

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

**MUNICIPIO DE SAN GERMAN**  
**AUDITORIA 2002-2003**  
**30 DE JUNIO DE 2003**

OFICINA DEL GOBIERNO  
DEPARTAMENTO DE PLANEACION  
Y PRESUPUESTO  
CALLE 91 AN 9-16  
REGISTRADO  
UNIDAD DE CORREO

*Callahan-5003*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
(WITH ADDITIONAL REPORTS REQUIRED  
UNDER THE OMB CIRCULAR A-133)**

**FISCAL YEAR ENDED JUNE 30, 2003**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN**

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## Independent Auditors' Report

Mayor and Municipal Legislature  
Municipality of San Germán  
San Germán, 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 San Germán, Puerto Rico, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As more fully described in Note F to the financial statements, management has not recorded certain general capital assets in government activities since has not completed a review of its inventory records and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general capital assets be capitalized and depreciated, which would increase assets and expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

As more fully described in Note N to the financial statements, the Municipality has not determined and recorded in governmental activities an estimate of the total municipal solid waste landfill post closure care costs of a closed solid waste landfill, as required by accounting principles generally accepted in the United States of America. The amount by which this departure would affect the liabilities of the governmental activities is not reasonably determinable.

In our opinion, except for the effect of not recording certain general capital assets in government activities and except for the effect of not determining and recording the estimate of solid waste landfill post closure care costs in governmental activities, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Germán as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and 34*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Statement No. 41 *Budgetary Comparison Schedule - Perceptive Differences - an Amendment of GASB Statement No. 34* as of June 30, 2003.

The Management's Discussion and Analysis on pages 4 through 15 and the Budgetary Comparison Schedule – General Fund on page 44 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated January 23, 2004 on our consideration of the Municipality's internal control 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.

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



Rodriguez, Lucrecia & Tomo P.M.

**MANAGEMENT DISCUSSION AND ANALYSIS**

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

As management of the Municipality of San German, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the municipality for the fiscal year ended June 30, 2003.

This is the first year that the Municipality of San German has reported its financial statements in a government-wide format following the Governmental Accounting Standards Board Statement 34 reporting model – Basic Financial Statement and Management’s Discussion and Analysis for State and Local Government (GASB 34). Thus, comparative information from the prior years in the GASB 34 format is not available. Fund-based financial reporting and government-wide financial reporting are not viewed as being in conflict; however, they are not comparable.

**Financial Highlights**

- The assets of the municipality exceeded its liabilities at the close of this fiscal year by \$6,905,933 (net assets). Of which \$4,000,121 were invested in capital assets (net of accumulated depreciation, and related debt), and \$3,617,686 were restricted. The unrestricted fund has a negative balance of \$711,874.
- During the year, the municipality generated revenues from taxes and other sources in the amount of \$18,526,514 (excluding any gain) while expenses amounted to \$16,744,286, resulting in an increase in net assets of \$1,813,942, after a gain in sale of property of \$31,714.
- As of the close of the current fiscal year, the General Fund in the Municipality’s Governmental Fund Balance Sheet reported ending fund balances of \$1,507,467 of which \$407,430 is reserved for encumbrances and \$1,100,037 is available for spending at the government’s discretion (unreserved, undesignated fund balance).
- The debt service reported a fund balance of \$1,909,030.
- Other governmental funds reported a fund balance of \$2,258,847 of which \$1,087,203 is restricted for capital projects and \$1,171,643 for other special revenue fund.
- The municipality’s long-term debt increased by \$3,000,000 due to a bond anticipation note issued.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The municipality's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplementary information.

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.

The Statement of Activities presents information showing how the government's net assets changed during the most recent 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 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.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement. However, unlike the government-wide financial statement, governmental fund financial statement 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

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements in order to facilitate this comparison between governmental funds and governmental activities.

The municipality has many individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Debt Service Fund, and the Rural Development Fund. Data from the other governmental funds are combined into a single, aggregated presentation termed Other Governmental Funds.

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

Notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, and is required by accounting principles generally accepted.

**Government-wide Financial Analysis**

Since, this is the first year to report government activities on the accrual basis of accounting; a comparison to the prior year is not possible. In future years, a comparative analysis of government wide data will be presented.

**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 of San German, assets exceeded liabilities by \$6,905,933 at the close of the current fiscal year.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

**Municipality of San German's Net Assets**

	<u>Governmental Activities</u>	<u>% of Net Assets</u>	<u>% of Total Assets</u>
Current and other assets	\$ 6,164,404		25%
Non-current assets	18,223,589		75%
<b>Total assets</b>	<b><u>\$ 24,387,993</u></b>		
Current liabilities	\$ 4,806,404		20%
Non-current liabilities	12,675,656		54%
<b>Total Other Liabilities</b>	<b><u>\$ 17,482,060</u></b>		
<b>Net Assets</b>			
Investment in Capital Assets, net of related debt	\$ 4,000,121	57%	
Restricted	3,617,686	52%	
Unrestricted	<u>(711,874)</u>	-9%	
<b>Total net assets</b>	<b><u>\$ 6,905,933</u></b>		<b>28%</b>

A portion of the Municipality's net assets (57%) reflect its investment in capital assets (e.g., land, building, machinery and equipment), less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (52%) represents resources that are subject to external restrictions on how they may be used.

Unrestricted net assets reported a deficit of \$711,874. This deficit in unrestricted governmental net assets arose primarily because of the inclusion of the unused employee's regular vacation and sick days and compensated absences which will be included in future year's budget as they come due.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

**Changes in net assets, governmental activities.**

It is impossible to include comparative information in this section because it is the initial implementation of GASB No. 34, a comparative analysis of government-wide data will be presented in future years.

Municipality of San German's Change in Net Assets

	<u>Government Activities</u>	<u>% of Total</u>
Revenues		
Program Revenues		
Charges for Services	\$ 4,029,381	22%
Operating grants and contributions	745,862	4%
Capital grants and contributions	2,706,566	15%
General Revenues:		
Property Taxes	3,706,596	20%
Municipal Taxes	2,025,041	11%
Grants and Contributions not restricted to specific programs	4,132,691	22%
Interest	107,163	0%
Other	1,073,214	6%
Total Revenues	<u>\$ 18,526,514</u>	<u>100%</u>
Expenses		
General Government	\$ 4,612,595	28%
Public safety	1,017,780	6%
Public Works	6,902,723	42%
Sanitation	1,420,318	8%
Health	683,514	4%
Welfare	1,006,409	6%
Culture and recreation	334,904	2%
Education	312,295	1%
Interest on long-term debt	453,748	3%
Total Expenses	<u>\$ 16,744,286</u>	<u>100%</u>
Increase in net assets before gain on land	<u>1,782,228</u>	
Gain on sale of land	<u>31,714</u>	
Increase in net assets	1,813,942	
Net assets at beginning of year	5,091,991	
Net assets at end of year	<u><u>\$ 6,905,933</u></u>	

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

**Governmental activities**

Net assets of the municipality's governmental activities increased by \$1,813,942 for a total of \$ 6,905,933.

- General Government, public safety and public works comprise over 76% of the Municipality's total governmental activities. General government program revenues funds represent 41% of its activity, while welfare, culture and recreation and education funds less than 8% of their activity. General revenues, primarily grants and other contributions, funds the balance of these activities.
- Program revenues, comprised of charges for services, and operating and capital grants and contributions, represent 41% of the governmental activities total revenues. Property taxes which represent 20% of total revenues for governmental activities, are non-program specific and are used to fund all activities not covered by program revenues.
- All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Some of the individual line item revenues reported for each function are:

General Government	Mostly fees, fines and charges for services and State contributions for the creation of jobs.
Public Safety	Operating grants from COPS, COPS More, Local Law, and other state contributions.
Public Works	Local contributions from state legislature for determined purposes and federal grants designated for capital projects.
Welfare	Local and federal grants for community development
Culture and recreation	Designated special funds for recreational and cultural purposes.
Education	State Educational Department contributions.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

**Financial Analysis of the Government's Fund**

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

With the implementation of new accounting standards, an analysis of current-and prior-year governmental fund (in particular the general fund) balance sheets is difficult to do.

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

As of June 30, 2003, the Municipality reported combined ending fund balances of \$8,411,890, an increase of \$1,378,821 in comparison with the prior year. Approximately 27% of the ending fund balance (\$2,271,680) constitutes unreserved fund balance, of which \$1,171,643 is designated for subsequent year's expenditures of special revenue fund, and \$1,100,037 is available for spending at the Municipality's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed; 1) as a reserve for encumbrances \$407,430; 2) to pay debt service \$1,909,030, and; 3) reserved for capital projects \$3,823,749.

