

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

**MUNICIPIO DE SAN GERMAN**  
**AUDITORIA 2004-2005**  
**30 DE JUNIO DE 2005**

CAUTION: 1321

OFFICE OF THE COMPTROLLER  
GENERAL ACCOUNTS SECTION  
SAN GERMAN, P.R. 00683-0000  
TEL: 787-261-3000  
FAX: 787-261-3001  
WWW.CORPORACION.PR

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

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

FISCAL YEAR ENDED JUNE 30, 2005

**FINANCIAL SECTION**

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

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## Independent Auditor's 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, (the Municipality) as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions 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.

In our opinion, 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 German, Puerto Rico as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule – General Fund on page 42 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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Rodriguez, Rivera & Toro LLP

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

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Our discussion and analysis of the Municipality of San German's financial performance provides an overview of the municipality's financial activities for the year ended June 30, 2005

**Financial Highlights**

- The assets of the Municipality exceeded its liabilities at the close of the fiscal year by \$30,613,617 (net assets) of which \$27,377,005 were invested in capital assets (net of accumulated depreciation, and related debt) and \$5,119,535 were restricted. The unrestricted net assets has a negative balance of \$1,882,923
- The municipality's total net assets increased by \$2,352,447 from previous year restated balance.
- During the year, the municipality generated revenues from taxes and other sources in the amount \$21,792,288 (excluding any gain and special items) while expenses amounted to \$19,799,806, resulting in an increase in net assets of \$ 2,352,447 after revenues from property tax amnesty of \$359,965.
- As of the close of the current year, the general fund in the Municipality's Governmental Funds Balance Sheet reported ending fund balance of \$2,370,531 of which \$435,868 is reserved for encumbrances, \$207,823 for reserved for advances and \$1,726,840 is available for spending at the government's discretion (unreserved, undesignated fund balance)
- The Debt Service Fund reported a fund balance of \$1,946,984
- The Commonwealth Legislative Resolution Fund reported a fund balance of \$2,564,571, of which \$1,254,001 is restricted for capital projects.
- Other Governmental Funds reported a fund balance of \$492,106 of which \$399,263 is restricted for capital projects and \$ 92,843 for other specified purposes.
- The municipality's long term debt (general obligation bonds and notes) increased by \$455,000.

**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.

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**Municipality of San German**  
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**For the year ended June 30, 2005**

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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 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, and the Debt Service 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.

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**For the year ended June 30, 2005**

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the municipality, assets exceed liabilities by \$28,502,618 at the close of the current fiscal year.

A significant portion of the municipality's net assets (89%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt 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 capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This category represented 90% of net assets in the prior year. This increase is mostly due to spending in some large projects which include spending of \$1,130,570 on roads pavement, \$3,498,256 on going projects, purchase of equipment and vehicles.

An additional portion of the Municipality's net assets (17%) represents resources that are subject to external restrictions on how they may be used.

Unrestricted net assets reported a deficit of \$1,882,923. This deficit in unrestricted governmental net assets arose primarily because of the inclusion of the unused employee's regular vacation, sick days and compensated absences which will be included in future year's budget as they come due.

Following is a summary of the Municipality's Net Assets as found on page 13 of this report.

	<u>Net Assets</u>			
	<u>Governmental Activities</u>			
	2005	2004 as restated	Change	%
Current and other assets	\$ 9,704,775	\$ 8,394,073	\$ 1,310,702	16%
Non-current assets	40,722,796	39,152,021	1,570,775	4%
<b>Total Assets</b>	<b>\$ 50,427,571</b>	<b>\$ 47,722,796</b>	<b>\$ 2,881,477</b>	<b>6%</b>
Current liabilities	\$ 6,549,747	\$ 5,846,785	\$ 702,962	12%
Non-current liabilities	13,264,207	13,438,139	(173,932)	-1%
<b>Total liabilities</b>	<b>19,813,954</b>	<b>\$ 19,284,924</b>	<b>529,030</b>	<b>3%</b>
<b>Net Assets</b>				
Investment in Capital Assets	27,377,005	25,758,669	1,618,336	6%
Restricted	5,119,535	4,446,819	672,716	15%
Unrestricted	(1,882,923)	(1,944,318)	61,395	-3%
<b>Total net assets</b>	<b>\$ 30,613,617</b>	<b>\$ 28,261,170</b>	<b>\$ 2,352,447</b>	<b>8%</b>

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**Municipality of San German**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

**Changes in Net Assets, Governmental Activities**

Following is a summary of the Municipality's changes in net assets which can be found on page 14 of this report.

