that all capital assets, including infrastructure, must be presented in the Statements of Net Assets and that these assets must be depreciated during its useful life.
CAUSE	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
EFFECT	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 compilation of documents to support the value, completeness and ownership of its capital assets, to comply with the requirements of the GASB Statement No. 34.
QUESTIONED COSTS	NONE
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-02
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) DEPARTMENT OF HEALTH AND HUMAN SERVICES
CATEGORY	COMPLIANCE
NONCOMPLIANCE	Allowable cost / Cost principles
TOPIC SENTENCE	Allowable costs / Cost principles requirements
CONDITION	During the fiscal year 2003-2004, the program made a lease contract with the Puerto Rico Industrial Development Company (PRIDCO) to rent a local that will be the new administrative office of Head Start Program. The lease amount is of \$4,236 by month, for the first five (5) years. As of June 30, 2006, the program had paid the amount of \$152,505 (\$50,835 paid during the fiscal year 2005-2006) and still has not yet moved to the new facilities.
CRITERIA	OMB Circular A-87, Attachment C, states that to be allowable under Federal awards, costs must meet the some general criteria, including the following: (a) be necessary and reasonable for proper and efficient performance and administration of Federal awards.
CAUSE	The Agency did not obtain the approval of funds in the "Program Improvement" proposal for the fiscal year 2002-2003 for the reason that the Administration of Children's and Families of the Department of Health and Human Services, Region II New York, the program's grantor, did not assigned funds for that activity in the Region.
EFFECT	The Municipality is not in compliance with OMB Circular A-87.
RECOMMENDATION	We recommend to the Municipality's management to request external funds or to assign local funds to realize promptly the improvements to the new facilities to relocate the administrative office of the Head Start Program.
QUESTIONED COSTS	\$50,835
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-03
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	CASH MANAGEMENT
TOPIC SENTENCE	Non-compliance with the cash management requirement
CONDITION	<p>During the fiscal year 2005-2006, the Municipality received \$489,974.02 from the pass-through entity (“Municipality Affairs Commissioner Office - OCAM”) regarding the State Community Development Block Grant Program (“CDBG”).</p> <p>In order to determine compliance with the cash management requirement, we selected for testing three remittances of funds received from “OCAM” amounting \$327,170.16 (67%). In two cases, the time elapsed between the receipt and the disbursement of such funds was for more than eleven days up to four months.</p>
CRITERIA	As stated in 24 CFR 85.21 and 31 CFR 205.33, Subpart B, grantees must minimize the time elapsing between the drawdown of Federal funds from the Federal government, or pass-through entity, and their disbursements for Federal program purposes.
CAUSE	Municipality’s Finance Department and CDBG accounting department, divisions responsible for the disbursement of funds, do not count with the resources or a plan, to attain and process within a reasonable period of time, all monthly disbursements which are requested for the different Municipality’s divisions or other federal programs.
EFFECT	If the recipient fails to expend those Federal assistance funds within a reasonable period, or fails to establish procedures to minimize the time elapsing between cash advances and the disbursements, the Municipality could be adversely affected in the benefits they are entitled to receive in the future.
RECOMMENDATION	According to priorities and monthly responsibilities, the Municipality’s Finance Department and CDBG accounting department should implement a plan or a schedule to process and comply with all monthly disbursements within a reasonable period of time.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

---

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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QUESTIONED COSTS           None