**General Fund**

The General Fund is the chief operating fund of the Municipality. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,100,037 while the total fund balance was \$1,507,467, of this total \$407,430 was reserved for encumbrance. As a measure of the general fund liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8% of total general expenditures while total fund balance represents 11%

The following schedule presents a summary of general fund revenues and expenditures for the fiscal year ended June 30, 2003, in relation to current's year totals.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

	<u>General Fund</u>	<u>Percentage of Total</u>
<b>Revenues</b>		
Property taxes	\$ 3,087,978	24%
Municipal license taxes	2,025,041	15%
Intergovernmental	5,276,111	40%
Rental income and charges for services	2,522,751	19%
Fines and forfeiture	1,160	0%
Interest	80,940	1%
Other	131,740	1%
	<u>13,125,721</u>	<u>100%</u>
<b>Total</b>	<b><u>\$ 13,125,721</u></b>	<b><u>100%</u></b>
<b>Expenditures</b>		
General government	\$ 4,259,655	33%
Public safety	824,937	6%
Public works	4,650,006	36%
Sanitation	1,404,184	11%
Health	683,514	5%
Welfare	375,129	4%
Culture and recreation	329,171	3%
Education	309,114	2%
	<u>12,835,710</u>	<u>100%</u>
<b>Total</b>	<b><u>\$ 12,835,710</u></b>	<b><u>100%</u></b>

Revenues exceeded expenditure by \$290,011 and there were transfers – in from other fund for \$66,857 and transfers – out to other funds of \$79,000.

**Other Governmental Funds**

Significant items pertaining to other governmental funds are as follow:

Debt service fund balance decreased by \$341,488 and was due to a lag in property taxes for year 2003.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

At the end of the current fiscal year the other governmental fund balance shows a deficit of \$1,294,105, this deficit was caused primarily by expenditures related to general obligation bonds which proceeds were recognized in previous years.

**General Fund Budgetary Highlights**

- During the year the Municipal Legislature approved an increase in the budget of \$454,732 from prior years fund balance and \$14,224 from revenues transferred – in from other funds. Other differences between initial and final budget is due to changes among departments.
- Actual revenues exceeded budget by \$670,066. The most important positive variances were in property taxes, municipal taxes and construction permits fees. Being this last one the most significant.
- Intergovernmental and interest revenues were less than expected, because actual subsidies received from the state government were lower than estimates and a decrease in interest rate affected negatively our resources. Also intergovernmental revenues were affected by a decrease in revenues from the Puerto Rico Electric Power Authority (PREPA).
- Actual expenditure was lower by \$9,923 than final budget amounts. Charges for electricity exceeded the budget by \$92,709 causing a negative variance in public works.
- The municipality's change in fund balance of \$ 277,868 reported on page 20 differs from the General Fund budgetary fund of \$267,890 reported in the budgetary comparison schedule on page 43. This is primarily because the budgetary fund balance includes encumbrances of \$407,430 and the exclusion of other accruals made for GAAP purposes.

**Capital Assets**

The municipality's investment in capital assets for its governmental activities as of June 30, 2003, amounted to \$11,000,089, net of accumulated depreciation. This figures accounts for only a part of our infrastructure (roads, bridges, etc.). Since this is the first year that the financial statements include investment in capital assets only figures for acquisitions of equipment are complete. We will retroactively report infrastructure assets acquired prior to July 1, 2002 in succeeding fiscal years.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

Capital assets and accumulated depreciation at year end were:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land and improvement	\$ 625,544	\$ -
Construction in progress	4,150,280	-
Building and improvements	1,962,541	461,831
Equipment	8,350,550	4,790,128
Road	1,210,222	121,782
Bridges	<u>76,282</u>	<u>1,589</u>
Total capital asset reported	<u>\$ 16,375,419</u>	<u>\$ 5,375,330</u>

Major capital assets include as of June 30, 2003:

- \$1,435,000 on equipment for fleet replacement, and computer upgrade.
- Roadway improvements and construction amounting \$1,210,222
- Buildings and buildings improvements - construction of new City Hall, renovations to the farmer's market (" Plaza del Mercado"), the Convention Center and the Lisandro Lugo Recreational Area ("Concha Acustica") amounting to \$1,962,541
- Reconstruction and repairs to bridges

Important capital projects underway are:

- Construction of a bridge over the Guanajibo River at a cost of \$3,000,000.
- Additional roadway improvements and construction
- Construction of parks and recreational areas
- Renovation of old City Hall

More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**Debt Administration**

At the end of the current fiscal year, the municipality had total bonded debt and note payable outstanding of \$7,723,931. More detailed information about the municipality's long-term-debt is presented in Note I to the financial statements.

Municipality of San German

**MANAGEMENT DISCUSSION AND ANALYSIS (unaudited)**

For the year ended June 30, 2003

A new debt resulted from the issuance of a \$3,000,000 bond anticipation loan for the construction of a bridge (see note I).

Other obligations of the Municipality include accrued compensated absences and vacation and sick days, claims and judgements and a debt to the Municipal Revenue Collection Center (CRIM). The claims and judgement will be retired this year and the debt to the CRIM will be due in five years. Compensated absences and vacation are paid when due.

**Economic Factors and Next Year's Budget and Rates**

The approved budget for fiscal year 2003-2004 amounted to \$13,112,723, that is an increase of \$1,211,892 over the current year budget. This increase is due to the expected increase in fees on construction permits. For fiscal year 2003-2004 construction projects to start or underway amounts to \$51,162,300 which will generate an increase in fees of approximately \$2,500,000.

In the preparation of fiscal year 2003-2004 budget, no increase in taxes was contemplated. Figures for property tax and intergovernmental revenues are based on estimates prepared by the Municipal Revenue Collection Center (CRIM).

**Contacting the Municipality's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the municipality's finances and to show the municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at P.O. Box 85, San German, Puerto Rico 00683.

**BASIC FINANCIAL STATEMENTS**

**Commonwealth of Puerto Rico  
Municipality of San German  
Statement of Net Assets  
June 30, 2003**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
<b><u>Current Assets:</u></b>	
Cash and cash equivalents ( note A5)	\$ 4,080,711
Receivables (net where applicable of allowance for uncollectibles) (note C)	
State governmental agencies	1,611,540
Municipal license taxes	2,895
Others	469,258
<b>Total Current Assets</b>	<b>6,164,404</b>
<b><u>Non-Current Assets</u></b>	
Cash with fiscal agents and federal government (note E)	7,182,746
Deferred charges (note A5)	40,754
Capital assets:(note F)	
Land and construction in progress	4,775,824
Other capital assets, net	6,224,265
Total capital assets	11,000,089
<b>Total Noncurrent Assets</b>	<b>18,223,589</b>
<b>Total Assets</b>	<b>\$ 24,387,993</b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 305,546
Matured bonds and notes payable	792,500
Matured interest payable	179,487
Due to State Governmental agencies (note G)	660,296
Deposits payable	114,436
Deferred revenues	1,605,058
Current portion of long-term obligations (note I)	1,149,081
<b>Total Current Liabilities</b>	<b>4,806,404</b>
<b><u>Noncurrent Liabilities:</u></b>	
Non current portion of long-term obligation (note I)	12,675,656
<b>Total Liabilities</b>	<b>17,482,060</b>
<b><u>Net Assets</u></b>	
Investment in capital assets, net of related debt	4,000,121
Restricted for:	
Capital projects	537,012
Debt service	1,909,030
Other purposes	1,171,644
Unrestricted	(711,874)
<b>Total Net Assets</b>	<b>\$ 6,905,933</b>

The accompanying notes are an integral part of these financial statements.

**Commonwealth of Puerto Rico  
Municipality of San German  
Statement of Activities  
For the year ended June 30, 2003**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b><u>Functions</u></b>					
Governmental activities:					
General Government	\$ 4,612,595	\$ 2,544,642	\$ 66,330	\$ -	\$ (2,001,623)
Public Safety	1,017,780	-	79,242	-	(938,538)
Public Works	6,902,723	1,484,739	-	2,706,566	(2,711,418)
Sanitation	1,420,318	-	-	-	(1,420,318)
Health	683,514	-	-	-	(683,514)
Welfare	1,006,409	-	541,492	-	(464,917)
Culture and Recreation	334,904	-	39,064	-	(295,840)
Education	312,295	-	19,734	-	(292,561)
Interest on Long-Term Debt	453,748	-	-	-	(453,748)
<b>Total Government Activities</b>	<b>\$ 16,744,286</b>	<b>\$ 4,029,381</b>	<b>\$ 745,862</b>	<b>\$ 2,706,566</b>	<b>(9,262,477)</b>
<b>General Revenues:</b>					
					3,706,596
					2,025,041
					4,132,691
					107,163
					1,073,214
					31,714
					<u>11,076,419</u>
					1,813,942
					5,091,991
					<u>\$ 6,905,933</u>

The accompanying notes are an integral part of these financial statements.