<b>Municipality of San German</b>					
<b>Statement of Activities</b>					
<b>Changes in Net Assets</b>					
<b>Governmental Activities</b>					
	2005	%of Total	2004 as restated	Change	% of Change
<b>Revenues:</b>					
<b>Program revenues:</b>					
Charges for services	\$ 4,708,508	22%	\$ 3,692,100	\$ 1,016,408	28%
Operating grants and contributions	1,884,424	9%	1,602,431	281,993	18%
Capital grants and contributions	4,111,612	19%	4,340,098	(228,486)	-5%
<b>General revenues:</b>					
Property taxes	3,842,907	18%	4,201,708	( 358,801)	-9%
Municipal taxes	2,985,306	14%	1,980,917	1,004,389	51%
Other grants and contributions	3,801,184	17%	3,862,123	( 60,939)	-2%
Interest	146,431	0%	73,920	72,511	98%
Other	311,916	1%	253,825	58,091	23%
<b>Total revenues</b>	<b>\$ 21,792,288</b>	<b>100%</b>	<b>\$ 20,007,122</b>	<b>1,785,166</b>	<b>9%</b>
<b>Expenses:</b>					
General government	5,100,054	26%	4,897,762	202,292	4%
Public Safety	1,344,517	7%	1,220,223	124,294	10%
Public Works	8,093,282	41%	8,234,607	(141,325)	-2%
Sanitation	1,661,808	8%	1,435,847	225,961	16%
Health	786,763	4%	747,339	39,424	5%
Welfare	1,611,196	8%	1,311,030	300,166	23%
Culture and recreation	411,241	2%	349,945	61,296	18%
Education	367,751	2%	347,501	20,250	6%
Interest on long-term debt	423,194	2%	448,440	(25,246)	-6%
<b>Total expenses</b>	<b>19,799,806</b>	<b>100%</b>	<b>18,992,694</b>	<b>807,112</b>	<b>4%</b>
Increase (decrease) in net assets	1,992,482		1,014,428	978,054	96%
<b>Others financing sources</b>					
Gain on sale of property			1,056,620	(1,056,620)	-100%
<b>Special items</b>					
Property tax amnesty	359,965		423,062	(63,097)	-15%
Transfer of land and recreational facilities	-		2,034,480	(2,034,480)	-100%
<b>Increase in net assets</b>	<b>2,352,447</b>		<b>4,528,590</b>	<b>(2,176,143)</b>	<b>-48%</b>
<b>Net assets at beginning of year</b>					
as restated	28,261,170		23,732,580	4,528,590	19%
<b>Net assets end of year</b>	<b>\$ 30,613,617</b>		<b>\$ 28,261,170</b>	<b>\$ 2,352,447</b>	<b>8%</b>

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**Municipality of San German**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

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Presented in the chart above are comparisons of the current and prior year revenues and expenses for various activities of the city. Key elements of the changes in these programs are as follows:

- Governmental activities increased the Municipality's net assets by \$2,352,447.
- The Municipality's total revenues (excluding special items) increased by 9% to \$21,792,288 millions. Forty percent (45%) of total revenues comes from central and federal government grants, approximately 32% comes from property and municipal taxes and only 22% of total revenues come from charges for services.
- The municipality's expenses cover a range of services with about 67% related to general government and public works.
- Expenses increased by 4% from previous year to a total of \$19,799,806.
- The increase in revenues is mainly due to the increase in charges for services and municipal taxes.