MANAGEMENT RESPONSE Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-04
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	CASH MANAGEMENT
TOPIC SENTENCE	Non-compliance with the cash management requirement
CONDITION	<p>Section 8 Housing Choice Voucher Program does not have adequate controls over the timing of disbursements once the federal funds are received.</p> <p>During the fiscal year 2005-2006, the Municipality received \$1,210,414 from Section 8 Housing Choice Voucher grant funds. In order to determine compliance with the cash management requirement, we selected for testing four out of the twelve remittances of funds received during the fiscal year amounting \$391,460 (32%). The time elapsed between the receipt and the disbursement of such funds in three out of four remittances tested (75%) was for more than one month. We also noted that during the fiscal year 2005-2006, the Program maintained a monthly bank account balance over \$500,000; and as of June 30, 2006, such balance amounted to \$693,100.</p>
CRITERIA	As stated in 24 CFR 85.21 and 31 CFR 205.33, Subpart B, grantees must minimize the time elapsing between the drawdown of Federal funds from the Federal government, or pass-through entity, and their disbursements for Federal program purposes.
CAUSE	Monthly deposits transferred by HUD are supported by an annual contribution contract based on an estimated number of occupied units and annual payments to owners. Due to the non identification of participants, the Program counts with a number of vouchers much higher than number of participants, the Program counts with a number of vouchers much higher than the number of participants which are benefited by Program. Such situation cause that, even when the Program counts with the necessary funds to provide housing assistance, these funds could not be expended due lack of units to be rented.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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EFFECT	If the recipient fails to expend those Federal assistance funds within a reasonable period, or fails to establish procedures to minimize the time elapsing between cash advances and the disbursements, the Municipality could be adversely affected in the benefits they are entitled to receive in the future.
RECOMMENDATION	The program should implement adequate internal control procedures which allow the promptly use of federal funds received. This could be attained through the identification of participants and dwelling units ready for occupancy once the vouchers are granted.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 06-05

FEDERAL PROGRAM SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871)  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CATEGORY COMPLIANCE

NONCOMPLIANCE ELEGIBILITY

TOPIC SENTENCE Lack of control over selections from the waiting list

CONDITION Section 8 Housing Choice Vouchers Program does not have adequate controls over the eligibility requirement.

In testing internal controls over compliance, we selected 26 participants files to determine if the Program's implemented policies were been followed in order to avoid that ineligible participants could be admitted into the Program. Our test revealed the following:

(a) Twelve out of 26 (46%) participants' files selected for testing did not contain the participants' vouchers.

(b) Three out of 26 (12%) participants' files examined did not contain that an initial application was completed by the participant before it was admitted into the Program. In addition, one of the participant's application examined was dated after the participant's admission date.

(c) One out of 14 (7%) participants' vouchers examined were not dated or numbered. Also, vouchers are being numbered in any chronological or rational manner.

(d) Participants' files lack of the following documents, which are requested to all participants before they are admitted into the Program;

<u>Documents</u>	<u>Quantity</u>
Evidence of utilities paid	22
Marriage or divorce certificate	13
Dependent's students certificate	6
Good conduct certificate from PR Police Department	1
Negative certification from the PR Treasury Department	1
Negative certification from "CRIM" (Real and personnel Property Tax)	1
Negative certificate from "ASUME" (Child support agency)	1

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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CRITERIA	The above condition is not in compliance with 24 CFR 85.20(3); 982.516 which establishes that effective controls must be maintained for all grant financed activities. The PHA must receive information verifying that an applicant is eligible within the period of 60 days before the PHA issues a voucher to the applicant.
CAUSE	<p>This condition arises because during participant admission and renewal process, applicants are not providing to the Program with all the required documents. Thereafter, Program personnel is forgetting to follow up and obtaining those documents which were not provided by the participants before they are admitted or re-admitted into the Program.</p> <p>In addition, some of the documents could be missing since participants' files were not properly safeguard. We observed various participants files that were not property filed or locked.</p>
EFFECT	Failure to obtain all required documentation as part of participant's eligibility determination may result in the possibility of not preventing, detecting and correcting, on a timely basis, significant instances of noncompliance that may expose the Municipality to cost disallowances.
RECOMMENDATION	The Program should obtain all required documents before a participant is admitted or re-admitted into the Program. They should also conduct periodic monitoring and follow up procedures that allow them to ensure that all required documents are obtained during admission process and throughout the year. In addition, adequate controls should be implemented to ascertain that all participants' files and documents are property safeguard.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-06
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
TOPIC SENTENCE	Non-compliance with the equipment and real property management requirement.
CONDITION	Federal Program Department does not have a property register that includes all the required information for purposes of accounting record, description and evaluation.
CRITERIA	<p>As stated in 24 CFR 85.32(d)(1), Subpart C, property records must be maintained and it shall include:</p> <ul style="list-style-type: none"><li>• description of the property,</li><li>• serial number or other identification number,</li><li>• the source of property, percentage of Federal participation in the property,</li><li>• the location,</li><li>• use and condition of the property,</li><li>• any ultimate disposition data including the date of disposal,</li><li>• sale price of property,</li></ul> <p>Also, a physical inventory of the property must be taken and the result reconciled with the property records at least on every two years, respectively.</p>
CAUSE	The Municipality does not maintain the appropriate information on the real property records to assure that it is in accordance with the federal regulation.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d)(1).