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

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Rural Development		
<b>Assets</b>					
Cash and cash equivalents (note A5)	\$ 2,412,605	\$ -	\$ 5	\$ 1,668,101	\$ 4,080,711
Receivables (net where applicable of allowance for uncollectibles)					-
State governmental agencies	1,256,947	163,561	-	191,032	1,611,540
Municipal license taxes	2,895	-	-	-	2,895
Others	412,593	-	-	-	412,593
Due from other funds (note D)	760,808	-	-	187,900	948,708
Cash with fiscal agents (note E)	-	2,717,456	2,736,541	1,728,749	7,182,746
<b>Total assets</b>	<b>\$ 4,845,848</b>	<b>\$ 2,881,017</b>	<b>\$ 2,736,546</b>	<b>\$ 3,775,782</b>	<b>\$ 14,239,193</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 192,372	\$ -	\$ -	\$ 109,999	\$ 302,371
Matured bonds and notes payable	-	792,500	-	-	792,500
Matured interest payable	-	179,487	-	-	179,487
Due to State governmental agencies (note G)	15,079	-	-	645,217	660,296
Due to other funds (note D)	187,900	-	-	760,808	948,708
Deposits payable	114,436	-	-	-	114,436
Deferred revenues (note H)	2,828,594	-	-	911	2,829,505
<b>Total liabilities</b>	<b>3,338,381</b>	<b>971,987</b>	<b>-</b>	<b>1,516,935</b>	<b>5,827,303</b>
<b>Fund Balance</b>					
Reserve for encumbrances	407,430	-	-	-	407,430
Reserve for debt service	-	1,909,030	-	-	1,909,030
Reserve for capital projects	-	-	2,736,546	1,087,203	3,823,749
Unreserved					
Designated for subsequent years expenditures, reported in:					
Special revenue fund	-	-	-	1,171,643	1,171,643
Undesignated	1,100,037	-	-	-	1,100,037
<b>Total fund balances</b>	<b>1,507,467</b>	<b>1,909,030</b>	<b>2,736,546</b>	<b>2,258,847</b>	<b>8,411,890</b>
<b>Total liabilities and fund balance</b>	<b>\$ 4,845,848</b>	<b>\$ 2,881,017</b>	<b>\$ 2,736,546</b>	<b>\$ 3,775,782</b>	<b>\$ 14,239,193</b>

The accompanying notes are an integral part of these financial statements.

**Commonwealth of Puerto Rico  
Municipality of San German  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2003**

<b>Fund Balance - total governmental funds</b>		<b>\$</b>	<b>8,411,890</b>
Amounts reported for the governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			11,000,089
Assets are not available to pay for current period expenditures and therefore are not considered in the funds:			
Receivables	\$	56,665	
Deferred charges		<u>40,754</u>	97,419
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Puerto Rico Electric Power Authority (current year)		215,830	
Puerto Rico Electric Power Authority (legal case)		893,514	
CRIM (current year)		<u>115,102</u>	1,224,446
Other liabilities are not payable with current available resources and therefore are not reported in the funds:			(71,481)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
General obligation bonds and notes		7,723,931	
Bond anticipation note		3,000,000	
Compensated Absences		2,501,681	
Claims and judgments		60,000	
CRIM - doubtful accounts		<u>470,818</u>	<u>(13,756,430)</u>
<b>Net assets of governmental activities</b>		<b>\$</b>	<b><u>6,905,933</u></b>

Commonwealth of Puerto Rico  
Municipality of San Germain  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Governmental Funds  
For the year ended June 30, 2003

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service	Rural Development		
<b>Revenues</b>					
Property taxes (note J)	\$ 3,087,978	\$ 997,760	\$ -	\$ -	\$ 4,085,738
Municipal license taxes (note K)	2,025,041	-	-	-	2,025,041
Intergovernmental (note L)	5,276,111	-	-	1,843,787	7,119,898
Federal Grants	-	-	-	1,767,906	1,767,906
Rental income and charges for services	2,522,751	-	-	-	2,522,751
Fines and forfeitures	1,160	-	-	-	1,160
Interest	80,940	25,149	-	1,074	107,163
Other	131,740	-	-	47,960	179,700
<b>Total Revenues</b>	<b>13,125,721</b>	<b>1,022,909</b>	<b>-</b>	<b>3,660,727</b>	<b>17,809,357</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	4,259,655	-	-	269,095	4,528,750
Public safety	824,937	-	-	76,295	901,232
Public works	4,650,006	-	-	1,999,802	6,649,808
Sanitation	1,404,184	-	-	-	1,404,184
Health	683,514	-	-	-	683,514
Welfare	375,129	-	-	629,457	1,004,586
Culture and recreation	329,171	-	-	-	329,171
Education	309,114	-	-	9,699	318,813
Capital outlays	-	-	263,454	1,938,776	2,202,230
<b>Debt service</b>					
Principal	-	954,500	-	-	954,500
Interest	-	453,748	-	-	453,748
<b>Total expenditures</b>	<b>12,835,710</b>	<b>1,408,248</b>	<b>263,454</b>	<b>4,923,124</b>	<b>19,430,536</b>
Excess (deficiency) of revenue over expenditures	290,011	(385,339)	(263,454)	(1,262,397)	(1,621,179)
<b>Other financing sources (uses)</b>					
Proceeds from bond anticipation note	-	-	3,000,000	-	3,000,000
Operating transfer - in	66,857	69,000	-	-	135,857
Operating transfer - out	(79,000)	(25,149)	-	(31,708)	(135,857)
<b>Total Other Financing sources (uses)</b>	<b>(12,143)</b>	<b>43,851</b>	<b>3,000,000</b>	<b>(31,708)</b>	<b>3,000,000</b>
<b>Net change in fund balance</b>	<b>277,868</b>	<b>(341,488)</b>	<b>2,736,546</b>	<b>(1,294,105)</b>	<b>1,378,821</b>
Fund balance at beginning of year, as restated (note Q)	1,229,599	2,250,518	-	3,552,952	7,033,069
<b>Fund balance at end of year</b>	<b>\$ 1,507,467</b>	<b>\$ 1,909,030</b>	<b>\$ 2,736,546</b>	<b>\$ 2,258,847</b>	<b>\$ 8,411,890</b>

The accompanying notes are an integral part of these financial statements.

**Commonwealth of Puerto Rico  
Municipality of San German  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the year ended June 30, 2003**

<b>Net change in fund balances - total governmental funds</b>		<b>\$ 1,378,821</b>
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year:</p>		1,869,074
<p>In the Statement of Activities, only the gain on the sale of property is reported, whereas in the governmental funds the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of land sold:</p>		(4,220)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>		
Puerto Rico Electric Power Authority (current year)	\$ 215,830	
Puerto Rico Electric Power Authority (legal case)	893,514	
CRIM (current year)	115,102	
Other	56,665	1,281,111
<p>Revenues reported in funds which are not reported as revenues in the Statement of Activities:</p>		
Puerto Rico Electric Power Authority (prior year)	(33,776)	
CRIM (prior year)	(494,243)	(528,019)
<p>The issuance of a bond anticipation note provide current financial resources to governmental funds; however, issuing debt increases long term liabilities in the Statement of Net Assets:</p>		(3,000,000)
<p>Repayment of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets of governmental activities:</p>		954,500
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>		
Claims and judgments	60,000	
Amortization of deferred charges	5,844	
Other liabilities	71,481	(137,325)
<b>Change in net assets of governmental activities</b>		<b>\$ 1,813,942</b>

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of San German was founded in the year 1573. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen members of the Municipality Legislature. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The Municipality's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Municipality are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the Municipality's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the Municipality's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Other GASB statements are required to be implemented in conjunction with GASB 34. Therefore, the Municipality implemented the following GASB statements in the current year:

- GASB Statement No. 37 “Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and 34.”

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- GASB Statement No. 38 "Certain Financial Statement Note Disclosures"
- GASB Statement No. 41 " Budgetary Comparison Schedule - Perceptive Differences - an Amendment of GASB Statement No. 34"

**1. FINANCIAL REPORTING ENTITY**

The financial reporting entity included in this report consists of the financial statements of the Municipality of San German (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and
  - 1) The primary government can impose its will on the potential component unit and/or
  - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

There are two methods of presentation of the component unit in the financial statement:

- a. Blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances.
- b. Discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

Based on the above criteria there are no potential component units which should be included as part of the general purpose financial statements.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**2. BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE STATEMENTS**

The Municipality's basic financial statements include both government-wide (reporting the Municipality as a whole) and fund financial statements (reporting the Municipality's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental. The Municipality's police, parks, library and recreation, public works, sports arena, and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Municipality's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Municipality first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Municipality's functions (police, public works, etc.). The functions are also supported by general government revenues (property and municipal taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The net costs by function are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Municipality as an entity and the change in the Municipality's net assets resulting from the current year's activities. Fiduciary Funds are not included in government wide financial statements. The effect of interfund activities is eliminated. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government wide statements to the extent that those standards do not conflicts with or contradicts guidance of the Governmental Accounting Standard Board.