**Financial Analysis of the Governmental Funds**

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

**Governmental Funds**

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

As of June 30, 2005 the Municipality reported combined ending fund balance of \$7,374,192, a decrease of \$657,180 in comparison with the prior year. Approximately 23% of the ending fund balance, (\$1,726,840) constitutes unreserved fund balance. The remainder is reserved to indicate that it is not available for new spending because it has already been committed; 1) as a reserve for encumbrances \$435,868; 2) to pay debt service \$1,946,984; (3) as reserved for specified purposes \$1,403,413; 4) reserved for capital projects \$1,653,264 and (5) as reserved for advances \$207,823.

**General Fund**

The general fund is the primary operating fund of the municipality. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,726,840, while the total fund balance was \$2,370,531. Of this total \$435,868 was reserved for encumbrances. As a measure of the general fund liquidity, it may be useful to compare both unreserved

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**For the year ended June 30, 2005**

fund balance and total fund balance to total fund expenditure. Unreserved fund balance represents 12% of total general expenditures while total fund balance represents 16%.

The following schedule presents a summary of general fund revenues and expenditures for the fiscal year ended June 30, 2005 in relation to prior year totals:

	2005 General Fund	Percent of Total	2004 General Fund	Percent of Total	Increase (Decrease)	Percent of Increase (Decrease)
<b>Revenues</b>						
Property taxes	\$ 3,198,158	21%	\$ 2,978,444	22%	219,714	7%
Municipal tax, licenses and permits	2,985,306	20%	1,980,917	15%	1,004,389	51%
Intergovernmental	3,774,829	25%	3,858,300	30%	(83,471)	-2%
Rental income and charges for Services	4,734,893	31%	3,674,503	29%	1,060,390	-29%
Fines and forfeitures	18,978	0%	2,880	0%	16,098	559%
Interest	113,669	1%	54,200	1%	59,469	110%
Other	<u>266,996</u>	<u>2%</u>	<u>403,397</u>	<u>3%</u>	<u>(136,401)</u>	-34%
Total Revenues	<u>\$15,092,829</u>	<u>100%</u>	<u>\$12,952,641</u>	<u>100%</u>	<u>2,140,188</u>	17%

- Both intergovernmental and other revenues had a slight decrease over prior year.
- Charges for services increase was due to an increase in construction permits, also municipal taxes had a great increase over the previous year because an overall increase in sales volume of mayor taxpayers

	2005 General Fund	Percent of Total	2004 General Fund	Percent of Total	Increase (Decrease)	%
<b>Expenditures</b>						
General government	\$ 4,766,032	32%	\$ 4,161,963	30%	\$ 604,069	15%
Public safety	1,165,400	8%	847,794	6%	317,606	37%
Public works	5,209,532	35%	5,239,244	38%	(29,712)	-1%
Sanitation	1,641,155	11%	1,415,944	10%	225,211	16%
Health	786,763	5%	747,339	5%	39,424	5%
Welfare	400,862	3%	399,422	3%	1,440	0%
Culture and recreation	369,818	2%	342,157	2%	27,661	8%
Education	348,815	1%	340,055	2%	8,760	3%
Capital outlays	<u>101,025</u>	<u>1%</u>	<u>476,771</u>	<u>4%</u>	<u>(375,746)</u>	-79%
Total Expenditures	<u>\$14,789,402</u>	<u>100%</u>	<u>\$ 13,970,689</u>	<u>100%</u>	<u>\$ 818,713</u>	6%

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**Municipality of San German**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

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- Revenues exceeded expenditures by \$175,905
- In general, current years revenues exceeded by 17% prior year or \$2,140,188, mostly because an increase in construction permits and in municipal taxes.
- Expenditures increased by 6% or \$818,713 from previous year, mostly in general government and public works.