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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RECOMMENDATION            Municipality should revise and updated its property records according to the federal regulation.

QUESTIONED COSTS        None

MANAGEMENT RESPONSE Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-07
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT/SMALL CITIES (CDBG) (CFDA NO. 14.219) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
CATEGORY	COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	Financial Administration – Standard for Management System Reporting
CONDITION	During our audit, we noted that for the fiscal year ended on June 30, 2006, the Municipality did not record in its manual accounting records the transactions related to Community Development Block Grant ("CDBG"). Such condition did not permit us to trace the amounts included in the Financial Quarterly Reports.
CRITERIA	Code of Federal Regulation 24, Subpart I, Sec. 570489 (d)(1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements 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 others responsibilities of state and local governments. Also, the Grant Agreement provisions have established that the Municipality should submit all of the reports required by the Pass-through Grantor.
CAUSE	The accounting records maintained by the Program accountant consist only of a budgetary control register designed using the chart of account adopted by the Municipality in its computerized accounting system, instead of a set of accounting records adapted to the Pass-through Grantor budgetary level and reporting requirements.
EFFECT	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d)(1) and with the Grant Agreement.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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RECOMMENDATION      We recommend that the Municipality should request technical support to the Office of the Commissioner of Municipal Affairs (OCAM) to train the program accountant in order to actualize and to maintain an accurate set of manual accounting records.

QUESTIONED COSTS      NONE

MANAGEMENT RESPONSE Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-08
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	REPORTING
TOPIC SENTENCE	Lack of accounting records
CONDITION	Municipality' Section 8 Housing Choice Vouchers Program does not maintain records regarding program's operation.
CRITERIA	<p>As stated in 24 CFR 982.158 the PHA must maintain complete and accurate account and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit.</p> <p>As per OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.</p>
CAUSE	The program does not count with an employee to perform such function.
EFFECT	This condition inhibits the awarding agency from monitoring the programs financial performance. In addition the Municipality could be the federal awarding agency due to the lack of financial reports.
RECOMMENDATION	The Municipality should hire or contract a person that could be in charge of the Program's records keeping in order to ensure that all Program's transaction and activities are properly and fairly presented in accordance with program requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-09
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST
TOPIC SENTENCE	Non-compliance with waiting list requirements
CONDITION	<p>Our examination regarding the administration, organization and updating of the waiting list and applicants selection from it revealed several deficiencies which demonstrates that Section 8 Housing Choice Voucher Program was not following the procedures established in Chapter 4 of the Municipality's ("PHA") administrative plan, as follow:</p> <p>(1) We noted that the Program maintains two waiting lists which are not reconciled within them. One of the lists is manually maintained and the other is maintained through a software system ("HAPPY Software"). Both lists included participant's application forms received during the year 2003 through 2005, causing that list's completeness and correctness be questioned.</p> <p>(2) Participants' applications were not been selected from the waiting list on a first-come first served basis, as established by the Municipality's ("PHA") administrative plan.</p> <p>(3) The Municipality has agreed to give preference for selection of families on the waiting list based on special admissions and local preferences. We could not determine that participants were selected and admitted into the Program according to the local preferences describe in the Program's administrative plan.</p> <p>(4) The applications forms regarding nine new participants admitted into the Program during the fiscal year 2005-2006 were never included in the waiting list.</p> <p>(5) No applications forms, completed by potential participants during the year 2004, were included as part of the waiting list. Also we found 200 completed applications dated from various years including year 2004, that were filed in boxes by the Program's personnel and never have being attended.</p>