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS**

The financial transactions of the Municipality are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. An emphasis is placed on major funds category. A fund is considered major if it is the primarily operating fund of the Municipality or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all fund of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The various funds are reported by generic classification within the financial statements. The following fund types are used by the Municipality:

**a. Governmental Funds**

Governmental Funds are those through which most governmental functions of the Municipality are financed. The acquisition, uses, and balances of the Municipality expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The Municipality reports the following major governmental funds:

**General Fund.** The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted for another fund.

**Debt Service Fund.** Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Rural Development Fund.** Rural development fund is used to account for grants and loans resources for the construction of infrastructure assets.

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**b. Reservation and Designation of Fund Balance**

*1. Reservation of fund balance*

Represent portions of the fund balance that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.

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

Capital Projects Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.

*2. Unreserved fund balance designations*

Represent tentative plans or commitments of governmental resources.

**4. BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

**a. Accrual:**

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. In applying GASB Statement No. 33 to grant revenues, the Municipality recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Resources transmitted before the eligibility requirements are met are reported as deferred revenues.

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**b. Modified Accrual - Governmental Funds**

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable, available and collection is probable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Municipality used for the recognition of all Governmental Fund revenues an availability period of 60 days after the year end. Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized at the time of receipt. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred.

Exceptions to this rule are: accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued and principal and interest on long-term debt in the debt service fund, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year which is recorded when resources are available in the debt service funds.

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both measurable, available and collectibility criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them. (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued**

**5. FINANCIAL STATEMENT AMOUNTS**

**a. Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, demand deposits and short term investments with original maturities of three months or less. The Municipality follows the practice of pooling cash of all funds except for certain state grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. The method of allocating interest earned on pooled investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund.

**b. Receivables**

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

**c. Inventories**

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure in the appropriate fund but the year-end inventory is not recorded in the combined balance sheet, as management believes is not significant.

**d. Insurance coverage**

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico. The coverage for the Municipality of San German consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payments of the Municipality's insurance premiums are withheld quarterly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Settled cases have not exceeded insurance coverage for any of the past three years.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**e. Long term obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Bond issuance costs are reported as deferred charges and amortized as required by current standards.

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

**f. Compensated absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2 1/2 days per month of vacations and 1 1/2 days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more service up to the maximum number of days.

The amount of vacation leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date.

The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded as long-term liabilities in the government-wide statements. For governmental fund statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available resources.

**g. Capital Assets**

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

Buildings	40 years
Machinery and Equipment	5-10 years
Improvements	10-20 years
Other Infrastructure	2-50 years

GASB Statement No. 34 requires the Municipality to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Municipality. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2007. The Municipality has elected to implement the general provisions of GASBS No. 34 in the current year and hope to implement the retroactive infrastructure provisions in the fiscal year ending June 30, 2007.

**h. Use of Estimates**

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**i. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**j. Future Adoption of Accounting Pronouncements**

The GASB issued the following statements, which the municipality has not yet adopted:

- GASB Statement No. 39 "Determining Whether Certain Organizations are Components Units - an Amendment to GASB No. 14" - to be implemented in fiscal year June 30, 2004.
- GASB Statement No. 40 "Deposit and Investment Risk Disclosure - an amendment to GASB Statement No.3 - to be implemented in fiscal year ended June 30, 2005.

**NOTE B - DEPOSITS**

Deposits in commercial banks of \$4,744,633 (bank balance) were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by P.R. Treasury Department. Deposits at the Governmental Development bank of P.R. amounting to \$4,446,205 are unsecured and uncollateralized as no collateral is required to be carried by governmental banks. In addition, \$2,736,541 pertaining to the Rural Development Fund is held by federal agency.

**NOTE C - RECEIVABLES**

The Municipality's receivables as of June 30, 2003 are the following:

Description	State Governmental Agencies	Municipal License Taxes	Others
Municipal Revenues Collection Center (CRIM)	\$ 278,663	\$ -	\$ -
Puerto Rico Electric Power Authority	215,830	-	-
Puerto Rico Electric Power Authority – legal case	893,514	-	-
Puerto Rico Department of Education	32,500	-	-
Puerto Rico Department of Labor	116,731	-	-
Municipal License Taxes	-	181,905	-
Construction permits	-	-	458,448
Rent	-	-	47,150
Various	74,302	-	149,533
Less: allowance for uncollectible	-	(179,010)	(185,873)
	<u>\$ 1,611,540</u>	<u>\$ 2,895</u>	<u>\$ 469,258</u>

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE D - INTERFUND TRANSACTIONS**

The amount presented as due from (to) other funds in the governmental fund statements represents interfund transfers and /or borrowings between funds:

Operating transfers in (out):

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; reimbursements for expenditures from other governmental funds to the general fund and principal and interest payments of long term debt transferred from the general fund to the debt service fund.

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds-Law No. 82	\$ 130,551
	Other governmental funds-Law No. 52	109,012
	Other governmental funds-FEMA	96,290
	Other governmental funds-OMEP	82,333
	Other governmental funds-CDBG	51,059
	Other governmental funds-Others	291,563
		<u>\$ 760,808</u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds - Commonwealth Legislature Grants	General fund	<u>\$ 187,900</u>

**NOTE E - CASH WITH FISCAL AGENTS**

Cash with fiscal agents represents unspent proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal governmental instrumentality. Cash balance recognized in the debt service fund represents the unspent balance of property tax collections, which are restricted for the repayment of the Municipality's general, and special obligation bonds and notes. The sinking fund is maintained by the Governmental Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with the law.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE F - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Increases	Decreases	Ending Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ -	\$ 629,764	\$ 4,220	\$ 625,544
Construction in progress	734,530	3,415,750	-	4,150,280
Total capital assets not being depreciated	734,530	4,045,514	4,220	4,775,824
Other capital assets:				
Buildings and improvements	-	1,962,541	-	1,962,541
Equipment	7,968,864	381,686	-	8,350,550
Roads	-	1,210,222	-	1,210,222
Bridges	-	76,282	-	76,282
Total other capital assets	7,968,864	3,630,731	-	11,599,595
Less accumulated depreciation for:				
Buildings and improvements	412,641	49,190	-	461,831
Equipment	4,303,053	487,075	-	4,790,128
Roads	-	121,782	-	121,782
Bridges	-	1,589	-	1,589
Total accumulated depreciation	4,715,694	659,636	-	5,375,330
Other capital assets, net	3,253,170	2,971,095	-	6,224,265
Governmental activities capital assets, net	<u>\$ 3,987,700</u>	<u>\$ 7,016,609</u>	<u>\$ 4,200</u>	<u>\$ 11,000,089</u>

The Municipality has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure assets acquired prior to July 1, 2002 in the fiscal year ending June 30, 2007. The Municipality is reviewing and updating the fixed assets inventory records, which are expected to be completed during fiscal year 2003-2004.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE F - CAPITAL ASSETS - Continued**

Depreciation expense was charged to functions as follows:

General government	\$ 82,387
Public safety	116,548
Public works	428,262
Culture and recreation	5,733
Sanitation	16,134
Welfare	<u>10,572</u>
 Total depreciation expense, governmental activities	 <u>\$ 659,636</u>

**NOTE G - DUE TO GOVERNMENTAL AGENCIES**

Due to governmental agencies as of June 30, 2003 follows:

Government Development Bank of Puerto Rico (GDB) - advances, \$2,100,000 loan	\$ 520,217
Puerto Rico Land Authority - grant funds	125,000
Puerto Rico Department of Labor - (unemployment)	8,211
Puerto Rico Aqueduct and Sewer Authority	<u>6,868</u>
	<u>\$ 660,296</u>

**NOTE H - DEFERRED REVENUES**

The amounts presented as deferred revenues in the general fund include the following:

Description	Amount
CRIM	\$ 115,102
Municipal license taxes	1,601,801
Puerto Rico Electric Power Authority	215,830
Puerto Rico Electric Power Authority – legal case	893,514
Others	<u>2,347</u>
	<u>\$ 2,828,594</u>

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE I - LONG TERM LIABILITIES**

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

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Amounts Due within One Year
Governmental activities:					
Bonds and notes payable:					
General obligation bonds	\$ 2,765,000	\$ -	\$ 125,000	\$ 2,640,000	\$140,000
General obligation notes	1,499,000	-	443,000	1,056,000	346,000
Public improvement bonds	4,184,431	-	329,000	3,855,431	354,000
Special obligation bond	230,000	-	57,500	172,500	57,500
Total bonds payable	<u>8,678,431</u>	<u>-</u>	<u>954,500</u>	<u>7,723,931</u>	<u>897,500</u>
Other liabilities:					
Compensated absences	2,389,645	230,150	118,114	2,501,681	123,274
Bond anticipation note	-	3,000,000	-	3,000,000	-
CRIM - doubtful accounts	470,818	-	-	470,818	-
Claims and judgments	63,976	128,307	63,976	-	128,307
Total other liabilities	<u>2,924,439</u>	<u>3,358,457</u>	<u>182,090</u>	<u>6,100,806</u>	<u>251,581</u>
	<u>\$ 11,602,870</u>	<u>\$ 3,358,457</u>	<u>\$ 1,136,590</u>	<u>\$ 13,824,737</u>	<u>\$ 1,149,081</u>

A \$3,000,000 bond anticipation note was issued by Rural Development for the construction of an infrastructure project. The municipality intends to refinance this note on a long term basis through a \$3,000,000 general obligation bond issuance, approved by the Governmental Development Bank of Puerto Rico on September 7, 2001. Issuance will occur after the construction project is finished. Rural Development disburse funds after the Municipality requests the payment of construction project certifications.