**Other Governmental Funds**

Financial highlights of the municipality's other funds are as follows:

- Debt Service fund balance had a slight increase of \$4,120
- At the end of the current fiscal year the other governmental fund balances shows a deficit of \$1,705,170 caused mostly by expenditures related to general obligation bonds and bond anticipation notes which proceeds were recognized in previous years.

**General Fund Budgetary Highlights**

- During the year the Municipal Legislature approved an increase in the budget of \$1,009,553 from prior year fund balance.
- Actual revenues exceeded budget by \$227,848. In general actual revenues exceed final budget by \$1,134,241. Only other revenues had a negative variance of \$157,591.
- Actual expenditures were lower by \$99,135 than final budget amounts.
- The municipality's change in fund balance of \$175,905 differs from the General Fund Budgetary Fund of \$227,848 reported in the budgetary comparison schedule. This is primarily because the budgetary fund balance includes encumbrances of \$435,868 and the exclusions of other accruals made for GAAP purposes.

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**Municipality of San German**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

**Capital Assets and Debt Administration**

**Capital Assets**

Investment in capital assets for governmental activities as of June 30, 2005, amounted to \$34,729,032 millions (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, bridges and construction in progress.

<b>Capital Assets, net As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004 (as restated)</b>
<b>Non-depreciable assets:</b>		
Land and Improvements	\$ 5,803,887	\$ 5,803,887
Construction in progress	4,607,306	5,655,231
<b>Depreciable assets:</b>		
Buildings and buildings improvements, net	11,098,130	11,189,929
Equipment, net	3,662,128	3,465,748
Roads, net	6,278,965	6,046,641
Bridges, net	5,389,615	2,005,638
<b>Total</b>	<b>\$ 36,840,031</b>	<b>\$ 34,167,074</b>

Significant capital projects underway in construction in progress included the following:

Renovation to Old City Hall	\$ 335,335
Refurbishment of a theater ("Teatro Parque")	343,412
Recreational center for the elderly	110,172
Gymnasium	122,305
Improvements to Agriculture Service Complex	2,110,999
Recreational facilities	1,585,083

This year's major capital assets additions (approximately) included:

- \$ 3,330,000 Bridge
- \$ 732,072 in equipment
- \$ 1,130,570 in road pavement and replacement

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

**Debt Administration**

<b>Outstanding Long-term Debt</b>		
<b>Fiscal years ended June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004 (as restated)</b>
General and special obligation bonds and notes	\$ 7,449,772	\$ 7,909,272
Bond anticipation note	3,000,000	3,000,000
Note payable to CRIM - LIMS	385,483	432,803
Note payable to CRIM – financing of delinquent accounts	224,775	390,563
Property tax advances - CRIM	364,297	-
Compensated absences	2,999,229	2,998,996
Christmas bonus payable	309,437	332,584
Judgments and claims	56,000	23,240
<b>Total</b>	<b>\$ 14,788,993</b>	<b>\$ 15,087,458</b>

At the end of the current fiscal year, the Municipality had a total bonded debt and notes payable outstanding of \$7,449,772.

A new debt resulted from the issuance of a \$455,000 loan for equipment and \$364,297 of the final settlement of property tax advances by the CRIM.

Other obligations include a \$3,000,000 bond anticipation loan, accrued Christmas bonus, compensated absences and vacation and sick days, and a debt to the Municipal Revenue Collection Center (CRIM). Compensated absences and vacations are paid when due.

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the year ended June 30, 2005**

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

The approved budget for the fiscal year 2005-2006 amounted to \$14,720,310, that is, an increase of \$757,725 over the current year budget. This increase is due to the expected increase in municipal taxes for fiscal year 2005-2006

In the preparation of fiscal year 2005-2006 budget, no increase in taxes was contemplated. Figures for property taxes and intergovernmental revenues are based on estimates prepared by the Municipal Revenue Collection Center (CRIM).

This 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 any question about this report or need additional information, contact the Municipality's Director of Finance at P.O. Box 85, San German, Puerto Rico 00683.

