

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SABANA GRANDE

AUDITORIA 2004-2005

30 DE JUNIO DE 2005

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

05 FEB 13 AM 11:17

RECIBIDO
UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE
SABANA GRANDE, PUERTO RICO

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2005

(WITH THE ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY '1
THE GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133)

Handwritten initials

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

TABLE OF CONTENTS

	Pages
PART I – FINANCIAL:	
Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-8
Basic Financial Statements:	
Governmental-Wide Statements:	
Statement of Net Assets.....	10
Statement of Activities	11
Governmental Funds Statements:	
Balance Sheet	12
Reconciliation of the Governmental Funds Balance Sheet to The Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balance.....	14
Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balance of Governmental Funds to the Statements of Activities.....	15
Notes to the Basic Financial Statements.....	16-38
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund.....	40
Notes to Required Supplementary Information	41-42
PART II – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE REQUIREMENTS OF OMB CIRCULAR A-133	
Schedule of Expenditures of Federal Awards.....	44-45
Notes to Schedule of Expenditures of Federal Awards.....	46

TABLE OF CONTENTS

	Pages
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based upon the Audit Performed in Accordance with Government Auditing Standards.....	47-48
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	49-50
 PART III – FINDINGS AND QUESTIONED COSTS:	
Schedule of Findings and Questioned Costs.....	52-55



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

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

INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE MAYOR AND
MEMBERS OF THE MUNICIPAL LEGISLATURE
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of SABANA GRANDE, Puerto Rico (Municipality), as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT

As described in Notes 1 and 13, during the fiscal year 2004-2005, the Municipality has implemented a new financial reporting model, as required by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2005 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 CPAs
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
December 15, 2005

Stamp number 2050082 was
affixed to the original of this
report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

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

The management of Municipality of Sabana Grande, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2005. The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2004. The financial statements associated with it are described in the following narrative as well as in the Notes to Financial Statements.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. We encourage readers to consider this information with the Municipality's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The net assets of the Municipality exceeded its liabilities at June 30, 2005 by \$22.6 million and at June 30, 2004 by \$20.9 million.
- The Municipality's total net assets increased by \$1.7 million during 2005 and \$1.4 during 2004.
- As of June 30, 2005, the Municipality's governmental funds reported combined ending fund balances of \$10.4 million, an increase of \$1.3 million from the prior year.
- At June 30, 2005, the Unrestricted (Deficit) Net Assets for the General Fund was \$842 thousand. The Municipality's total bonded debt increased during the fiscal year by new issuance of \$1.5 million for operational purposes.
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2005 were \$20.3 million.
- The investment in capital assets for this year was \$1.8 million.
- Loans principal payments were \$390 thousand and \$345 thousand in 2005 and 2004, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, human services and welfare, culture and recreation, physical environment, education and urban development. Property taxes, municipal license tax, state and federal grants finance most of these activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$22.6 million as of June 30, 2005 versus \$20.9 million as of June 30, 2004. Our analysis below focuses on the net assets (Table 1) and changes in

	2005	2004
Current and non-current assets ..	\$ 18,842,696	\$ 17,241,769
Capital assets	<u>15,771,099</u>	<u>14,517,125</u>
Total Assets.....	<u>34,613,795</u>	<u>31,758,894</u>
Current liabilities	694,466	772,387
Deferred revenues.....	1,221,986	1,304,333
Long-term liabilities	<u>10,027,065</u>	<u>8,733,799</u>
Total Liabilities.....	<u>11,943,512</u>	<u>10,810,519</u>
Net Assets:		
Investment in capital assets	10,949,098	9,460,125
Restricted.....	15,952,623	13,399,949
Deficit.....	<u>(4,231,443)</u>	<u>(1,911,699)</u>
Total Net Assets.....	<u>\$ 22,670,283</u>	<u>\$ 20,948,375</u>

net assets of the Municipality's governmental activities.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the

capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Municipality's ongoing obligations to citizens and creditors.

Total Net Assets of the Municipality's governmental activities were \$22.6 million. The Unrestricted (Deficit) Net Asset, was approximately of \$4.2 million at June 30, 2005.

Governmental Activities

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$6.9 million. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did exceed net expenses by \$1.7 million. The Municipality experienced a substantial increase in property taxes and construction taxes due to growth in new constructions and the assessed valuation of property within the Municipality.

The cost of all governmental activities this year was \$22.3 million. Table 2 presents the cost of each of the Municipality's largest programs.

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

Table 2

Changes in Net Assets
For Fiscal Years Ending June 30,

	2005	2004
Revenues:		
Program Revenues:		
Federal Grants and Contributions	\$ 7,563,994	\$ 12,522,126
State Grants and Contributions.....	7,866,094	118,764
General Revenues:		
Property Taxes.....	2,099,854	2,033,769
Volume of Business Taxes.....	1,020,000	1,011,580
Construction Taxes.....	443,210	305,316
Intergovernmental.....	4,300,003	4,363,656
Other General Revenues.....	<u>741,875</u>	<u>1,102,596</u>
Total revenues.....	<u>24,035,030</u>	<u>21,457,807</u>
Expenses:		
General Administration.....	5,878,499	4,755,496
Public Safety.....	461,090	423,729
Public Works.....	2,256,175	2,009,758
Health and Sanitation.....	163,959	86,566
Culture and Recreation.....	452,960	476,228
Solid Waste Disposal.....	214,891	203,312
Human Services and Welfare.....	5,630,907	4,877,323
Urban Development.....	1,402,645	917,771
Education.....	5,584,768	5,940,529
Interest Costs.....	<u>281,448</u>	<u>346,934</u>
Total expenses.....	<u>22,327,342</u>	<u>20,037,646</u>
Changes in net assets.....	1,707,688	1,420,161
Net assets – beginning, as Restated*..	<u>20,962,595</u>	<u>19,528,214</u>
Net assets – ending.....	<u>\$ 22,670,278</u>	<u>\$ 20,948,375</u>

Prior Period Adjustment for Capital Assets \$14,339.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2005, the Municipality's governmental funds reported combined ending fund balances of \$10.4 million, an increase of \$1.4 million from the prior year.

The Municipality has a Unrestricted (Deficit) Net Assets of \$842 thousand in its Operating Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate prior year obligations \$111 thousand, (2) to pay debt service \$323 thousand or (3) for other restricted purposes \$10.8 million.

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2005 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- Revenues primarily increased from collections of licenses and permits, which resulted in a \$69 thousand.
- The amount of \$206 thousand was allocated from Prior Year Unreserved Fund Balance for operational purposes.
- The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to \$15.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$1.8 million.

Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. Table 3 present the major classes of capital assets.

Table 3
Municipality of Sabana Grande's
Capital Assets
(Net of Depreciation, In Million)

Land.....	\$1.4
Construction in Progress.....	2.5
Buildings	7.9
Infrastructure	2.3
Motor Vehicles	1.2
Machinery and Equipment.....	<u>.4</u>
Total Capital Assets	<u>\$15.7</u>

Long-term Debt

At June 30, 2005 the Municipality had total of \$10.0 million in general obligations and others outstanding debts, as shown in Table 4. Of this amount, \$7.8 million comprises debt backed by the full faith and credit of the government and \$2.2 million is other obligations.

Table 4
Municipality of Sabana Grande's
Long-Term Debts
(In Million)

General Obligations.....	\$ 6.7
Special Notes.....	1.1
Others	<u>2.2</u>
Total Capital Assets	<u>\$10.0</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leaves and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs

through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2006 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 873-2060.