Debts to CRIM, compensated absences and claims and judgments will be financed with unrestricted funds.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE I - LONG TERM LIABILITIES - Continued**

The annual requirements to amortize general obligation bonds and operational loans outstanding as of June 30, 2003 are as follows:

June 30,	Amount	
	Principal	Interest
2004	\$ 897,500	\$ 398,763
2005	849,500	358,205
2006	840,500	321,317
2007	479,204	284,060
2008	488,000	259,433
2009 - 2013	2,849,227	870,121
2014 - 2018	830,000	228,768
2019 - 2023	270,000	108,435
2023 - 2026	220,000	25,760
<b>Totals</b>	<b>\$ 7,723,931</b>	<b>\$ 2,854,862</b>

A detail of the general obligation bonds, notes and operational loans as of June 30, 2003 follows:

Original Amount	Description	Maturity	Interest Rate	Installments	Outstanding Balance
\$ 400,000	Public Improvement Bond	January 1, 2007	5.00%	\$23,000 to \$27,204	\$ 101,204
1,150,000	Special Obligation Bond	July 1, 2006	8.5%	\$57,500	172,500
765,000	Public Improvement Bond	January 1, 2011	6.38%	\$39,000 to \$60,000	386,000
400,000	Public Improvement Bond	January 1, 2013	6.13%	\$17,000 to \$32,000	236,000
860,000	Public Improvement Bond	July 1, 2004	3.3 - 6.3%	\$105,000	105,000
616,000	Public Improvement Bond	January 1, 2012	5.00%	\$30,000 to \$45,227	332,227
3,500,000	Public Improvement Bond	July 1, 2015	4.7 - 6.6%	\$140,000 to \$330,000	2,695,000
390,000	General Obligation Bond	January 1, 2005	4.75%	\$61,000 to \$65,000	126,000
2,100,000	General Obligation Bond	July 1, 2013	2.7 - 4.6%	\$120,000 to \$235,000	1,710,000
1,435,000	General Obligation Bond	July 1, 2006	2.7 - 3.2%	\$285,00 to \$335,000	930,000
830,000	General Obligation Bond	July 1, 2026	2.7 - 5.6%	\$15,000 to \$75,000	810,000
130,000	General Obligation Bond	July 1, 2026	2.7 - 5.6%	\$5,000 to \$10,000	120,000
					<u>\$ 7,723,931</u>

**NOTE J - PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Commonwealth Property Tax Law. The tax levied on property is determined by the Commonwealth and the Municipal Government based on limits established by the Commonwealth Legislature. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed, with the CRIM by May 15 of each year. Real property is assessed by the CRIM.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE J - PROPERTY TAXES - Continued**

The tax is general assessed on January 1<sup>st</sup> on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Property taxes are recorded as revenue by the Municipality in the year of receipt.

The CRIM advance funds to the Municipality based on an estimate of the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advances and amounts assigned for the repayment of the bond obligations. As part of the requirements of the Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities. This distribution includes advances of property tax and amounts of municipal equalization fund from the state government. For the fiscal year 2002-2003 the CRIM performed the final liquidation and determined that the Municipality has a net receivable of \$115,102. This amount was recorded as deferred revenues since is not available as required by current standards.

**NOTE K - MUNICIPAL LICENSE TAXES, LICENSES AND PERMITS**

Municipal license taxes are assessed annually by the Municipality to all organizations or entity's subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1<sup>st</sup> and January 1<sup>st</sup> following April 15 filing due date), but the discount is not allowed. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,601,801 are recorded as deferred revenues.

**NOTE L - INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the General Fund are comprised of Christmas bonus reimbursement of \$150,869; revenues for municipal equalization fund of \$3,640,503 received from the Commonwealth of Puerto Rico and \$1,484,739 received from the Puerto Rico Electric Power Authority for compensation in lieu of tax. Amount recorded in other governmental funds consists of state governmental grants.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE M - RETIREMENT PLAN**

a. Plan Description

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program. The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

The new program is a defined contribution plan, which consists of a savings account for each system participant. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE M - RETIREMENT PLAN - Continued**

Under the new program the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

b. Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600, except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current fiscal year, which is equal to the required contribution, follows:

<u>Fiscal Year</u>	<u>Law No. 447</u>	<u>2000 Reform</u>
2000-2001	\$ 290,217	\$ 290,043
2001-2002	277,427	135,462
2002-2003	272,677	138,427

**NOTE N - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE CARE COST**

The Municipality discontinued the operation and ceased to accept solid waste in its landfill since 1993. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure. The closure care procedures were assumed and completed by the Municipality. In addition, the Municipality is also required to provide post-closure care costs after the closure activity is completed. Total estimated post-closure care costs have not been determined and accounted for as required by U.S. generally accepted accounting principles as of June 30, 2003.

**NOTE O - CONTINGENCIES**

1. *Federal and state grants*

Projects financed by federal and state grants are subject to audit in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

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**NOTE O - CONTINGENCIES - Continued**

*2. Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage on which the legal counsels have not determined an outcome and other cases will not be covered by insurance. In relation to settled cases not to be covered by insurance, the Municipality accrued \$128,307 as judgments and claims in the financial statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience such actions and the potential liabilities will not impair the Municipality's financial position.

**NOTE P - COMMITMENTS**

**1. Construction:**

The Municipality has active construction projects as of June 30, 2003. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Committed</u>
General facilities	\$ 1,527,692
Park and recreation	3,350,362
Streets and drainage	<u>2,925,320</u>
Total	<u>\$ 7,803,374</u>

**2. Operating leases:**

On December 1, 2002 the Municipality leased a copier from under a five-year operating lease for \$473 per month. The remaining lease commitment over the remaining five-year term of the lease (which expires November 30, 2007) is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2004	\$ 5,676
2005	5,676
2006	5,676
2007	<u>2,365</u>
Total	<u>\$ 19,393</u>

The operating lease expense for the year amounted to \$ 3,313.

**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2003**

**NOTE Q - FUND BALANCE RESTATEMENTS**

The Fund Balance as of July 1, 2002 of the following funds has been restated to correct transactions erroneously recorded in previous years:

Description	General Fund	Debt Service Fund	Other Governmental Funds
Fund balance at beginning of year as previously reported:	\$ 1,149,295	\$ 2,098,987	\$ 4,059,446
Adjustments	<u>80,304</u>	<u>151,531</u>	<u>506,494</u>
Fund balance at end of year, as restated	<u>\$ 1,229,599</u>	<u>\$ 2,250,518</u>	<u>\$ 3,552,952</u>

**NOTE R - SUBSEQUENT EVENTS**

1. On September 30, 2003 the Government Development Bank of Puerto Rico (GDB) approved a \$320,000 loan to the Municipality for an infrastructure project, financed through Rural Development. In addition, on October 6, 2003, GDB approved a \$355,000 general obligation bond issuance to complete the construction of an infrastructure asset.
2. On July 16, 2003 the Municipality received \$893,514 from the Puerto Rico Electric Power Authority (PREPA) related to a settled legal case against PREPA by the Municipality's of Puerto Rico. This amount is recorded as deferred revenue in the fund statements since is not available as required by current standards, but recorded as revenue in the government-wide statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Commonwealth of Puerto Rico  
Municipality of San German  
Budgetary Comparison Schedule-General Fund  
For the year ended June 30, 2003**