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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(6) The waiting list lack of some of the information required by the Program's administrative plan.

(7) Applications were not included in the waiting list according to the date and time in which they were received (chronological order).

CRITERIA

24 CFR 982.204(f) establishes that a PHA must use a single waiting list for admission to its Section 8 tenant-based assistance program. As per PHA administrative plan Chapter 4, (A), the Municipality must use a single waiting list for admission to its Section 8 Tenant-Based Housing Choice Voucher Program.

As stated in 24 CFR 982.204(a); except for special admissions, PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan. PHA's administrative plan Chapter 4, Section (E) (F) and (G) establish the procedures to be followed regarding applicants' selection and preferences. Section (B) establishes that except for special admissions, participants must be selected from PHA waiting list on a first-come, first served basis.

24 CFR 982.207(e) establishes that the method for selecting applicants from a preference category must have a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the administrative plan.

PHA administrative plan Chapter 4, Section (L), establishes that the waiting list will be updated on an annual basis to ensure that it is current and accurate. 24 CFR 982.204(b) establishes that the PHA must maintain information that permits the PHA to select participants from the waiting list in accordance with the PHA admission policies.

CAUSE

The Municipality's Section 8 Tenant-Based Housing Choice Voucher Program lacks internal controls and procedures regarding the administration, organization and updating of the waiting list and applicants' selection.

EFFECT

Selection process from the waiting list could be questioned by allegation of preference among applicants. Such lack of control, also, could cause that ineligible participants could be admitted into the Program causing cost disallowances.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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This condition, also caused, that no points were granted to the Municipality regarding the related SEMAP indicator, causing that Program's overall performance was rated as TROUBLED.

RECOMMENDATION

The Program must establish the necessary internal controls in order to correct all aforementioned conditions. Once established, procedures should be enforced to ascertain compliance with the applicable federal laws and regulations.

QUESTIONED COSTS

None

MANAGEMENT RESPONSE Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-10
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST
TOPIC SENTENCE	Incorrect Determination of HAP Amount
CONDITION	<p>In order to evaluate participants income eligibility, PHA housing assistance payment (“HAP”) and total tenant rent amounts’ calculation, we selected for testing 26 participants files from a total of 190 participants (14%) receiving housing assistance payment during the fiscal year 2005-2006</p> <p>The test revealed that in six out of 26 cases examined (23%), the hap amount, total tenant rent payment (TTP) and negative rent payments to participants were incorrectly calculated.</p>
CRITERIA	<p>The foregoing condition is not accordance with 24 CFR 982.505 (b) and (c) which established the method to be used by the PHA to calculate the monthly housing assistance payment (HAP) to be paid on behalf of the family. The PHA must use the appropriate payment standard amount to calculate the monthly housing assistance payment for the family. The payment standard for the family should be calculated in accordance with the family unit size and the size and the size of the dwelling unit rented by the family. In addition, 24 CFR 982.516(e) states that the PHA must conduct a reexamination to determine such additional income, and must make appropriate adjustment in the HAP</p>
CAUSE	<p>The above conditions were caused since the family annual income and the payment standard amount (PSA) used as part of the HAP amount determination (HUD Form 50058), were not in accordance with the third party income verification evidence and applicable PSA, respectively. In addition, in one case, the medical expenses were not supported by any evidence in order to be taken as an allowance for purposes of the HAP amount determination.</p>
EFFECT	<p>Housing assistance payment (HAP), total tenant rent payment (TTP) and negative rent payments were incorrectly calculated. The program might payments below or in excess the corresponding HAP amount or negative rent, respectively that may expose the Municipality to cost disallowance and adversely affect the Municipality’s ability to be awarded with future funds.</p>