BASIC FINANCIAL STATEMENTS:

Governmental-Wide Statement

- Statement of Net Assets
- Statement of Activities

Governmental Funds Statements

- Balance Sheet
- Reconciliation of the Governmental Funds Balance Sheet
- Statement of Revenues Expenditure and Change in Fund Balance
- Reconciliation of the Statement of Revenues, Expenditure, and Changes in fund Balance

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 9,564,917
Cash with Fiscal Agent	2,180,440
Accounts Receivable (net):	
Property Taxes	1,031
Federal Grants	6,860,799
Other	<u>235,509</u>
Capital Assets (Note 5):	
Land, Improvements, and Construction in Progress	11,871,841
Other Capital Assets, (Net of Depreciation)	<u>3,899,258</u>
Total Capital Assets	<u>15,771,099</u>
TOTAL ASSETS	\$ <u>34,613,795</u>
LIABILITIES:	
Bank Overdraft	180,095
Accounts Payable and Accrued Expense	442,537
Accrued Interest	71,834
Deferred Revenues	1,221,986
Long-Term Liabilities (Note6):	
Due within One Year	1,408,173
Due in More than One Year	<u>8,618,892</u>
Total Liabilities	<u>11,943,517</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	10,949,098
Restricted for:	
Head Start Program	3,205,657
Community Development Projects	2,423,586
Special Revenue	2,533,008
State Assignment Funds	7,466,863
Debt Service	323,509
Unrestricted (Deficit)	<u>(4,231,438)</u>
TOTAL NET ASSETS	\$ <u>22,670,283</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
Governmental Activities:					
Mayor and Municipal Legislature	\$ 2,237,962	\$ -	\$ -	\$ -	\$ (2,237,962)
General Administration	3,640,537	-	403,796	-	(3,236,741)
Public Safety	461,090	-	159,946	-	(301,144)
Public Works	2,256,175	-	-	-	(2,256,175)
Culture and Recreation	452,960	-	-	-	(452,960)
Health and Sanitation	163,959	-	-	-	(163,959)
Solid Waste Disposal	214,891	-	-	-	(214,891)
Human Services and Welfare	5,630,907	659,780	2,649,708	-	(2,321,419)
Urban Development	1,402,645	-	1,086,715	1,744,963	1,429,033
Capital Outlay	-	-	949	3,130,000	3,130,949
Education	5,584,768	-	5,594,231	-	9,463
Interest on Long-Term Debt	281,448	-	-	-	(281,448)
Total Governmental Activities	\$ 22,327,342	\$ 659,780	\$ 9,895,345	\$ 4,874,963	\$ (6,897,254)

General revenues:

Taxes:

Property tax, levied for General Purposes	1,776,938
Property tax, levied for Debt Service	322,916
Volume of Business Tax	1,020,200
Construction Taxes	443,210
Intergovernmental revenues	4,300,003
Rent	181,108
Miscellaneous	560,567
Total General Revenues and Special Items	8,604,942

Change in the Net Assets 1,707,688

Net Assets - Beginning of Year 20,962,595

Net Assets - Ending of Year \$ 22,670,283

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	General Fund	Head Start Fund	State Assignment Fund	CDBG Fund	Other Governmental Funds	Total Funds
ASSETS:						
Cash and cash equivalents (Note 2)	\$ -	\$ 40,159	\$ 7,613,461	\$ 11,686	\$ 1,899,611	\$ 9,564,917
Cash with Fiscal Agent	619,110	-	-	-	1,561,330	2,180,440
Accounts receivable:						
Property Tax	-	-	-	-	1,031	1,031
Federal Grant	-	3,484,712	-	2,809,208	566,879	6,860,799
Due from Other Funds	1,107,976	-	-	-	577,077	1,685,053
State Governmental	67,205	-	-	-	168,304	235,509
TOTAL ASSETS	\$ 1,794,291	\$ 3,524,871	\$ 7,613,461	\$ 2,820,894	\$ 4,774,232	\$ 20,527,749
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Bank Overdraft	180,095	-	-	-	-	180,095
Accounts Payable and Accrued Expense Liabilities	201,093	24,348	-	49,996	234,939	510,376
Due to Governmental Units	3,990	-	-	-	-	3,990
Due to Other Funds	577,077	294,865	146,598	23,802	642,711	1,685,053
Deferred Revenues:						
Volume of Business Tax	876,505	-	-	-	-	876,505
Property Taxes	67,205	-	-	-	-	67,205
Federal Grants	-	3,164,645	-	2,736,407	841,557	6,742,609
Total Liabilities	1,905,965	3,483,858	146,598	2,810,205	1,719,207	10,065,833
Fund Balances:						
Reserve For:						
Encumbrances	111,974	-	-	-	-	111,974
Debt Service	-	-	-	-	-	-
Other Purposes	619,110	41,013	7,466,863	10,689	3,055,025	11,192,700
Unreserved (Deficit)	(842,758)	-	-	-	-	(842,758)
Total Fund Balances	(111,674)	41,013	7,466,863	10,689	3,055,025	10,461,916
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,794,291	\$ 3,524,871	\$ 7,613,461	\$ 2,820,894	\$ 4,774,232	\$ 20,527,749

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

Total Fund Balances- Governmental Funds **\$ 10,461,916**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

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

Non Depreciable Capital Assets	\$ 3,899,257	
Depreciable Capital Assets	13,948,822	
Infrastructure Assets	2,480,195	
Accumulated Depreciation	<u>(4,557,175)</u>	
Total Capital Assets		15,771,099

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

Head Start	3,164,644	
CDBG	2,736,405	
Child Care	73,897	
Early Head Start	422,182	
Municipal Revenue Collection Center	<u>67,205</u>	
Total Deferred Revenues		6,464,333

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	(7,830,000)	
Compensated Absences	(1,559,536)	
Municipal Revenue Collection Center	<u>(637,529)</u>	
Total Long-Term Liabilities		(10,027,065)

Total Net Assets of Governmental Activities **\$ 22,670,283**

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Head Start Fund	State Assignment Fund	CDBG Fund	Other Governmental Funds	Total Funds
REVENUES						
Property Tax	\$ 1,776,938	\$ -	\$ -	\$ -	\$ 322,916	\$ 2,099,854
Volume of Business Tax	1,020,200	-	-	-	-	1,020,200
Federal Assistance	-	4,455,643	-	714,799	3,053,332	8,223,774
Intergovernmental Revenues	4,300,003	-	4,456,646	-	2,469,430	11,226,079
Licenses and Permits	446,186	-	-	-	-	446,186
Rent	181,108	-	-	-	-	181,108
Miscellaneous	490,386	-	-	-	-	490,386
TOTAL REVENUES	8,214,821	4,455,643	4,456,646	714,799	5,845,678	23,687,587
EXPENDITURES						
Mayor and Municipal Legislature	2,151,446	-	-	-	-	2,151,446
General Administration	3,049,642	-	-	-	596,132	3,645,774
Public Safety	315,165	-	-	-	121,802	436,967
Public Works	2,129,063	-	-	-	-	2,129,063
Culture and Recreation	438,976	-	-	-	-	438,976
Health and Sanitation	371,039	-	-	-	-	371,039
Human Services and Welfare	1,326,201	-	1,243,007	-	3,008,693	5,577,901
Urban Development	-	-	390,640	781,705	861,447	2,033,792
Education	-	4,441,586	-	-	1,143,182	5,584,768
Capital Outlay	-	-	814,019	-	12,194	826,213
Debt Service:						
Principal	-	-	-	-	355,000	355,000
Interest and Other Charges	-	-	-	-	281,448	281,448
TOTAL EXPENDITURES	9,781,532	4,441,586	2,447,666	781,705	6,379,898	23,832,387
Excess (deficiency) of revenue over expenditures	(1,566,711)	14,057	2,008,980	(66,906)	(534,220)	(144,800)
OTHER FINANCIAL SOURCES (USES):						
Bonds Issued	925,000	-	-	-	605,000	1,530,000
Operating Transfer Out	-	-	-	-	183,435	183,435
Operating Transfer In	(183,435)	-	-	-	-	(183,435)
Net Other Financing Sources (Uses)	741,565	-	-	-	788,435	1,530,000
Net Change in the Fund Balance	(825,146)	14,057	2,008,980	(66,906)	254,215	1,385,200
FUND BALANCE - BEGINNING, AS RESTATED	713,472	26,956	5,457,883	77,595	2,800,810	9,076,716
FUND BALANCES AT END OF YEAR	\$ (111,674)	\$ 41,013	\$ 7,466,863	\$ 10,689	\$ 3,055,025	\$ 10,461,916