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>amounts</u> <u>(Budgetary basis)</u>	<u>final budget</u> <u>Positive (Negative)</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 3,646,979	\$ 3,646,979	\$ 3,953,937	\$ 306,958
Municipal tax, licenses and permits	2,000,000	2,000,000	2,025,041	25,041
Intergovernmental	4,499,841	4,499,841	4,106,913	(392,928)
Rental income and charges for services	1,798,268	1,798,268	2,522,751	724,483
Fines and forfeitures	5,000	5,000	1,160	(3,840)
Interest	275,000	275,000	80,940	(194,060)
Other	230,566	230,566	434,978	204,412
<b>Total Revenues</b>	<b>12,455,654</b>	<b>12,455,654</b>	<b>13,125,720</b>	<b>670,066</b>
<b><u>Expenditures</u></b>				
General government	3,977,881	4,129,403	4,086,444	42,959
Public safety	910,554	834,422	825,970	8,452
Public works	4,445,689	4,678,179	4,737,034	(58,855)
Sanitation	1,393,927	1,463,435	1,458,090	5,345
Health	683,514	683,514	683,514	-
Welfare	377,720	381,343	376,618	4,725
Culture and recreation	327,627	336,496	332,714	3,782
Education	338,742	348,818	345,303	3,515
<b>Total expenditures</b>	<b>12,455,654</b>	<b>12,855,610</b>	<b>12,845,687</b>	<b>9,923</b>
Excess (deficiency) of Revenue over Expenditures	<u>\$ -</u>	<u>(399,956)</u>	<u>280,033</u>	<u>679,989</u>
<b>Other Financial Sources (Uses)</b>				
Operating transfer - in		-	66,857	66,857
Operating transfer - out		(69,000)	(79,000)	(10,000)
<b>Total Other Financial sources (Uses)</b>		<u>(69,000)</u>	<u>(12,143)</u>	<u>56,857</u>
<b>Net change in fund balance</b>		<b>(468,956)</b>	<b>267,890</b>	<b>736,846</b>
<b>Fund Balance Allocation</b>		<u>468,956</u>	<u>-</u>	<u>(468,956)</u>
		<u>\$ -</u>	<u>\$ 267,890</u>	<u>\$ 267,890</u>

The accompanying notes to required supplemental information are an integral part of this schedule.

**Municipality of San German**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**June 30, 2003**

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**NOTE A - BUDGET POLICY**

Budgets are prepared for General and Debt Service Funds following the requirements of the Autonomous Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums.

Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Legislature. Certain budget transfers within the limitations and restriction of the Autonomous Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting, which is different from GAAP, and reflect encumbrance accounting. On a GAAP basis, encumbrances outstanding at year-end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. In instances where budget revenues and appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final authorization amounts. Budget readjustments with prior years surpluses are recorded as "fund balance allocation". Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. Formal budgetary integration is not employed for Special Revenue and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

**NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET-  
STATUTORY BASIS TO GAAP**

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds has been prepared in accordance with GAAP and the Budget Comparison Schedule - General Fund has been prepared on the budgetary basis, which is different from GAAP. The following reconciles the net change in fund balance:

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**Municipality of San German**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**June 30, 2003**

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**NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET -  
STATUTORY BASIS TO GAAP - Continued**

Net change in fund balance (Budgetary - statutory basis)	\$ 267,890
Less: Prior year encumbrances recognized as expenditures for GAAP basis	(311,290)
Expenditures recognized in GAAP basis but not in budget (statutory) basis	(86,162)
Add: Current year encumbrances recorded as expenditures for budgetary reporting purposes	<u>407,430</u>
Net change in fund balance (GAAB basis)	<u>\$ 277,868</u>

**SUPPLEMENTAL INFORMATION**

**Commonwealth of Puerto Rico  
Municipality of San German  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (note B)</u>	<u>Pass-Through Grantor's Number (note C)</u>	<u>Expenditures (note A)</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Major Programs:			
Passed through the Office of Commissioner of Municipal Affairs:		AB - 57	
Community Development Block Grant - State's Program	14.228	AF - 57 DC - 57 FD - 57	\$ 970,720
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	418,626
			1,389,346
<b><u>U.S. Department of Health and Human Services</u></b>			
Nonmajor Program			
Passed through the Puerto Rico Governor's Office - (Office of Elderly Affairs):			
Special Program for the Aging Title III Part B Grants for Supportive Services and Seniors Centers	93.044	N/AV	58,570
<b><u>U.S. Department of Justice</u></b>			
Nonmajor Programs:			
Passed through the P.R. Department of Justice:			
Public Safety Partnership and Community Policy Grants - COPS	16.710	N/A	5,548
Local Law Enforcement Block Grant	16.592	N/A	72,291
			77,839
<b><u>U.S. Department of Transportation - National Highway Traffic Safety Administration</u></b>			
Nonmajor Programs:			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission)			
State and Community Highway Safety	20.600	03-03-76	29,898
<b><u>Federal Emergency Management Agency</u></b>			
Nonmajor Program:			
Passed through the Puerto Rico Governor's Office - (Governor's Authorized Representative-GAR):			
Public Assistance Grants	83.544	125-0000 125-99-125	125,702
<b><u>U.S. Department of Agriculture</u></b>			
Nonmajor Program:			
Direct Program:			
Community Facilities Loans and Grants	10.766	N/A	263,454
Total federal awards expenditures:			\$ 1,944,809

The accompanying notes are an integral part of this schedule.

**Municipality of San German**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2003**

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**NOTE A - Summary of Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations".

**NOTE B - Federal CFDA Number**

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

**NOTE C - Pass-through Grantor's Number**

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**NOTE D - Reconciliation of Expenditures Presented in the Schedule of Expenditures of Federal Awards to the Expenditures Presented in the Basic Financial Statements**

Description	Rural Development Fund	Other Governmental Funds
14.228	\$ -	\$ 970,720
14.871	-	418,626
93.044	-	58,570
16.710	-	5,548
16.592	-	72,291
20.600	-	29,898
83.544	-	125,702
10.766	263,454	67,902
Total federal awards expenditures:	263,454	1,681,355
Total non-federal awards expenditures:	-	3,241,769
Total expenditures, fund statements:	<u>\$ 263,454</u>	<u>\$ 4,923,124</u>

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

Mayor and Municipal Legislature  
Municipality of San German  
San German, Puerto Rico

We have audited the financial statements of the Municipality of San German as of and for the year ended June 30, 2003, and have issued our report thereon dated January 23, 2004 which is qualified because management has not recorded certain general capital assets in government activities since has not completed a review of its inventory records and because the Municipality has not determined and recorded in governmental activities an estimate of the total municipal solid waste landfill post closure care costs of a closed solid waste landfill, as required by accounting principles generally accepted in the United States of America. 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 Municipality of San German'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 Municipality of San German's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of San German's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003 II-1 and 2003 II-2.

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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item **2003 II-1** in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

This report is intended for the information of the management of the Municipality, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



*Rodriguez, Rivera & Torres*

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

Mayor and Municipal Legislature  
Municipality of San German  
San German, Puerto Rico

*Compliance*

We have audited the compliance of Municipality of San German with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal programs for the year ended June 30, 2003. Municipality of San German'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 its major federal program is the responsibility of Municipality of San German's management. Our responsibility is to express an opinion on Municipality of San German'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 Municipality of San German's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of San German's compliance with those requirements.

As described in items 2003 III-1 and 2003 III-2 in the accompanying Schedule of Findings and Questioned Costs, the Municipality of San German did not comply with the requirements regarding *reporting and special tests and provisions – compliance with 24 CFR 85.20* that are applicable to *Community Development Block Grant – State's Program*. Compliance with such requirements is necessary, in our opinion, for Municipality of San German to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of San German complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

### *Internal Control over Compliance*

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, on our judgment could adversely affect the Municipality of San German's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003 III-1 and 2003 III-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered items 2003 III-1 and 2003 III-2 to be material weaknesses.