Commonwealth of Puerto Rico  
Municipality of San German  
Statement of Net Assets  
June 30, 2005

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
<b><u>Current Assets:</u></b>	
Cash and cash equivalents ( note A5)	\$ 7,616,957
Receivables (net where applicable of allowance for uncollectibles) (note C)	
Commonwealth governmental agencies	631,601
Municipal license taxes	563,467
Federal Government	352,417
Others	<u>540,333</u>
<b>Total Current Assets</b>	<u>9,704,775</u>
<b><u>Non-Current Assets</u></b>	
Restricted assets:	
Cash and cash equivalents	276,298
Cash with fiscal agents	3,571,757
Deferred charges (note A5e)	34,710
Capital assets:(note F)	
Land and construction in progress	10,411,193
Other capital assets, net	<u>26,428,838</u>
Total capital assets	<u>36,840,031</u>
<b>Total Noncurrent Assets</b>	<u>40,722,796</u>
<b>Total Assets</b>	<u>\$ 50,427,571</u>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 1,134,090
Interest payable	190,340
Due to Commonwealth governmental agencies (note G)	154,607
Due to other governments (note G)	62,169
Deposits payable	85,369
Deferred revenues (note H)	3,398,386
Current portion of long-term obligations (note I)	<u>1,524,786</u>
<b>Total Current Liabilities</b>	<u>6,549,747</u>
<b><u>Noncurrent Liabilities:</u></b>	
Non current portion of long-term obligations (note I)	<u>13,264,207</u>
<b>Total Liabilities</b>	<u>19,813,954</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	27,377,005
Restricted for:	
Capital projects	911,080
Debt service	2,653,714
Other specified purposes	1,554,741
Unrestricted (deficit)	<u>(1,882,923)</u>
<b>Total Net Assets</b>	<u>\$ 30,613,617</u>

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, 2005**

	<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	\$ 5,100,054	\$ 3,045,990	\$ 498,847	\$ -	\$ (1,555,217)
Public safety	1,344,517	-	86,691	-	(1,257,826)
Public works	8,093,282	1,662,518	-	4,111,612	(2,319,152)
Sanitation	1,661,808	-	-	-	(1,661,808)
Health	786,763	-	-	-	(786,763)
Welfare	1,611,196	-	1,257,547	-	(353,649)
Culture and recreation	411,241	-	33,926	-	(377,315)
Education	367,751	-	7,413	-	(360,338)
Interest on long-term debt	423,194	-	-	-	(423,194)
Total governmental activities	<u>\$ 19,799,806</u>	<u>\$ 4,708,508</u>	<u>\$ 1,884,424</u>	<u>\$ 4,111,612</u>	<u>(9,095,262)</u>
<b>General Revenues:</b>					
					3,842,907
					2,985,306
					3,801,184
					146,431
					311,916
<b>Special Items (note R)</b>					
					359,965
					<u>11,447,709</u>
					2,352,447
					<u>28,261,170</u>
					<u>\$ 30,613,617</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, 2005**