*Org. plan
04/07/2005*

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURE, AND CHANGE
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2005

Net Change in Fund Balance - Total Governmental Funds **\$ 1,385,000**

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Urban Development and Capital Outlay	\$ 1,863,595	
Depreciation Expense	<u>(595,284)</u>	
Excess of Capital Outlay over Depreciation Expense		1,268,311

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	4,691,883
---	-----------

Revenues in the Statement of Revenues that correspond to Prior Year resources are record as Revenue in the Statement of Activities	(4,344,240)
--	-------------

Bonds proceeds provide current financial resources to governmental funds, but issuing debt Increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds Received was:	(1,530,000)
--	-------------

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were:	390,000
---	---------

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

Increase in Compensated Absences	(183,868)	
Decrease in Crim Debt	<u>30,602</u>	
Total Additional Expenditures		(153,266)

Change in Net Assets of Governmental Activities **\$ 1,707,688**

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

NOTES TO BASIC FINANCIAL STATEMENTS

- NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (17-27)
- NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (27)
- NOTE 3. INTERFUND TRANSFER AND BALANCES (28)
- NOTE 4. DUE TO THE OTHER GOVERNMENTAL UNITS (28)
- NOTE 5. CAPITAL ASSETS (29)
- NOTE 6. GENERAL LONG-TERM DEBTS (30-32)
- NOTE 7. DEBT RETIREMENT (32-33)
- NOTE 8. PROPERTY TAXES (33)
- NOTE 9. VOLUME OF BUSINESS TAX (34)
- NOTE 10. INTERGOVERNMENTAL REVENUES (34)
- NOTE 11. EMPLOYEE'S RETIREMENT PLAN (34-36)
- NOTE 12. CONTINGENCIES (36-37)
- NOTE 13. ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS (37-38)
- NOTE 14. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT (38)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Sabana Grande, Puerto Rico (Municipality) was founded in the year 1813, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the Municipality has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements in the current fiscal year 2004-2005: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2005, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

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

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

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

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

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

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

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2005, has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

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

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

- Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

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

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

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

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

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

- **Unrestricted Net Assets** – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

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

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

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

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

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major fund:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

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

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignment is to development of minor projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

SBGP Fund – This is the fund used to account for all the transactions of the State Block Grant Program. The primary objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

D. Budgetary Data

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

Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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

E. Cash, Cash Equivalent and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

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

F. Receivable

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

G. Inventories

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

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Equipments	10
Furniture	10
Vehicles	5
Machinery	5-10
Infrastructure	10-50

I. Compensated Absences

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

The Municipality accrued a liability for compensated absences, which meet the following criteria:

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

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 6 on page 30).

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

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

BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2005	CURRENT PORTION	LONG-TERM PORTION
<u>\$1,375,668</u>	<u>\$ 183,868</u>	<u>\$ -</u>	<u>\$1,559,536</u>	<u>\$1,003,173</u>	<u>\$ 556,363</u>

J. Insurance

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

K. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

The Municipality has the following types of transactions among funds:

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

L. Reservations of Fund Balance – Governmental Funds

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUE)

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Debt Account includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

N. Use of Estimates

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

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments consist of certificates of deposit. The Municipality's cash, cash equivalent and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, the Municipality invested its funds in short-term certificates of deposit. As June 30, 2005 the market value of investments recorded in Special Revenue Fund (\$3,878,222) approximated its carrying value as follow:

CERTIFICATE OF DEPOSIT ISSUED BY	CERTIFICATE OF PAYMENT NUMBER	PRINCIPAL AMOUNT	RATE	EXPIRATION DATE
Western Bank	2900710033	\$ 375,000	1.40%	07/18/05
Popular Bank of Puerto Rico	1110000009	592,539	1.40%	07/28/05
Popular Bank of Puerto Rico	1110000009	<u>2,910,683</u>	1.55%	07/03/05
Total		<u>\$3,878,222</u>		

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 3 INTERFUND TRANSFER AND BALANCES (CONTINUE)

A. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Services Fund	<u>\$ 183,435</u>	Debt payment

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2005 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Head Start	\$ 294,865
General Fund	State Assignment	146,598
General Fund	CDBG	23,802
General Fund	Other Funds	642,711
Other Funds	General Fund	<u>577,077</u>
TOTAL		<u>\$1,685,053</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2005, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the \$3,990 due to General Services Administration.

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows:

DESCRIPTION	BALANCE JULY 1, 2004	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2005
Non-Depreciable Capital Assets:				
Land	\$ 1,340,991	\$ 54,800	\$ -	\$ 1,395,791
Construction in Progress	<u>1,763,133</u>	<u>742,333</u>	<u>(2,000)</u>	<u>2,503,466</u>
Total Non-Depreciable Capital Assets	<u>3,104,124</u>	<u>797,133</u>	<u>(2,000)</u>	<u>3,899,257</u>
Depreciable Capital Assets:				
Buildings	9,119,253	108,700	-	9,227,953
Infrastructure	2,480,195	-	-	2,480,195
Machinery and Equipment	1,513,820	146,272	(21,048)	1,639,044
Motor Vehicles	<u>2,270,335</u>	<u>811,490</u>	<u>-</u>	<u>3,081,825</u>
Total Depreciable Capital Assets	<u>15,383,603</u>	<u>1,066,462</u>	<u>(21,048)</u>	<u>16,429,017</u>
Less Accumulated Depreciation:				
Buildings	(1,185,226)	(165,383)	-	(1,350,609)
Infrastructure	(166,766)	(37,202)	-	(203,968)
Machinery and Equipment	(1,019,842)	(154,073)	8,710	(1,165,205)
Motor Vehicles	<u>(1,598,768)</u>	<u>(238,625)</u>	<u>-</u>	<u>(1,837,393)</u>
Total Accumulated Depreciation	<u>(3,970,602)</u>	<u>(595,283)</u>	<u>8,710</u>	<u>(4,557,175)</u>
Total Depreciable Capital Assets (Net)	<u>11,413,001</u>	<u>471,179</u>	<u>(12,338)</u>	<u>11,871,842</u>
CAPITAL ASSETS, NET	<u>\$14,517,125</u>	<u>\$ 1,268,312</u>	<u>\$ (14,338)</u>	<u>\$15,771,099</u>

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

	AMOUNT
Mayor and Municipal Legislature	\$ 86,516
General Government	171,545
Public Safety	24,123
Public Works	127,112
Culture and Recreation	13,983
Health and Sanitation	7,811
Human Services and Welfare	53,006
Urban Development	<u>111,187</u>
Total Depreciation Expenses	<u>\$ 595,283</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS

A. General Obligations Bonds and Special Notes Payable

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

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

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$1,305,000, Series 2003, for construction purposes, payable in annual installments ranging from \$20,000 to \$100,000, excluding interests at 6.50%, through July 1, 2027.....	\$ 1,235,000
\$735,000 Series 2001, for construction purposes, payable in annual installments ranging from \$15,000 to \$75,000, excluding interests at 8.00%, through July 1, 2020.....	645,000
\$1,760,000 Series 2001, for purchase of building, payable in annual installments ranging from \$25,000 to \$160,000, excluding interests at 8.00%, through July 1, 2025	1,615,000
\$755,000 Series 2001, for operation purposes, payable in annual installments ranging from \$15,000 to \$65,000, excluding interests at 8.00%, through July 1, 2025	695,000
\$105,000, Series 2000, for construction purposes, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 8.00%, through January 1, 2009	50,000
\$60,000, Series 2000, for construction purposes, payable in annual installments ranging from \$1,000 to \$6,000, excluding interests from 6.41% to 6.56%, through January 1, 2024	54,000
\$600,000, Series 2000, payable in annual installments ranging from \$9,000 to \$29,000, excluding interests at 4.50%, through January 1, 2027 (Water & Waste Disposal Loans & Grants).....	424,000
\$140,000, Series 1999, for construction purposes, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests at 8.00%, through July 1, 2023.....	105,000
\$230,000, Series 1998, for construction purpose, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 8.00%, through July 1, 2022.....	190,000