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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RECOMMENDATION	At the moment of determining TTP and HAP amounts, Program's personnel should adhere to the policies and procedures established by HUD approved Program's Administrative Plan applicable federal laws and regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-11
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST
TOPIC SENTENCE	Utilities allowances scheduled has not been revised
CONDITION	The Municipality has not established any procedure nor has revised the utility allowances schedule since various years.
CRITERIA	The foregoing condition is not in accordance with 24 CFR 982.517 (c) (1) which establishes that the PHA must review its schedule of utility allowances each year, and must revise its allowance for utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised.
CAUSE	The Municipality has not taken any action in order to revise its schedule of utility allowances.
EFFECT	<p>As a consequence, no points were granted to the Municipality regarding the related SEMAP indicator, causing that Program's overall performance was rated as TROUBLE.</p> <p>In addition, this condition could cause that the housing payment (HAP), total tenant rent (TTP) and/or negative rent payments could be incorrectly calculated causing that the Program might be making payments below or in excess of the corresponding amounts. This situation may expose the Municipality to cost disallowance and adversely affect the Municipality's ability to be awarded with future funds.</p>
RECOMMENDATION	The Municipality must review its schedule of utility allowances each year, and must revise its allowance for utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The municipality must maintain information supporting its annual review and any revisions made in its utility allowance schedule.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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FINDING	06-12
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
CATEGORY	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST
TOPIC SENTENCE	No determination of reasonable rent
CONDITION	<p>As part of the eligibility test, 26 participants' file were examined. As part of such examination, we determined whether the Municipality was documenting the determination that the rent to owner was reasonable in accordance with the Program's administrative plan. According to the Program's administrative plan, rent reasonableness will be determined in comparison to rent other comparable unassisted units.</p> <p>None of the files examined (100%) includes, nor the Program's personnel could to us, with any evidence which demonstrates that such determination was performed at the time of initial leasing and/or during the term of the contract.</p>
CRITERIA	The foregoing condition is not in accordance with 24 CFR 982.507 (a) and (b) and Program's Administrative Plan, which established that the PHA may not approve a lease until the PHA determines that initial rent to owner is a reasonable rent. The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.
CAUSE	The Municipality has not established any procedure or had take any action in order to comply with such compliance requirement.
EFFECT	As a consequence, no points were granted to the Municipality regarding the related SEMAP indicator, causing that Program's overall performance was rated as TROUBLE. In addition, failure to make such determination may expose the Municipality to cost disallowances that adversely affect the Municipality's ability to be awarded with future funds.

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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RECOMMENDATION	The Program may not approve a lease until determines that the initial rent to owner is a reasonable rent as established in the administrative plan. In addition, the Program must redetermine the reasonable rent before (i) any increase in the rent to owner, and (ii) if there is a five percent decrease in the published FMR in effect 60 days before the contract anniversary as compared with the FMR in effect one year before the contract anniversary.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

MUNICIPALITY OF PEÑUELAS, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2005

<u>Finding Number</u>	<u>CFDA</u>	<u>Questioned Cost</u>	<u>Comments</u>
05-III-12 Cash Management	93.600	None	Fully Corrected
05-III-10 Procurement	14.228	None	Fully Corrected

(2) Audit Findings not corrected or Partially Corrected:

FISCAL YEAR 2005

<u>Finding Number</u>	<u>CFDA</u>	<u>Questioned Cost</u>	<u>Comments</u>
05-III-03 Reporting	14.871	None	Situation still prevails
05-III-04 Cash Management	14.871	None	Situation still prevails
05-III-05 Reporting	14.871	None	Situation still prevails
05-III-06 Special Test	14.871	None	Situation still prevails
05-III-07 Reporting	14.228	None	Situation still prevails
05-III-08 Davis Bacon Act	14.228	None	Situation still prevails
05-III-09 Property & Equipment	14.228	None	Situation still prevails
05-III-11 Real Property	93.600	\$50,835	Situation still prevails

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULE**

**SINGLE AUDIT REPORT**

**With Independent Auditors' Report Thereon  
JUNE 30, 2006**

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Statement of Net Assets  
June 30, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 8,681,370
Cash with fiscal agent	8,046,231
Accounts receivable:	
Municipal license tax	-
Property tax	270,735
Intergovernmental	500,363
Federal	640,440
Other	107,275
Capital assets	
Land, improvements, and construction in progress	3,953,359
Other capital assets, net of depreciation	11,945,824
Total capital assets	<u>15,899,183</u>
<b>Total assets</b>	<u>34,145,597</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,341,467
Due to other governmental entities	8,998
Claims and Judgments	
Deferred revenues:	
Municipal license tax	3,331,202
Federal grant revenues	921,837
Other	
Interest payable	416,404
Noncurrent liabilities:	
Due within one year	1,199,079
Due in more than one year	24,568,751
<b>Total liabilities</b>	<u>31,787,738</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	459,183
Restricted for:	
Capital projects	7,164,378
Debt service	2,566,389
Other purposes	1,338,768
Unrestricted (deficit)	<u>(9,170,859)</u>
<b>Total net assets</b>	<u>\$ 2,357,859</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, 2006**

Functions/Programs	Expenses	Program Revenues			Not (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
General government	4,498,630		1,200		\$ (4,497,430)
Public safety	1,418,401	372	493,537		(924,492)
Public works	3,318,264	5,820	280,426	457,243	(2,584,775)
Health and welfare	5,580,299		4,636,820		(923,479)
Culture and recreation	589,014	34,438		176,798	105,297
Economic development	522,934		484,075		(235,737)
Community development	447,530			396,345	821,332
Education	159,733		287,197		(159,733)
Public lighting	872,517		872,517		(872,517)
Interest on long-term debt	787,890				(787,890)
<b>Total governmental activities</b>	<b>\$ 18,176,212</b>	<b>\$ 40,630</b>	<b>\$ 7,035,772</b>	<b>\$ 1,030,386</b>	<b>(10,068,424)</b>
<b>General revenues and special items:</b>					
Property taxes					4,748,221
Municipal license tax					2,949,807
Other local taxes					652,471
Grants and contributions not restricted to specific programs					3,265,294
Interest and investment earnings					447,307
Miscellaneous					605,648
<b>Total general revenues</b>					<b>12,668,548</b>
Change in net assets					2,600,124
Net assets (deficit) - beginning, as restated					(242,265)
Net assets (deficit) - ending					<b>\$ 2,357,859</b>

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Balance Sheet-Governmental Funds  
June 30, 2006