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Commonwealth Legislative Resolutions</u>		
<b><u>Assets</u></b>					
Cash and cash equivalents (note A5)	\$ 4,317,239	\$ -	\$ 2,604,325	\$ 695,393	\$ 7,616,957
Receivables (net where applicable of allowance for uncollectibles)					
Commonwealth governmental agencies	130,359	195,741	-	150,783	476,883
Municipal license taxes	563,467	-	-	-	563,467
Federal government				352,417	352,417
Others	540,333	-	-	-	540,333
Due from other funds (note D)	570,796	-	-	-	570,796
Advances to other funds	207,823	-	-	-	207,823
<b>Restricted Assets</b>					
Cash and cash equivalents	-	-	-	276,298	276,298
Cash with fiscal agents (note E)	-	2,646,402	-	925,355	3,571,757
<b>Total assets</b>	<b>\$ 6,330,017</b>	<b>\$ 2,842,143</b>	<b>\$ 2,604,325</b>	<b>\$ 2,400,246</b>	<b>\$ 14,176,731</b>
<b><u>Liabilities</u></b>					
Accounts payable and accrued liabilities	\$ 312,574	\$ -	\$ 3,497	\$ 818,019	1,134,090
Matured bonds and notes payable	-	727,500	-	-	727,500
Matured interest payable	-	167,659	-	-	167,659
Due to Commonwealth governmental agencies (note G)	149,907	-	2,117	2,583	154,607
Due to other governments (note G)	-	-	-	62,169	62,169
Due to other funds (note D)	-	-	34,140	536,656	570,796
Advances from other funds	-	-	-	207,823	207,823
Deposits payable	85,369	-	-	-	85,369
Deferred revenues (note H)	3,411,636	-	-	280,890	3,692,526
<b>Total liabilities</b>	<b>3,959,486</b>	<b>895,159</b>	<b>39,754</b>	<b>1,908,140</b>	<b>6,802,539</b>
<b><u>Fund Balance</u></b>					
Reserved for encumbrances	435,868	-	-	-	435,868
Reserved for debt service	-	1,946,984	-	-	1,946,984
Reserved for capital projects	-	-	1,254,001	399,263	1,653,264
Reserved for other specified purposes	-	-	1,310,570	92,843	1,403,413
Reserved for advances	207,823	-	-	-	207,823
Unreserved	1,726,840	-	-	-	1,726,840
<b>Total fund balances</b>	<b>2,370,531</b>	<b>1,946,984</b>	<b>2,564,571</b>	<b>492,106</b>	<b>7,374,192</b>
<b>Total liabilities and fund balance</b>	<b>\$ 6,330,017</b>	<b>\$ 2,842,143</b>	<b>\$ 2,604,325</b>	<b>\$ 2,400,246</b>	<b>\$ 14,176,731</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, 2005**

<b>Fund Balance - total governmental funds</b>		<b>\$</b>	<b>7,374,192</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:			36,840,031
Assets are not available to pay for current period expenditures and therefore are not considered in the funds:			
Deferred charges-bond issuance costs	\$	34,710	
Christmas Bonus		<u>154,718</u>	189,428
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Receivables:			
Rent		7,889	
Others		5,361	
CDBG		33,330	
EDA		99,695	
Intergovernmental grants		<u>147,865</u>	294,140
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:			(22,681)
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		6,722,272	
Bond anticipation note		3,000,000	
Compensated Absences		2,999,229	
Claims and judgement		56,000	
CRIM - delinquent accounts		224,775	
CRIM - LIMS		385,483	
CRIM - Property taxes advances		364,297	
Christmas bonus		<u>309,437</u>	<u>(14,061,493)</u>
<b>Net assets of governmental activities</b>			<b><u>\$ 30,613,617</u></b>

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

**Commonwealth of Puerto Rico  
Municipality of San German  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Governmental Funds  
For the year ended June 30, 2005**