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUE)

\$121,000, Series 1998, for operation purposes, payable in annual installments ranging from \$3,000 to \$8,000, excluding interests at 4.50%, through July 1, 2023.....	104,000
\$310,000, Series 1997, for construction purposes, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 4.70% to 6.63%, through July 1, 2021	260,000
\$222,000 Series 1996, for construction purposes, actually in process of disbursement, interests at 4.50% (Water & Waste Disposal Loans & Grants)	187,000
\$350,000 Series 1992, for construction purposes, payable in annual installments, actually in process of disbursement; interests at 4.75% (Community Facilities Loan)	256,000
\$350,000 Series 1991, for construction purposes, payable in annual installments ranging from \$13,000 to \$31,000, excluding interests at 5.25%, through January 1, 2015 (Community Facilities Loan).....	242,000
\$361,000, Series 1984, for construction purposes, payable in annual installments ranging from \$5,000 to \$26,000, excluding interests at 5.00%, through January 1, 2008	72,000
\$605,000 Series 2005, for operation purposes, payable in annual installments ranging from \$25,000 to \$60,000, excluding interest at 6.00% trough July 1, 2018	<u>550,000</u>
Total General Obligations – Bonds.....	<u>6,684,000</u>
DESCRIPTION	AMOUNT
Notes Payable:	
\$475,000, Series 2001, for purchase of equipment, payable in annual installments ranging from \$55,000 to \$90,000, excluding interests at 8.00%, through July 1, 2007.....	170,000
\$200,000, Series 1988, for operation purposes, payable in quarterly installments of \$2,500, excluding interests at 8.00%, through July 1, 2007	20,000
\$880,000, Series 1986, for operation purposes, payable in annual installments ranging from \$31,000 to \$44,000, excluding variable interests up to 8.50%, through July 1, 2006.....	31,000
\$925,000, Series 2005, for operation purposes, payable in annual installments ranging from \$31,000 to \$85,000, excluding interests up to 5.50%, trough July 1, 2020	<u>925,000</u>
Total Notes Payable	<u>1,146,000</u>
Total General Obligations Bonds and Notes.....	<u>\$ 7,830,000</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBTS (CONTINUE)

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

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	405,000	416,973	821,973
2007	405,000	467,936	872,936
2008	330,000	447,016	777,016
2009	316,000	414,441	730,441
AFTER 2009	<u>6,374,000</u>	<u>3,687,842</u>	<u>10,061,842</u>
TOTAL	<u>\$ 7,830,000</u>	<u>\$ 5,434,208</u>	<u>\$13,264,208</u>

B. Other Long-Term Debts

DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005
Property Taxes – MRCC.....	\$ 668,131	\$ -	\$ 30,602	\$ 637,529
Compensated Absences.....	<u>1,375,668</u>	<u>183,868</u>	<u>-</u>	<u>1,559,536</u>
TOTAL	<u>\$ 2,043,799</u>	<u>\$ 183,868</u>	<u>\$ 30,602</u>	<u>\$ 2,197,065</u>

C. Changes in General Long-Term Debts

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

DESCRIPTION	BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2005	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General	\$ 6,339,000	\$ 605,000	\$ 260,000	\$ 6,684,000	\$ 244,000	\$ 6,440,000
Special	351,000	925,000	130,000	1,146,000	161,000	985,000
Others Debts	<u>2,043,799</u>	<u>183,868</u>	<u>30,602</u>	<u>2,197,065</u>	<u>1,003,173</u>	<u>1,193,892</u>
TOTAL	<u>\$ 8,733,799</u>	<u>\$ 1,713,868</u>	<u>\$ 420,602</u>	<u>\$ 10,027,065</u>	<u>\$ 1,408,173</u>	<u>\$ 8,618,892</u>

NOTE 7 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank

NOTE 7 DEBT RETIREMENT (CONTINUE)

of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 8 PROPERTY TAXES

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

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

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the Municipality.

From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 7). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

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

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors. As of June 30, 2005, the Debt Service Fund presented a receivable of \$449 for the collection of additional property taxes during the next 60 days after end of year.

NOTE 9 VOLUME OF BUSINESS TAX

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

The tax rates are as follows:

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

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

NOTE 10 INTERGOVERNMENTAL REVENUES

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

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

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico,

Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUE)

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

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$6,600 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

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

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

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

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

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (CONTINUE)

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

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

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

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2005 was approximately \$ 237,870. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2005. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42004, Minillas Station, San Juan, P.R. 00940.

NOTE 12 CONTINGENCIES

A. Claims and Judgments

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding.

However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 12 CONTINGENCIES (CONTINUE)

B. Federal Grants

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

NOTE 13 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

During fiscal year 2003-2004, the Municipality implemented several new accounting standards and an interpretation issued by GASB.

GASBS No. 34 as amended by GASBS Nos. 37, 38 and 41 establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state and local governments, including statement formats and changes in fund types and elimination of account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

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

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

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

NET ASSETS RESTATEMENTS

The following schedule reconciles the June 30, 2005 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2004.

Net Assets	
Net Assets, as Previously Reported, at June 30, 2004	\$ 20,948,375
Adjustment to Accounts Payable.....	28,559
Adjustment to Capital Assets.....	(14,339)
Beginning Net Assets, as Restated, at July 1, 2004	<u>\$ 20,962,595</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
 NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 13 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS
 (CONTINUE)

The following schedule reconciles the June 30, 2005 Fund Balances, as previously reported to Beginning Fund.

Balances, as restated, July 1, 2004.

	FUND BALANCE RESTATED	
	GENERAL FUND	OTHERS GOVERNMENTAL FUNDS
Fund Balance, as Previously Reported, June 30, 2004	\$ 594,819	\$2,437,298
Adjustment to Accounts Payable.....	28,559	
Interfund Transactions Not Recorded on Prior Year.....	<u>90,094</u>	<u>(90,094)</u>
Beginning Fund Balance, as Restated, July 1, 2004.....	<u>\$ 713,472</u>	<u>\$2,347,204</u>

NOTE 14 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2005. Early application is encouraged. The Municipality has not adopted the requirement of this statement. Other three pronouncements are issued (GASBS Nos. 43, 44 and 45), but do not apply to the Municipality.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION:

- **Budgetary Comparison Schedule-General Fund**
- **Notes to Required Supplementary Information**

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budget Amounts		Actual Amount	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
			(See Note A)	Positive
				(Negative)
BUDGETARY FUND BALANCE, JULY 1, 2005	\$ 713,472	\$ -	\$ 713,472	\$
Resources (Inflows)				
Property Taxes	1,776,938	1,776,938	1,776,938	-
Volume of Buseness Taxes	1,100,000	1,100,000	1,020,200	(79,800)
Intergovernmental Revenues	4,604,778	4,604,778	4,300,003	(304,775)
License and Permits	401,000	401,000	446,186	45,186
Rent	300,000	300,000	181,108	(118,892)
Miscellaneous	1,035,408	1,105,308	377,004	(728,304)
Prior Year Allocation	-	206,343	-	-
Total Resources (Inflows)	9,218,124	9,494,367	8,101,439	(1,186,585)
Amounts Available for Appropriation	9,931,596	9,494,367	8,814,911	(1,186,585)
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	1,745,032	2,273,234	2,223,788	49,446
General Government	2,454,267	2,474,746	2,515,826	(41,080)
Public Safety	397,570	326,961	315,248	11,713
Public Work	2,274,601	2,149,354	2,141,664	7,690
Culture and Recreation	445,372	444,141	440,590	3,551
Health and Sanitation	362,263	372,719	371,039	1,680
Human Services and Welfare	1,418,849	1,333,042	1,329,565	3,477
Transfer to Other Funds	120,170	120,170	183,435	(63,265)
Total Charges to Appropriations	9,218,124	9,494,367	9,521,155	(26,788)
BUDGETARY FUND BALANCE, JUNE 30, 2005	\$ 713,472	-	(706,244)	\$ (1,213,373)