This report is intended for the information of the management of the Municipality, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Rodriguez, Rivera & Torres

**COMMONWEALTH OF PUERTO RICO  
Municipality of San German**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2003

**I. Summary of audit results:**

**Part I - Financial Statements**

- |                                                                                |                                              |                                                       |
|--------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------|
| 1. Type of audit report:                                                       | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
|                                                                                | <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |
| 2. Reportable conditions identified that are not considered material weakness: | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> None reported                |
| 3. Reportable conditions reported as a material weakness:                      | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |
| 4. Material noncompliance disclosed:                                           | <input type="checkbox"/> Yes                 | <input checked="" type="checkbox"/> No                |

**Part II - Federal Awards**

- |                                                                                         |                                              |                                                       |
|-----------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------|
| 1. Reportable conditions reported:                                                      | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |
| 2. Reportable conditions identified that are not considered material weakness:          | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> None reported                |
| 3. Type of report on compliance for major programs:                                     | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
|                                                                                         | <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |
| 4. Audit findings required to be reported under Section 510(a) of OMB Circular A - 133: | <input checked="" type="checkbox"/> Yes      | <input type="checkbox"/> No                           |

- |                                                                     |                                               |                                                     |
|---------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------|
| 5. Major programs:                                                  | <u>CFDA Number(s)</u>                         | <u>Name of Federal Program or Cluster</u>           |
|                                                                     | 14.228                                        | Community Development Block Grant - State's Program |
|                                                                     | 14.871                                        | Section 8 Housing Choice Vouchers                   |
| 6. Dollar threshold used to distinguish Type A and Type B programs: | <input checked="" type="checkbox"/> \$300,000 |                                                     |
| 7. Low-risk auditee:                                                | <input type="checkbox"/> Yes                  | <input checked="" type="checkbox"/> No              |

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2003

**II. Findings related to the financial statements reported in accordance with GAGAS:**

**Reference Number:** 2003 II-1  
**Area:** Capital Assets  
**Type:** Material Weakness

<b>Condition and criteria:</b>	The Municipality performed a review of the capital assets inventory records in order to comply with requirements of GASB Statement Number 34. The review was not completed on certain areas such as land and land improvements and buildings and building improvements, which are significant to the basic financial statements. Accounting principles generally accepted in the United States of America require these areas to be properly identified, valued and recorded in the Municipality accounting records and accordingly, reported in the basic financial statements.
<b>Cause and effect:</b>	The Municipality has a listing of these assets as part of the review but was unable, due to the significant amount of inventory items, to complete the process and record amounts in the accounting records. As a result, the capital assets amounts and corresponding depreciation expense are understated by an undeterminable amount in the basic financial statements.
<b>Recommendation:</b>	The Municipality should coordinate among its departments specific procedures in order to obtain sufficient and competent information to support land and land improvements and buildings and building improvements valuation, ownership, and completeness assertions as required by accounting principles generally accepted in the United States of America. This process should be completed soon enough to assure that amounts are recorded in the accounting records and reported in next year's basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2003

**II. Findings related to the financial statements reported in accordance with GAGAS:**

**Reference Number:** 2003 II-2  
**Area:** Payroll and Related Liabilities  
**Type:** Reportable Condition

**Condition and criteria:** Our tests to a sample of 15 employees files (from a total population of 604 employees files) disclosed the following:

1. In 7 cases the computerized assistance record was not approved by the applicable and authorized employee.
2. Missing documentation from files:
  - a. Employee appointment sheet or notification sheet on salary changes – 3 cases
  - b. Withholdings authorization evidence – 6 cases
  - c. Social security cards – 2 cases
  - d. Eligibility I-9 Form – 2 cases
  - e. Health certificate – 2 cases
  - f. Valid identification – 9 cases
  - g. Good conduct certificate – 5 cases

The Municipality should have adequate controls and procedures for verification of employee's assistance and to assure that the employee's files comply with documentation requirements as stated by applicable laws and regulations.

**Cause and effect:** The applicable personnel is not following established procedures related to verification of employee's assistance records and requirements for employee's files documentation. As a result, employees files lacks of important and required documentation.

**Recommendation:** The Municipality's Human Resources Department should verify and correct the actual procedures performed by personnel assigned for payrolls and assistance records verification as well as procedures performed by personnel in charge of employee's files documentation. The Municipality's internal auditor should perform compliance tests on employee's files requirements.

COMMONWEALTH OF PUERTO RICO  
Municipality of San German

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2003

III. Findings and questioned costs related to federal awards:

<i>Reference Number:</i>	<b>2003 III-1</b>
<i>Agency:</i>	<b>U. S. Department of Housing and Urban Development</b>
<i>Pass-through Entity:</i>	<b>Office of Commissioner of Municipal Affairs (OCAM)</b>
<i>Program:</i>	<b>Community Development Block Grant – State’s Program</b>
<i>CFDA Number:</i>	<b>14.228</b>
<i>Regulation/Requirement:</i>	<b>Reporting</b>
<i>Type:</i>	<b>Material noncompliance, Material Weakness</b>
<i>Questioned Costs:</i>	<b>\$ -0-</b>

**Condition and criteria:** Our evaluation of the 39 quarterly reports submitted to the pass-through entity during the fiscal period disclosed the following:

- In 20 cases the Municipality could not provide evidence of timely submission.
- In 26 cases the amounts included in the reports do not reconcile with the amounts posted in the program general ledger.

Reports of Federal awards submitted to Federal awarding agencies or pass-through entities must include all activity of the reporting period, must be supported by underlying accounting or performance records, must be submitted within required dates and should be fairly presented in accordance with program requirements.

**Cause and effect:** The Municipality has not followed established procedures to document timely submission of reports and the program accounting records are inadequate (See related Finding No. 2003 III-2). As a result, the Municipality is not in compliance with applicable reporting regulations.

**Recommendation:** The Municipality should assign to specific personnel the responsibility of documenting reports submission and should perform a review of the accounting records. Reports should be submitted to the pass-through entity after a review and reconciliation with accounting records. The Municipality’s Internal Auditor should perform tests to verify compliance with established internal control procedures.

COMMONWEALTH OF PUERTO RICO  
Municipality of San German

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2003

III. Findings and questioned costs related to federal awards:

**Reference Number:** 2003 III-2  
**Agency:** U. S. Department of Housing and Urban Development  
**Pass-through Entity:** Office of Commissioner of Municipal Affairs (OCAM)  
**Program:** Community Development Block Grant – State’s Program  
**CFDA Number:** 14.228  
**Regulation/Requirement:** Special Tests and Provisions - tests to accounting records for compliance with 25 CFR 85.20  
**Type:** Material noncompliance, Material Weakness  
**Questioned Costs:** \$ -0-

**Condition and criteria:**

Our tests to the program records and reports maintained by the Federal Programs Office of the Municipality disclosed the following:

- a. Program general ledgers maintained by the Federal Programs Office do not reconcile with centralized accounting records maintained by the Finance Department. There are significant differences between amounts reported in the accounting records maintained by both dependencies.
- b. Budgetary information recorded in the program general ledgers is incomplete and transfers in and out do not balance.
- c. Program general ledgers do not provide a proper cut-off of transactions pertaining to each fiscal year.

As stated by 25 CFR 85.20 (b) (2)...“grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.”

**Cause and effect:**

Internal controls over recording and reconciliation of accounting records at the Federal Programs Office are inadequate. There are no proper procedures for verification and reconciliation of accounting data between the Finance Department and the Federal Programs Office. As a result, we were unable to perform adequate tests for compliance with budgetary requirements.

**COMMONWEALTH OF PUERTO RICO  
Municipality of San German**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2003

**III. Findings and questioned costs related to federal awards:**

**Reference Number:** 2003 III-2 (continued)

**Recommendation:**

A complete review of the program records should be performed to assure that all transactions are adequately posted. As part of this process, records should be reconciled with centralized accounting records and pass-through entity records. Personnel should be trained in accounting matters and verification controls should be established between the Federal Programs Office and the Finance Department. The Municipality's Internal Auditor should perform tests to verify compliance with established internal control procedures.

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2003

**I. Findings related to the financial statements reported in accordance with GAGAS:**

Fiscal year ended June 30,	Finding No.	Condition	Status
2001	1	During the examination of the personnel records it was observed that in most cases, certain important documentation was missing.	Finding cleared by the Office of Commissioner of Municipal Affairs of Puerto Rico (OCAM). See current year finding <u>2003 II-2</u> .
2001	4	The Municipality does not have adequate property records and accounting system. There is no system established to gather all capital expenditures for construction in progress. Additions to property ledger are recorded on a cash basis instead of accrual basis. The figures presented in the general fixed assets group of accounts of the general purpose financial statements do not agree with the subsidiary ledgers.	Finding cleared by the Office of Commissioner of Municipal Affairs of Puerto Rico (OCAM). See current year finding <u>2003 II-2</u> .

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended June 30, 2003

**II. Findings and questioned costs related to federal awards:**

Fiscal year ended June 30,	Program	No.	Condition	Status
2002	US Department of HUD: Community Development Block Grant State's Program - CFDA No. 14.228	2002 III-1	Our tests to a sample of 10 participant's files of housing rehabilitation program financed with SBGP funds disclosed documents missing from the files.	Finding remains unclear by the Office of Commissioner of Municipal Affairs.
2002	U.S. Department of HUD: Section 8 Housing Choice Voucher Program - CFDA Number 14.871	2002 III-2	Our tests to a sample of 24 participant's files of Section 8 program disclosed documents missing from the files.	Finding remains unclear by grantor agency.
2001	US Department of HUD: Community Development Block Grant State's Program - CFDA No. 14.228	2	The Municipality did not submit the program income report required by the grant agreement.	Finding cleared by the Office of Commissioner of Municipal Affairs.