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service</u>	<u>Commonwealth Legislative Resolutions</u>		
<b><u>Revenues</u></b>					
Property taxes (note J)	\$ 3,198,158	\$ 1,066,235	\$ -	\$ -	\$ 4,264,393
Municipal license taxes (note K)	2,985,306	-	-	-	2,985,306
Intergovernmental (note L)	3,774,829	-	1,913,343	1,695,570	7,383,742
Federal Grants	-	-	-	2,232,248	2,232,248
Rental income and charges for services	4,734,893	-	-	-	4,734,893
Fines and forfeitures	18,978	-	-	-	18,978
Interest	113,669	32,273	-	458	146,400
Other	266,996	-	-	60,299	327,295
<b>Total Revenues</b>	<b>15,092,829</b>	<b>1,098,508</b>	<b>1,913,343</b>	<b>3,988,575</b>	<b>22,093,255</b>
<b><u>Expenditures</u></b>					
<b>Current</b>					
General government	4,766,032	-	16,776	341,189	5,123,997
Public safety	1,165,400	-	-	44,598	1,209,998
Public works	5,209,532	-	175,750	1,125,489	6,510,771
Sanitation	1,641,155	-	-	-	1,641,155
Health	786,763	-	-	-	786,763
Welfare	400,862	-	202,951	996,850	1,600,663
Culture and recreation	369,818	-	-	36,307	406,125
Education	348,815	-	12,243	6,693	367,751
Capital outlays	101,025	-	637,658	3,890,143	4,628,826
<b>Debt service</b>					
Principal	-	909,500	-	-	909,500
Interest	-	379,851	-	-	379,851
<b>Total expenditures</b>	<b>14,789,402</b>	<b>1,289,351</b>	<b>1,045,378</b>	<b>6,441,269</b>	<b>23,565,400</b>
Excess (deficiency) of revenue over expenditures	303,427	(190,843)	867,965	(2,452,694)	(1,472,145)
<b>Other financing sources (uses)</b>					
Proceeds from general obligation bonds	-	-	-	455,000	455,000
Transfers in	39,825	63,250	-	303,995	407,070
Transfers out	(367,245)	(28,354)	-	(11,471)	(407,070)
<b>Total Other Financing sources (uses)</b>	<b>(327,420)</b>	<b>34,896</b>	<b>-</b>	<b>747,524</b>	<b>455,000</b>
<b>Special items (note R)</b>					
Property taxes-amnesty	199,898	160,067	-	-	359,965
<b>Total special items</b>	<b>199,898</b>	<b>160,067</b>	<b>-</b>	<b>-</b>	<b>359,965</b>
Net change in fund balance	175,905	4,120	867,965	(1,705,170)	(657,180)
Fund balance at beginning of year, as restated (note P)	2,094,626	1,942,864	1,696,606	2,197,276	8,031,372
<b>Fund balance at end of year</b>	<b>\$ 2,370,531</b>	<b>\$ 1,946,984</b>	<b>\$ 2,564,571</b>	<b>\$ 492,106</b>	<b>\$ 7,374,192</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, 2005

<b>Net change in fund balances - total governmental funds</b>		<b>\$ (657,180)</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 (\$4,628,826) exceeded depreciation (\$1,895,256) in the current year:</p>	2,733,570	
<p>Governmental funds only reports the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balances by the cost of the disposed assets:</p>		(86,725)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>		
Rent and construction permits	\$ 7,889	
Other accounts receivable	5,361	
Intergovernmental grants	147,865	
Christmas bonus reimbursement (current year)	154,718	
CDBG	33,330	
EDA	99,695	
Donated capital assets	26,112	474,970
<p>Revenues reported in funds which are not reported as revenues in the Statement of Activities:</p>		
Property Taxes	421,486	
Construction excise taxes	32,688	
Rent	32,500	
Intergovernmental grants	134,788	
Christmas bonus reimbursement (prior year)	154,475	(775,937)
<p>Expenditures reported in funds which are not reported as expenses in the Statement of Activities:</p>		
Matured bonds principal payments (net change)		(5,000)
<p>The issuance of a bond note provide current financial resources to governmental funds; however, issuing debt increases long term liabilities in the Statement of Net Assets:</p>		(455,000)
<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>		
General obligation bonds and notes	914,500	
Other long term liabilities	741,527	1,656,027
<p>Governmental funds report the effect of bond issuance cost as expenditures when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:</p>		
Bond issuance cost	2,831	
Amortization of bond issuance costs	(5,097)	(2,266)
<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 judgement	46,000	
Accrued interest (net change)	(8,253)	
Compensated absences	182,828	
Christmas bonus	309,437	(530,012)
<b>Change in net assets of governmental activities</b>		<b>\$ 2,352,447</b>

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

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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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 significant accounting policies established in GAAP and used by the Municipality are discussed below.

**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. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

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.

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

**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 which includes fees, fines, and charges for services, as well as 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

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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

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. The municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 1, 1989.

In the government-wide statements, net assets are segregated into three categories:

**Invested in capital assets, net of depreciation:**

Consist of capital assets balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

**Restricted net assets:**

Represent net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and requirements of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

**Unrestricted net assets:**

Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

**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 placed on major funds category. A fund is considered major if it is the primarily operating fund of the Municipality or if total assets, liabilities,

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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

revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all fund of that category or type.