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 40).....	\$ 8,814,911
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.	(713,472)
Prior and Current Adjustments to Revenues.....	<u>113,382</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 13).....	<u>\$ 8,214,821</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 40).....	\$ 9,521,155
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes	384,916
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.	(108,414)
Transfers to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose.....	(183,435)
Adjustment to Expenditures	<u>167,310</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 13).....	<u>\$ 9,781,532</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Budgetary Fund Balance, June 30, 2005 (See Page 40)	\$ (706,244)
Timing Differences:	
Net Change in Encumbrances	(3,560)
Non-budgetary Items	<u>(132,954)</u>
Unreserved Fund Balance, June 30, 2005 (See Page 12)	<u>\$ (842,761)</u>

END OF THIS SECTION /

Schedule of Expenditures of Federal Awards and Reports on Compliance and Internal Control in accordance with Government Auditing Standards and the requirements of OMB Circular A-133

- **Schedule of Expenditures of Federal Awards**
- **Notes to Schedule of Expenditures of Federal Awards**
- **Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based upon the Audit Performed in Accordance with Government Auditing Standards**
- **Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards**

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>\$ 366,080</u>
U.S. Department of Commerce:			
Direct Program:			
Economic Development Administration	11.300		<u>110,263</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of Commissioner Of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228	04-FD-55 03-FD-55 02-FD-55 01-FD-55 99-FD-55 94-FD-55 93-FD-55	781,705
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		<u>671,453</u>
Total U.S. Department of Housing and Urban Development			<u>1,453,158</u>
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community Policing Grants (Cops)	16.710		<u>121,802</u>
Total U.S. Department of Justice			<u>141,769</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	1247DR-PR-121	<u>36,061</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>2,087,364</u>

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Subtotal Expenditures of Federal Awards (Balance Brought Forward)			<u>\$ 2,087,364</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of Governor – Elderly Office:			
Special Program for Aging, Title III, Part B.....	93.044	N/AV	128,966
Pass-Through Administration of Children and Families:			
Community Service Block Grant.....	93.569		42,238
Child Care and Development Block Grant	93.575	CC-92-502	224,108
Head Start Program.....	93.600	02-CH-0483-36 02-CH-0483-37	4,441,586
Family Violence Prevention and Services	93.592		62,400
Social Services Block Grant	93.667		27,518
Direct Program:			
Early Head Start.....	93.600		<u>544,940</u>
Total U. S. Department of Health and Human Services			<u>5,471,756</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,559,120</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Sabana Grande, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS THROUGH GRANTOR'S NUMBER

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

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES

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

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

We have audited the basic financial statements of Municipality of Sabana Grande, Puerto Rico (the "Municipality") as of and for the fiscal year ended June 30, 2005, and have issued report thereon dated January 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

INDEPENDENT AUDITORS' REPORT

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

Guayama, Puerto Rico
December 15, 2005

Stamp number 2050083 was
affixed to the original of this
report.





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

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

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 SABANA GRANDE, PUERTO RICO

Compliance

We have audited the compliance of the Municipality of SABANA GRANDE, 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, 2005. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-III-01.

INDEPENDENT AUDITORS' REPORT

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 item 05-III-01.

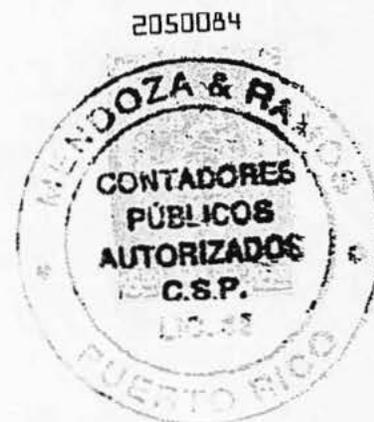
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major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

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

Mendoza & Ramos CPAs
MENDOZA & RAMOS
CERTIFIED PUBLIC ACCOUNTANTS, C.S.P.

Guayama, Puerto Rico
December 15, 2005

Stamp number 2050084 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 SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION I-FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Financial Statements

Type of auditors' report issued:

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for

Major Programs:

Qualified Opinion

- Unqualified 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	State Block Program
14.228	State Block Grant Program
10.558	Child and Adult Care Food Program
93.600	Head Start and Early Head Start

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

\$300,000

Auditee qualified as low-risk auditee?

- Yes No

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	05-III-01
FEDERAL PROGRAM	STATE BLOCK GRANTS PROGRAM (SBGP) (CFDA NO. 14.228) DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE-OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	The model for construction contracts over \$10,000 used by the Municipality did not contain the clauses detailed for compliance with the provisions for suspension and debarment, granting access to GAO and other federal agencies to books and documents, Davis-Bacon, contract work hours and safety standards; and compliance with Executive Order 11246 EEO, Clear Air and Clear Water Act Energy Policy and Conservation Act for contracts over \$100,000, as required by the program regulation.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	Lack of proper supervision over control procedures over compliance with federal regulations applicable was the cause of this condition.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) of OMB Common Rules.
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not corrected or Partially Corrected:

FISCAL YEAR 2004

Finding Number 04-III-01 Davis Bacon-Head Start management did not perform procedures.

CFDA Number 93.600

Questioned Cost NONE

Auditee Comments System and procedures are corrected.

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

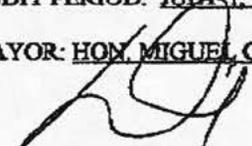
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE**

CORRECTIVE ACTION PLAN FISCAL YEAR 2005

AUDIT REPORT: SINGLE AUDIT JUNE 30, 2005

AUDIT PERIOD: JULY 1, 2004 TO JUNE 30, 2005

MAYOR: HON. MIGUEL G. ORTIZ VELEZ



CONTACT PERSON RESPONSIBLE
FOR CORRECTIVE ACTION:

NAME: NORMA H. ORSINI RIVERA

TITLE: INTERNAL AUDITOR

TELEPHONE: 787-804-2002

FINDING NUMBER	FISCAL YEAR	FINDING	AUDITOR RECOMENDATION	CORRECTIVE ACTION PLANNED	ANTICIPATED COMPLETION DATE	RESULT
05-III-01	June 30, 2005	The model for construction contracts over \$10,000 used by the Municipality did not contain the clauses detailed for compliance with the provisions for suspension and debarment, granting access to GAO and other federal agencies to books and documents, Davis-Bacon, contract work hours and safety standards; and compliance with Executive Order 11246 EEO, Clear Air and Clean Water Act Energy Policy and Conservation Act for contracts over \$100,000, as required by the program regulation.	We recommend management to update contract model according with the federal requirement.	As of January 31, 2006 the contract model was updated according to the federal requirements and all the clauses were included in the contract. Actually, the Municipality has only one contract in force. This contract was amended to include these clauses. See Attachment 1.	January 31, 2006	Corrective action plan taken. Corrected.