	General Fund	Special Revenue Fund Head Start	Capital Project Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 3,422,606	\$ 254,466	\$ 2,717,932	\$ -	\$ 2,286,366	\$ 8,681,370
Cash with fiscal agent	70,757		5,238,222	2,729,834	7,418	8,046,231
Accounts receivable:						-
Intergovernmental	135,744	253,870	133,994	270,735	617,195	1,411,538
Other	60,408			9,090		69,498
Due from other funds	1,234,409					1,234,409
<b>Total assets</b>	<b>\$ 4,923,924</b>	<b>\$ 508,336</b>	<b>\$ 8,090,148</b>	<b>\$ 3,009,669</b>	<b>\$ 2,910,979</b>	<b>\$ 19,443,046</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 392,472	\$ 137,240	\$ 728,378	\$ -	\$ 83,377	\$ 1,341,467
Due to other governmental entities	8,998					8,998
Due to other funds		244,017	197,392	26,866	766,134	1,234,409
Claim and Judgment						-
Deferred revenues:						-
Municipal license tax	3,331,202					3,331,202
Federal grant revenues		127,079			794,758	921,837
<b>Total liabilities</b>	<b>3,732,672</b>	<b>508,336</b>	<b>925,770</b>	<b>26,866</b>	<b>1,644,269</b>	<b>6,037,913</b>
<b>Fund balances:</b>						
Reserved for:						
Encumbrances	72,058					72,058
Capital projects			7,164,378			7,164,378
Debt service fund				2,982,793		2,982,793
Other purposes					1,266,710	1,266,710
Reserved reported in nonmajor funds:						
Other purposes						
Unreserved:						
Undesignated (Deficit)	1,119,194					1,119,194
<b>Total fund balances</b>	<b>1,191,252</b>	<b>-</b>	<b>7,164,378</b>	<b>2,982,793</b>	<b>1,266,710</b>	<b>12,605,133</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,923,924</b>	<b>\$ 508,336</b>	<b>\$ 8,090,148</b>	<b>\$ 3,009,669</b>	<b>\$ 2,910,979</b>	<b>\$ 19,443,046</b>

Commonwealth of Puerto Rico  
Municipality of Peñuelas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

	General Fund	Special Revenue Fund Head Start Program	Capital Project Fund - Local, State & Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 3,520,022			\$ 1,228,199		\$ 4,748,221
Municipal license taxes	2,949,607					2,949,607
Licenses, permits and other local taxes	516,894					516,894
Charges for services	40,530					40,530
Intergovernmental	4,189,540		\$ 564,060		\$ 975,575	5,729,175
Interest	447,307					447,307
Federal grants		\$ 3,635,432			1,966,845	5,602,277
Miscellaneous	603,448					603,448
<b>Total revenues</b>	<u>12,367,448</u>	<u>3,635,432</u>	<u>564,060</u>	<u>1,228,199</u>	<u>2,942,420</u>	<u>20,737,559</u>
<b>Expenditures</b>						
<b>Current:</b>						
General government	4,721,613				104,702	4,826,315
Public safety	880,151				493,537	1,373,688
Public works	3,356,161		979,543		48,024	4,383,728
Health and welfare	864,953	3,635,432			1,040,863	5,531,258
Culture and recreation	766,202		1,345,501		96,108	2,207,811
Economic development					522,934	522,934
Community development					679,303	679,303
Education	135,635				8,994	144,629
Public lighting						
<b>Debt service:</b>						
Principal				586,180		586,180
Interest				691,410		691,410
<b>Total expenditures</b>	<u>10,714,725</u>	<u>3,635,432</u>	<u>2,325,044</u>	<u>1,277,590</u>	<u>2,594,465</u>	<u>20,947,556</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	1,652,723		(1,760,984)	(49,691)	147,955	(9,997)
<b>Other financing sources (uses)</b>						
Transfers in				425,567	359,504	785,071
Transfers out	(625,567)			(159,504)		(785,071)
Long-term debt issued			1,390,000			1,390,000
<b>Total other financing sources (uses)</b>	<u>(625,567)</u>		<u>1,390,000</u>	<u>266,063</u>	<u>359,504</u>	<u>1,390,000</u>
<b>Net change in fund balances</b>	1,027,156		(370,984)	216,372	507,459	1,180,008
<b>Fund balance beginning, as restated</b>	164,096		7,535,362	2,766,421	959,251	11,425,130
<b>Fund balance, ending</b>	<u>\$ 1,191,252</u>	<u>\$ -</u>	<u>\$ 7,164,378</u>	<u>\$ 2,982,793</u>	<u>\$ 1,466,710</u>	<u>\$ 12,605,133</u>