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued**

Year ended June 30, 2003

**II. Findings and questioned costs related to federal awards - Continued:**

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	US Department of HUD: Community Development Block Grant State's Program - CFDA No. 14.228	3	The Office of Federal Funds did not comply with the requirement of maintaining a cash management system with procedures to minimize the time elapsed between the transfer of funds from federal agencies and disbursements of funds.	Finding cleared by the Office of Commissioner of Municipal Affairs.
2001	U.S. Department of HUD: Section 8 Housing Choice Voucher Program - CFDA Number 14.871	5	In nine of twenty five cases examined, at least one of the required documents was missing in the participant files.	Finding remains unclear by grantor agency.



Hon. Isidro Negrón Inzarry  
Alcalde

Estado Libre Asociado de Puerto Rico  
Municipio Autónomo de San Germán



**Oficina del Alcalde**

**MANAGEMENT RESPONSE TO THE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2003

**II. Findings related to the financial statements reported in accordance with GAGAS:**

**Reference Number:** 2003-II-1

**Area:** Capital Assets

**Type:** Material Weakness

**Management Response:**

Do to the fact that our capital assets inventory is very large, and some property was purchased many years ago the process to inventory, reconcile and evaluate the same has been arduous. Despite all the procedures and controls established to finish the process of reviewing the inventory of capital assets we were able to complete only the portion reported on the financial statements.

At present we are in the process of:

- Identifying unrecorded real property and infrastructure.
- Reconciling the capital assets inventory to legal and other documents.
- Examining supporting evidence related to valuation and ownership.

**II. Findings related to the financial statements reported in accordance with GAGAS:**

**Reference Number:** 2003-II- 2

**Area:** Payroll and Related Liability

**Type:** Reportable Condition

**Management Response:**

The cases of non compliance disclosed in the audit report related to personnel records were reported to the Director of the Human Resources Department for their correction.

We recommended the implementation of controls and procedures to assure the accuracy of record keeping and to verify that the personnel files under his control comply with the requirements of the laws and regulations.

Also the internal auditor was advised to include in her work schedule compliance tests for this area.

**MANAGEMENT RESPONSE TO THE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2003

**III. Findings and questioned costs related to federal awards:**

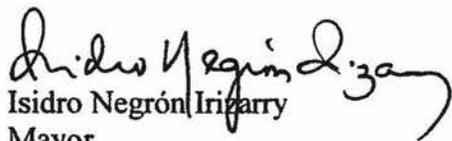
**Reference Number:** 2003 III - 1  
2003 III - 2  
**Agency:** U.S. Department of Housing and Urban Development  
**Pass-through Entity:** Office of Commissioner of Municipal Affairs (OCAM)  
**Program:** Community Development Block Grant State's Program  
**CDFR Number:** 14.228  
**Type:** Material noncompliance, Material Weakness

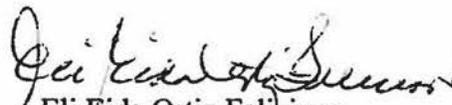
**Management Response:**

The Director of the Federal Program was informed of the findings reported in this area and we recommended to take the necessary measures to assure:

- Proper procedures for verification, and reconciliation of accounting data in quarterly reports and the general ledger.
- That all transactions are properly posted to accounting records.
- The timely submission of reports.

Also the internal auditor was advised to include in her work schedule compliance tests with established internal control procedures in this area.

  
Isidro Negrón Irigarry  
Mayor

  
Eli Eida Ortiz Feliciano  
Finance Director

  
Sandra I. Segarra Vázquez  
Federal Program Director



FORM **SF-SAC**  
(3-20-2001)

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

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates On or After January 1, 2001**

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

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

**PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)**

<b>1. Fiscal period ending date for this submission</b> Month Day Year Fiscal Period End Dates Must Be On or After January 1, 2001 06 / 30 / 2003	<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit
---------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------

<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - _____ Months	<b>FEDERAL GOVERNMENT USE ONLY</b>	<b>4. Date received by Federal clearinghouse</b>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------	--------------------------------------------------

**5. Employer Identification Number (EIN)**

a. Auditee EIN	6 6 0 4 3 3 5 3 1	b. Are multiple EINs covered in this report?    1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No
----------------	-------------------	----------------------------------------------------------------------------------------------------------------------------

*If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)*

**6. AUDITEE INFORMATION**

a. Auditee name  
**MUNICIPALITY OF SAN GERMAN**

b. Auditee address (Number and street)  
**P.O. BOX 85**  
City  
**SAN GERMAN**  
State    ZIP + 4 Code    0 0 6 8 3 -

c. Auditee contact Name  
**MRS. ELIEIDA ORTIZ-FELICIANO**  
Title  
**FINANCE DIRECTOR**

d. Auditee contact telephone  
**( 787 ) 892 - 3500**

e. Auditee contact FAX (Optional)  
**( 787 ) 892 - 1060**

f. Auditee contact E-mail (Optional)

**7. AUDITOR INFORMATION (To be completed by auditor)**

a. Auditor name  
**RODRIGUEZ, RIVERA & TORO LLP**

b. Auditor address (Number and street)  
**P.O. BOX 1080**  
City  
**MAYAGUEZ**  
State    ZIP + 4 Code    0 0 6 8 1 -

c. Auditor contact Name  
**JOSE A. TORO-MERCADO, CPA, CVA**  
Title  
**MANAGING PARTNER**

d. Auditor contact telephone  
**( 787 ) 834 - 3100**

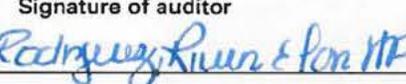
e. Auditor contact FAX (Optional)  
**( 787 ) 831 - 2909**

f. Auditor contact E-mail (Optional)  
**JTORO@RRTLIP.COM**

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

**9. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official    Date  
    03 / 29 / 04  
 Printed Name/Title of certifying official  
**ELI EIDA ORTIZ-FINANCE-FINANCE DIRECTOR**

Signature of auditor    Date  
    3 / 25 / 04

**PART I GENERAL INFORMATION - Continued**

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)  
1  Yes - **Identify Cognizant Agency in Part I, Item 9**      2  No - **SKIP to Part II, Item 1**

9. Indicate which **Federal** awarding agency provided the predominant amount of direct funding in **fiscal year 2000**. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- |                                                                  |                                                                 |                                                           |                                                         |
|------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy                              | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture                          | 66 <input type="checkbox"/> Environmental Protection Agency     | 15 <input type="checkbox"/> Interior                      | 20 <input type="checkbox"/> Transportation              |
| 11 <input type="checkbox"/> Commerce                             | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice                       | <input type="checkbox"/> Other - Specify:               |
| 12 <input type="checkbox"/> Defense                              | 93 <input type="checkbox"/> Health and Human Services           | 17 <input type="checkbox"/> Labor                         |                                                         |
| 84 <input type="checkbox"/> Education                            |                                                                 |                                                           |                                                         |

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report (Mark (X) one box)  
1  Unqualified opinion    2  Qualified opinion    3  Adverse opinion    4  Disclaimer of opinion

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

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

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

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

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Type of audit report on major program compliance  
1  Unqualified opinion    2  Qualified opinion    3  Adverse opinion    4  Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)    1  Yes    2  No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ \_\_.520(b))    \$ 300,000

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

5. Is a reportable condition disclosed for any major program? (§ \_\_.510(a)(1))    1  Yes    2  No - **SKIP to Item 7**

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

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

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ \_\_.315(b))    1  Yes    2  No

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

- |                                                                            |                                                                      |                                                                           |                                                              |
|----------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------|
| 02 <input type="checkbox"/> Agency for International Development           | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> State                            |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services            | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense                                        | 15 <input type="checkbox"/> Interior                                 | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice                                  | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy                                         | 17 <input type="checkbox"/> Labor                                    |                                                                           | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corp                      |                                                                           |                                                              |

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

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

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9) .....

Count total number of boxes marked above and submit this number of reporting packages    2

**PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)**

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
CFDA Number (a)			Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) <sup>3</sup> (a)	Audit finding reference number(s) <sup>4</sup> (b)
Federal Agency Prefix <sup>1</sup>	Extension <sup>2</sup>								
1	4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 970,720 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	LN	2003 III-1, 2003 III-2
1	4	.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 418,626 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
9	3	.044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAMS FOR THE AGING-TITLE III PART B-GRANTS FOR SUPPORTIVE SERV	\$ 58,570 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6	.710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICY GRANTS-COPS	\$ 5,548 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6	.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 72,291 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
2	0	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE AND COMMUNITY HIGHWAY SAFETY	\$ 29,898 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3	.544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANTS	\$ 125,702 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	0	.766	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY FACILITIES LOANS AND GRANTS	\$ 263,454 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →					\$ 1,944,809 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

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

<sup>3</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act
- E. Eligibility

- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income

- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

- O. None
- P. Other

<sup>4</sup> N/A for NONE

**PART I**      **Item 5 Continuation Sheet**

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

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

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