ATTACHMENT #1

Modelo OC-08-08 (Model OC-08-08)
 Rev. octubre 1999 (Rev. October 1999)
 Reglamento Núm. 33 del 28 de enero de 1998
 Regulation No. 33 of January 28, 1998

ESTADO LIBRE ASOCIADO DE PUERTO RICO
 Commonwealth of Puerto Rico
OFICINA DEL CONTRALOR
 OFFICE OF THE COMPTROLLER OF PUERTO RICO
 San Juan, Puerto Rico

CERTIFICACION
 CERTIFICATION

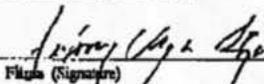
SOBRE OTORGAMIENTO DE CONTRATO, ESCRITURA O DOCUMENTO RELACIONADO
 REGARDING THE EXECUTION OF CONTRACTS DEEDS AND OTHER RELATED DOCUMENTS

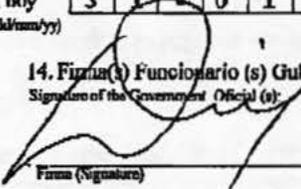
1. Código de Entidad 4 0 6 2
 Entity Code
2. Número del Contrato 2 0 0 5 - 0 0 0 5 1 7 - E
 Contract Number
3. Fecha de Otorgamiento 3 1 - 0 1 - 0 6
 Date of execution (dd/mm/yy)
4. Cantidad Total 0 0 0
 Total amount
5. Código del Tipo del Contrato 0 6 **Construcción y Reparación de Estructuras**
 Contract Type Code
6. Exento 0
 Exempt
7. Orden (Aprobación o dispensa de algún organismo del Gobierno) -0-
 Authorization or waiver from another government entity
8. Vigencia desde 3 1 - 0 1 - 2 0 0 6 hasta 1 7 - 0 2 - 2 0 0 6
 Effective date from (dd/mm/yy) to (dd/mm/yy)
9. Seguro Social Personal o Patronal 6 6 0 - 6 4 - 5 0 5 6
 Social Security Number
10. Contratista (s) J. Vega Santiago Contractor, Inc.
 (Contractor)
11. Representante (s) de la (s) Entidad (es) (gubernamental) (es) Hon. Miguel G. Ortiz Vélez - Alcalde
 (Government Representative (s))

Se somete la presente certificación en cumplimiento con Carta Circular promulgada por el Contralor de Puerto Rico y en cumplimiento con el Reglamento Núm. 33 Sobre Registro de Contratos, Escrituras y Documentos Relacionados y Envío de Copias a la Oficina del Contralor. Este debe ser remitida a la Oficina del Contralor. (This certification is submitted in compliance with the instructions issued by the Comptroller of Puerto Rico and in accordance with Regulation No. 33, regarding the Registration of Contracts, Deeds and Other Related Documents and the Mailing of such Copies to the Comptroller's Office by the government entity.)

Los suscritos certificamos haber otorgado hoy el contrato descrito en este documento.
 The undersigned, entity having that the contract described in this document was executed on this date.

12. En (ciudad) Sabana Grande, Puerto Rico, hoy 3 1 - 0 1 - 0 6
 In Puerto Rico, today (dd/mm/yy)

13. Firma(s) Part(e) Contratista(s)
 Signature of the Contractor(s)

 Firma (Signature)
Johnny Vega Santiago
 Letra de molde (print)
Presidente
 Firma (Signature)
J. Vega Santiago Contractor, Inc.
 Letra de molde (print)

14. Firma(s) Funcionario (s) Gubernamental (es):
 Signature of the Government Official (s):

 Firma (Signature)
Hon. Miguel G. Ortiz Vélez
 Letra de molde (print)
Alcalde
 Firma (Signature)
Municipio de Sabana Grande
 Letra de molde (print)

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL
SABANA GRANDE, PUERTO RICO**

SUBASTA 05-07

CONTRATO NÚMERO 2005-000517-E

**ENMIENDA AL CONTRATO 2005-000517 PARA LA REMODELACIÓN Y
AMPLIACIÓN, NUEVO CENTRO DE GOBIERNO MUNICIPAL Y OFICINAS
DE CORREO POSTAL EN LA CARRETERA # 121 ESQUINA AVENIDA
ORLANDO LÓPEZ MARTÍNEZ Y CALLE HACIENDA SAN FRANCISCO
BARRIO RAYO SABANA GRANDE, PUERTO RICO**

En la ciudad de Sabana Grande, Puerto Rico, a 31 de enero de 2006.-----

COMPARECEN

105
DE LA PRIMERA PARTE: EL MUNICIPIO DE SABANA GRANDE, PUERTO RICO, número de Seguro Social Patronal 660-43-3550, representado en este acto por su **ALCALDE DON MIGUEL G. ORTIZ VELEZ**, mayor de edad, casado, Ejecutivo y vecino de Sabana Grande, Puerto Rico; en adelante denominada "**EL MUNICIPIO**".----

DE LA SEGUNDA PARTE: J. VEGA SANTIAGO CONTRACTOR, INC., número de Seguro Social Patronal 660-64-5056 Corporación organizada bajo las Leyes del Estado Libre Asociado de Puerto Rico representado en este acto por el Sr. Johnny Vega Santiago número de Seguro Social 584-50-7642, mayor de edad, casado, Presidente y vecino de Sabana Grande, Puerto Rico en adelante denominado "**EL CONTRATISTA**".-----

Manifiestan las partes estar plenamente capacitadas para otorgar esta enmienda y a tales efectos libremente:-----

ACUERDAN

Enmendar el Contrato para añadir los siguientes Anejos:-----

PRIMERA: "**EL CONTRATISTA**" se compromete a efectuar los trabajos correspondientes en beneficio de "**EL MUNICIPIO**" según se describen a continuación y se detallan en los planos y especificaciones, Escala Salarial PR _____ y la forma 4010 "*Federal Labors Standards Provisions*" y condiciones generales que forman parte de este contrato, así como con lo discutido en la Conferencia de Pre-Construcción y el anejo uno (1) de este contrato.-----

1. Federal Labor Standard Provisions JJUD - 4010-----
2. General Decision Number PR000002 Heavy and Highway Construction-----

SEGUNDA: "**EL CONTRATISTA**" cumplirá con los siguientes requisitos:-----

- A) "The Clean Air Act.", según enmendada, 42 USC 1857.-----
- B) "The Federal Water Pollution Control Act.", según enmendada, 33 USC 1251.-----
- C) "Environmental Protection Agency" con relación a la parte 15 del CFR.-----

CONTRATO NÚMERO 2005-000517-E
PÁG. 2 DE 9

TERCERA: COUNTRY (ies)

STATEWIDE

SUPR0002A 05/26/1995

	Rates	Fringes
CARPENTERS	5.48	.50
CEMENT MASONS	5.17	.47
ELECTRICIANS	5.76	.80
IRONWORKERS	5.15	
LINEMEN:		
Linemen	5.15	.84
Telephone Linemen:		
Ground & Pole	5.15	
LABORERS:		
Laborers (unskilled)	5.15	.43
Pipelayers	5.27	
PIPEFITTERS	5.15	
PLUMBERS	5.55	
POWER EQUIPMENT OPERATORS:		
Asphalt Jucers	6.74	3.11
Backhoe	8.25	.59
Bulldozer	6.89	.99
Crane	6.72	1.43
Diggers	5.91	
Grader	6.78	1.06
Greaser/Oilers	5.51	
Loaders	6.51	.92
Mechanics	6.17	.76
Paver	7.00	3.15
Roller	6.74	3.14
SCRAPERS:		
less than 18 CY	7.80	.59
18 CY and over	8.10	.59
Screedman	8.80	3.13
TRACTORS:		
less than 185 HP	8.00	.59
185 HP and over	8.10	.59
TRUCK DRIVERS	5.31	

WELDERS – Receive rate prescribed for craft performing operation
 To which welding is incidental.

CONTRATO NÚMERO 2005-000517-E
PÁG. 3 DE 9

Federal Labor Standards Provisions

**U.S. Department of Housing
And Urban Development**

Applicability

The Project or Program to which the construction work covered by this contract pertains is being assisted by the United States of America and the following Federal Labor Standards Provisions are included in this Contract pursuant to the provisions applicable to such Federal assistance.

for

A. 1. (i) Minimum Wages. All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR Part 3), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics. Contributions or costs reasonably anticipated for bona fide fringe benefits under Section 1(b)(2) of the Davis-Bacon Act on behalf of laborers or mechanics are considered wages paid to such laborers or mechanics, subject to the provisions of 29 CFR-5.5(a)(1)(iv); also, regular contributions made or costs incurred for more than a weekly period (but not less often than quarterly) under plans, funds, or programs, which cover the particular weekly period, are deemed to be constructively made or incurred during such weekly period.

W

Such laborers and mechanics shall be paid the appropriate wage rate and fringe benefits on the classification of work actually performed, without regard to skill, except as provided in 29 CFR Part 5.5(a)(4). Laborers or mechanics performing work in more than one classification may be compensated at the rate specified for each classification for the time actually worked therein: Provided, That the employer's payroll records accurately set forth the time spent in each classification in which work is performed. The wage determination (including any additional classification and wage rates conformed under 29 CFR Part 5.5(a)(1)(ii) and the Davis-Bacon poster (WH-1321) shall be posted at all times by contractor and its sub-contractors at the site of the work in a prominent and accessible, place where it can be easily seen by the workers.