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 04/18/07

**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, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 1,180,003</b>
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.	3,328,236
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change 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.	(908,927)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year.	(199,228)
Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(900,000)
Repayment of long term Claims and Judgments debts is an expenditure in Governmental Funds, but the repayment reduces long-term Claims and Judgments debts in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	36,207
Accounts receivables not collected 60 days after the closing date are not recognize in Governmental Funds, but these receivables are reported in the Government-Wide Statements of Activities and Change in Net Assets.	37,777
Repayment of long term Treasury Department debt is an expenditure in Governmental Funds, but the repayment reduces long-term debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term debt with the Treasury Department from prior	81,158
Long-term compensated absences are 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, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior	(64,102)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 2,600,124</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES AND OTHER FINANCING SOURCES:</b>				
Property taxes	\$ 3,388,278	\$ 3,388,278	\$ 3,388,278	\$ 0
Municipal license tax	2,089,882	2,948,853	2,954,508	5,655
Licenses, permits and other local taxes	198,350	348,378	615,894	267,517
Charges for service	20,500	43,036	36,658	(6,378)
Intergovernmental	4,190,996	4,071,968	4,240,540	168,572
Interest	50,000	275,190	358,378	83,188
Miscellaneous	60,928	607,930	593,641	(14,289)
<b>Total revenues and other financing sources</b>	<b><u>\$ 9,998,934</u></b>	<b><u>\$11,683,632</u></b>	<b><u>\$ 12,187,897</u></b>	<b><u>\$ 504,266</u></b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
<b>Current:</b>				
General government	4,145,641	4,993,155	4,806,174	(186,981)
Public safety	3,234,919	3,568,035	3,354,806	213,229
Public works	568,034	887,579	878,406	9,173
Health and welfare	856,234	867,159	842,775	(24,384)
Culture and recreation	777,551	802,011	772,419	(29,592)
Education	100,354	135,693	135,635	(57)
Operating transfer to other funds	316,200	430,000	425,567	(4,433)
<b>Total expenditures, encumbrances and other financing uses</b>	<b><u>9,998,934</u></b>	<b><u>11,683,632</u></b>	<b><u>11,215,783</u></b>	<b><u>467,849</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>972,114</u></b>	<b><u>972,114</u></b>
<b>Explanation of Differences:</b>				
<b>Sources/Inflows of resources:</b>				
Actual amounts (budgetary basis)*"available for appropriation" from the budgetary comparison schedule				\$ 12,187,897
Differences-budget to GAAP:				
No budgeted revenues				<u>179,551</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$12,367,448</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)*"total charges to appropriations" from the budgetary comparison schedule				\$11,215,783
Differences-budget to GAAP:				
GAAP adjustments to expenditures				<u>124,809</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$11,340,292</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
YEAR ENDED JUNE 30, 2006

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, 2006 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2006.

END OF NOTE

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2006**

<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>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ 270,544
Total U.S. Department of Agriculture			<u>270,544</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Section 8 Housing Choice Vouchers	14.871		994,232
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs: Community Development Block Grant / Small Cities	14.219	01-FD-51 02-AB-FC-51 03-AB-FC-51 04-AB-FC-51	
			<u>395,793</u>
Total U.S. Department of Housing and Urban Development			<u>1,660,569</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Services Block Grant	93.569	Not Available	9,819
Head Start Program	93.600	02-CH-483-22	<u>3,393,487</u>
Total U.S. Department of Health and Human Services			<u>3,403,306</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	5,019
Citizen Corps	97.053	Not Available	1,212
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	1247-DRPR	601
Hazard Mitigation Grant	83.548	1247-DRPR	<u>38,118</u>
Total U.S. Department of Homeland Security			<u>44,950</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 5,108,825</u></u>

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, 2006**

**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 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	Other Governmental Funds	Total
Expenditures of Federal Awards per Fund	\$ 3,635,432	\$ 1,473,393	\$ 5,108,825
Non federal expenditures per Fund	-	1,521,072	1,521,072
Total expenditures per Fund	\$ 3,635,432	\$ 2,994,465	\$ 6,639,897