(ii) (a) Any class of laborers or mechanics which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination. HUD shall approve an additional classification and wage rate and fringe benefits therefore only when the following criteria have been met:

- (1) The work to be performed by the classification requested is not performed by a classification in the wage determination; and
- (2) The classification is utilized in the area by the construction industry; and
- (3) The proposed wage rate, including any bona fide fringe benefits, bears a reasonable relationship to the wage rates contained in the wage determination.

(b) If the contractor and the laborers and mechanics to be employed in the classification (if known), or their representatives, and HUD or its designee agree on the classification

CONTRATO NÚMERO 2005-000517-E
PÁG. 4 DE 9

and wage rate (including the amount designated for fringe benefits where appropriate), a report of the action taken shall be sent by HUD or its designee to the Administrator of the Wage and Hour Division, Employment Standards Administration, U.S. Department of Labor, Washington, D.C. 20210. The Administrator, or an authorized representative, will approve, modify, or disapprove every additional classification action within 30 days of receipt and so advise HUD or its designee or will notify HUD or its designee within the 30-day period that additional time is necessary. (Approved by the Office of Management and Budget under OMB control number 1215-1040.)

for
(e) In the event the contractor, the laborers or mechanics to be employed in the classification or their representatives, and HUD or its designee do not agree on the proposed classification and wage rate (including the amount designated for fringe benefits, where appropriate), HUD or its designee shall refer the questions, including the views of all interested parties and the recommendation of HUD or its designee, to the Administrator for determination. The Administrator or an authorized representative, will issue a determination within 30 days of receipt and so advise HUD or its designee or will notify HUD or its designee within the 30-day period that additional time is necessary. (Approved by the Office of Management and Budget under OMB Control Number 1215-0140.)

(d) The wage rate (including fringe benefits where appropriate) determined pursuant to subparagraphs (1)(b) or (c) of this paragraph, shall be paid to all workers performing work in the classification under this contract from the first day on which work is performed in the classification.

(iii) Whenever the minimum wage rate prescribed in the contract for a class of laborers or mechanics includes a fringe benefit which is not expressed as an hourly rate, the contractor shall either pay the benefit as stated in the wage determination or shall pay another bona fide fringe benefit or an hourly cash equivalent thereof.

(iv) If the contractor does not make payments to a trustee or other third person, the contractor may consider as part of the wages of any laborers or mechanic the amount of any costs reasonably anticipated in providing bona fide fringe benefits under a plan or program. Provided, That the Secretary of Labor has found, upon the written request of the contractor, that the applicable standards of the Davis-Bacon Act have been met. The Secretary of Labor may require the contractor to set aside in a separate account assets for the meeting of obligations under the plan or program. (Approved by the Office of Management and Budget under OMB Control Number 1215-0140.)

W
2. Withholding. HUD or its designee shall upon its own action or upon written request of an authorized representative of the Department of Labor withhold or cause to be withheld from the contractor under this contract or any other Federal contract with the same prime contractor, or any other Federally-assisted contract subject to Davis-Bacon prevailing wage requirements, which is held by the same prime contractor so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics, including apprentices, trainees and helpers, employed by the contractor or any subcontractor the full amount of wages required by the contract in the event of failure to pay any laborer or mechanic, including any apprentice, trainee or helper, employed or working on the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), all part of the wages required by contract, HUD or its designee may, after written notice to the contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased. HUD or its designee may, after written notice to the contractor, disburse such amounts withheld for and on account of the contractor or subcontractor to the respective employees to whom they are due. The Comptrollers General shall make such disbursements in the case of direct Davis-Bacon Act contracts.

CONTRATO NÚMERO 2005-000517-E
PÁG. 5 DE 9

203

3. (i) Payrolls and basic records. Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work (or under the United States Housing Act of 1937. Or under the Housing Act of 1949, in the construction or development of the project). Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in Section 1(b)(2)(B) of the Davis-bacon Act). Daily and weekly number of hours worked, deductions made and actual wages paid. Whenever the Secretary of Labor has found under 29 CFR 5.5 (a)(1)(iv) that the wages of any laborer or mechanic include the amount of any costs reasonably anticipated in providing benefits under a plan or program described in Section 1(b)(2)(B) of the Davis-Bacon Act, the contractor shall maintain records which show that that commitment to provide such benefits is enforceable, that the plan or program is financially responsible, and that the plan or program has been communicated in writing to the laborers or mechanics affected, and records which show the costs anticipated or the actual cost incurred in providing such benefits. Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs. (Approved by the Office of Management and Budget under OMB Control Numbers 1215-0140 and 1215-0017.)

(ii) (a) The contractor shall submit weekly for each week in which any contract work is performed a copy all payrolls to HUD or its designee if the agency is a party to be contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant sponsor, or owner, as the case may be, for transmission to HUD or its designee. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR Part 5.5 (a)(3)(i). This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC. 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. (Approved by the Office of Management and Budget under OMB Control Number 1215-0149.)

W

(b) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be maintained under 29 CFR Part 5.5 (a)(3)(i) and that such information is correct and complete:

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in 29 CFR Part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classifications of work performed, as specified in the applicable wage determination incorporated into the contract.

(c) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph A.3.(ii)(b) of this section.

CONTRATO NÚMERO 2005-000517-E
PÁG. 6 DE 9

(d) The falsification of any of the above certifications may subject the contractor or subcontractor to civil or criminal prosecution under Section 1001 of Title 18 and Section 231 of Title 31 of the United States Code.

fcs
(iii) The contractor or subcontractor shall make the records required under paragraph A.3.(i) of this section available for inspection, copying, or transcription by authorized representatives of HUD or its designee or the Department of Labor, and shall permit such representatives to interview employees during working hours on the job. If the contractor or subcontractor fails to submit the required records or to make them available, HUD or its designee may, after written notice to the contractor, sponsor, applicant or owner, take such action as may be necessary to cause the suspension of any further payment advance, or guarantee of funds. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment action pursuant to 29 CFR Part 5.12.

4. Apprentices and Trainees.

w
(i) Apprentices will be permitted to work at less than the predetermined rate for the work they performed when they are employed pursuant to an individually registered bona fide apprenticeship program registered with the U.S. Department of Labor, Employment and Training Administration, Bureau of Apprenticeship and Training, or with a State Apprenticeship Agency recognized by the Bureau, or if a person is employed in his or her first 90 days of probationary employment as an apprentice in such an apprenticeship program, who is not individually registered in the program, but who has been certified by the Bureau of Apprenticeship and Training or a State Apprenticeship Agency (where appropriate) to be eligible for probationary employment as an apprentice. The allowable ratio of apprentices to journeymen on the job site in any craft classification shall not be greater than the ratio permitted to the contractor as to the entire work force under the registered program. Any worker listed on a payroll at an apprentice wage rate, who is not registered or otherwise employed as stated above, shall be paid not less than the applicable wage rate on the wage determination for the classification of work actually performed. In addition, any apprentice performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. Where a contractor is performing construction on a project in a locality other than that in which its program is registered, the ratios and wage rates (expressed in percentages of the journeyman's hourly rate) specified in the contractor's or subcontractor's registered program shall be observed. Every apprentice must be paid at not less than the rate specified in the registered program for the apprentice's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Apprentices shall be paid fringe benefits in accordance with the provisions of the apprenticeship program. If the apprenticeship program does not specify fringe benefits, apprentices must be paid the full amount of fringe benefits listed on the wage determination for the applicable classification. If the Administrator determines that a different practice prevails for the applicable apprentice classification, fringes shall be paid in accordance with that determination. In the event the Bureau of Apprenticeship and Training, or a State Apprenticeship Agency recognized by the Bureau, withdraws approval of an apprenticeship program, the contractor will no longer be permitted to utilize apprentices at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(ii) **Trainees.** Except as provided in 29 CFR 5.16, trainees will not be permitted to work at less than the predetermined rate for the work performed unless they are employed pursuant to and individually registered in a program which has received prior approval, evidenced by formal certification by the U.S. Department of Labor, Employment and Training Administration. The ratio of trainees to journeymen on the job site shall not be greater than permitted under the plan approved by the Employment and Training Administration. Every trainee must be paid at not less than the rate specified in the

CONTRATO NÚMERO 2005-000517-E
PÁG. 7 DE 9

1-25
approved program for the trainee's level of progress, expressed as a percentage of the journeyman hourly rate specified in the applicable wage determination. Trainees shall be paid fringe benefits in accordance with the provisions of the trainees program. If the trainee program does not mention fringe benefits, trainees shall be paid the full amount of fringe benefits listed on the wage determination unless the Administrator of the Wage and Hour Division determines that there is an apprenticeship program associated with the corresponding journeyman wage rate on the wage determination which provides for less than full fringe benefits for apprentices. Any employee listed on the payroll at a trainee rate who is not registered and participating in a training plan approved by the Employment and Training Administration shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In addition, any trainee performing work on the job site in excess of the ratio permitted under the registered program shall be paid not less than the applicable wage rate on the wage determination for the work actually performed. In the event the Employment and Training Administration withdraws approval of a training program, the contractor will no longer be permitted to utilize trainees at less than the applicable predetermined rate for the work performed until an acceptable program is approved.

(iii) **Equal employment opportunity.** The utilization of apprentices, trainees and journeymen under this part shall be in conformity with the equal employment opportunity requirements of Executive Order 11246, as amended and 29 CFR Part 30.

5. Compliance with Copeland Act requirements. The contractor shall comply with the requirements of 29 CFR Part 3 which are incorporated by reference in this contract.

6. Subcontracts. The contractor or subcontractor will insert in any subcontracts the clauses contained in 29 CFR 5.5(a)(1) through (10) and such other clauses as HUD or its designee may by appropriate instructions require, and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for the compliance by any subcontractor or lower tier subcontractor with all the contract clauses in 29 CFR Part 5.5.

7. Contract termination; debarment. A breach of the contract clauses in 29 CFR 5.5 may be grounds for termination of the contract and for debarment as a contractor and a subcontractor as provided in 29 CFR 5.12.

✓
8. Compliance with Davis-Bacon and Related Act Requirements. All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR Parts 1, 3, and 5 are herein incorporated by reference in this contract.

9. Disputes concerning labor standards. Disputes arising out of the labor standards provisions of this contract shall not be subject to the general disputes clause of this contract. Such disputes shall be resolved in accordance with the procedures of the Department of Labor set forth in 29 CFR Parts 5, 6, and 7. Disputes within the meaning of this clause include disputes between the contractor (or any of its subcontractors) and HUD or its designee, the U.S. Department of Labor, or the employees or their representatives.

10. (i) Certification of Eligibility. By entering into this contract the contractor certifies that neither it (nor he or she) nor any person or firm who has an interest in the contractor's firm is a person or firm ineligible to be awarded Government contracts by virtue of Section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1) or to be awarded HUD contracts or participate in HUD programs pursuant to 24 CFR Part 24.

(ii) No part of this contract shall be subcontracted to any person or firm ineligible for award of a Government contract by virtue of Section 3(a) of the Davis-Bacon Act or 29 CFR 5.12(a)(1) or to be awarded HUD contracts or participate in HUD programs pursuant to 24 CFR Part 24.

CONTRATO NÚMERO 2005-000517-E
PÁG. 8 DE 9

(iii) The penalty for making false statements is prescribed in the U.S. Criminal Code, 18 U.S.C. 1001. Additionally, U.S. Criminal Code, Section 1010, Title 18, U.S.C., "Federal Housing Administration transactions", provides in part: "Whoever, for the purpose of ... influencing in any way the action of such Administration ... makes, utters or publishes any statement knowing the same to be false... shall be fined not more than \$5,000 or imprisoned not more than two years, or both."

fvs
11. Complaints, Proceedings, or Testimony by Employees. No laborer or mechanic to whom the wage, salary, or other labor standards provisions of this Contract are applicable shall be discharged or in any other manner discriminated against by the Contractor or any subcontractor because such employee has filed any complaint or instituted or caused to be instituted any proceeding or has testified or is about to testify in any proceeding under or relating to the labor standards applicable under this Contract to his employer.

B. Contract Work Hours and Safety Standards Act. As used in this paragraph, the terms "laborers" and "mechanics" include watchmen and guards.

(1) Overtime requirements. No contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any such laborer or mechanic in any workweek in which he or she is employed on such work to work in excess of eight hours in any calendar day or in excess of forty hours in such workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times the basic rate of pay for all hours worked in excess of eight hours in any calendar day or in excess of forty hours in such workweek, whichever is greater.

W
(2) Violation; liability for unpaid wages; liquidated damages. In the event of any violation of the clause set forth in subparagraph (1) of this paragraph, the contractor and any subcontractor responsible therefore shall be liable for the unpaid wages. In addition, such contractor and subcontractor shall be liable to the United States (in the case of work done under contract for the District of Columbia or a territory, to such District or to such territory), for liquidated damages. Such liquidated damages shall be computed with respect to each individual laborer or mechanic, including watchmen and guards, employed in violation of the clause set forth in subparagraph (1) of this paragraph, in the sum of \$10 for each calendar day on which such individual was required or permitted to work in excess of eight hours or in excess of the standard workweek of forty hours without payment of the overtime wages required by the clause set forth in subparagraph (1) of this paragraph.

(3) Withholding for unpaid wages and liquidated damages. HUD or its designee shall upon its designee shall upon its own action written request of an authorized representative of the Department of Labor withhold or cause to be withheld, from any moneys payable on account to work performed by the contractor or subcontractor under any such contract or any other Federal contract with the same prime contract, or any other Federally-assisted contract subject to the Contract Work Hours and Safety Standards Act which is held by the same prime contractor such sums as may be determined to be necessary to satisfy any liabilities of such contractor or subcontractor for unpaid wages and liquidated damages as provided in the clause set forth in subparagraph (2) of this paragraph.

(4) Subcontracts. The contractor or subcontractor shall insert in any subcontracts the clauses set forth in subparagraph (1) through (4) of this paragraph and also a clause requiring the subcontractors to include these clauses in any lower tier subcontracts. The prime contractor shall be responsible for compliance by any subcontractor or lower tier subcontractor with the clauses set forth in subparagraphs (1) through (4) of this paragraph.

**CONTRATO NÚMERO 2005-000517-E
PÁG. 9 DE 9**

C. Health and Safety

(1) No laborer or mechanic shall be required to work in surroundings or under working conditions which are unsanitary, hazardous, or dangerous to his health and safety as determined under construction safety and health standards promulgated by the Secretary of Labor by regulation.

(2) The contractor shall comply with all regulations issued by the Secretary of Labor pursuant to Title 29 Part 1926 (formerly part 1518) and failure to comply may result in imposition of sanctions pursuant to the Contract Work Hours and Safety Standards Act (Public Law 91-54, 83 Stat 96).

(3) The contractor shall include the provisions of this Article in every subcontract so that such provisions will be binding on each subcontractor. The Contractor shall take such action with respect to any subcontract as the Secretary of Housing and Urban Development or the Secretary of Labor shall direct as a means of enforcing such provisions.

ACEPTACION

Está Enmienda la aceptan en todas sus partes los comparecientes y lo ratifican estampando sus iniciales al margen de cada uno de sus folios y lo firman de común acuerdo.

EN TESTIMONIO DE LO CUAL, lo suscriben en la fecha y en el sitio antes indicado.-

**HON. MIGUEL G. ORTIZ VÉLEZ
ALCALDE
MUNICIPIO DE SABANA GRANDE**

**JOHNNY VEGA SANTIAGO
PRESIDENTE
J. VEGA SANTIAGO CONTRACTOR, INC.**

SELLO OFICIAL