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.

**Commonwealth Legislature Resolutions Fund** - The Commonwealth Legislative Resolutions Fund is used to account for grants from the Commonwealth's Legislature.

**b. Reservations 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.

**Commonwealth of Puerto Rico**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Other Specified Purposes:	Represents amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments.
Advances:	Represents the non-current portion of interfund loans.

**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. Generally, revenues are recognized when earned and expenses are recognized when incurred. In applying GASB Statement No. 33 to revenues, property taxes are recognized as revenues the year taxes are levied and municipal license taxes when the underlying exchange has occurred. With respect to grants 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.

**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 and available. "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, municipal license taxes, and grants revenues are recorded in accordance with the requirements of GASB No. 33 and are subject to the availability criteria described above. Intergovernmental grants 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.

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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

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 arises 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.

**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. Risk Financing**

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

**Commonwealth of Puerto Rico**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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

Municipal Revenue Collection Center (CRIM). Settled cases have not exceeded insurance coverage for any of the past three years.

**d. 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.

**e. 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.

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

**f. 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.

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

**g. Use of Estimates**

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

**h. 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 and short-term interfund loans are reported as "due to and from other funds." "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.

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

**i. Future Adoption of Accounting Pronouncements**

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

Statement	To be Adopted in Fiscal year ended,
42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	June 30, 2006
43 Financial Reporting for Post Employment Benefits Plans Other Than Pension Plan	June 30, 2008
44 Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement No. 1	June 30, 2006
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
46 Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34	June 30, 2006
47 Accounting for Termination Benefits	June 30, 2006; for termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

The impact of these statements in the Municipality's basic financial statements has not yet been determined.

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**NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$6,109,902. Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$5,877,372.

**NOTE C - RECEIVABLES**

The Municipality's receivables as of June 30, 2005 are the following:

Description	State Governmental Agencies	Others
Municipal Revenues Collection Center (CRIM)	\$ 195,741	\$ -
Puerto Rico Treasury Department	154,718	-
Puerto Rico Department of Labor	147,867	-
Puerto Rico Department of Justice	130,358	-
Construction permits	-	475,200
Rent	-	86,652
Others	2,917	121,847
Less: allowance for uncollectible accounts	-	(143,366)
<b>Totals</b>	<b>\$ 631,601</b>	<b>\$ 540,333</b>
 Municipal license taxes:		 \$ 742,476
Less: allowance for uncollectible accounts		(179,009)
<b>Totals:</b>		<b>\$ 563,467</b>
 Federal government:		
EDA		\$ 99,695
HUD		252,722
<b>Totals:</b>		<b>\$ 352,417</b>

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**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:

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	\$ 24,185
	Other governmental funds-Law No. 52	147,657
	Other governmental funds-DEO	30,555
	Other governmental funds EDA	74,000
	Other governmental funds-OMEF	40,091
	Other governmental funds-CDBG	95,326
	Other governmental funds-Others	158,986
		<u>\$ 570,796</u>

Advances to (from) other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds-DEO	<u>\$ 207,823</u>

**NOTE E - RESTRICTED CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENT**

Restricted cash and cash equivalents represents the undisbursed balance of bond anticipation notes held in custody of Rural Development. 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.

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**NOTE E – RESTRICTED CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENT- Continued**

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.

**NOTE F - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance, July 1, 2004 as restated	Increases	Decreases	Ending Balance June 30, 2005
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land and improvements	\$ 5,803,887			\$ 5,803,887
Construction in progress	5,655,231	2,792,601	3,840,526	4,607,306
<b>Total capital assets not being depreciated</b>	<b>11,459,118</b>	<b>2,792,601</b>	<b>3,840,526</b>	<b>10,411,193</b>
<b>Other capital assets:</b>				
Buildings and improvements	15,960,067	372,875	69,200	16,263,742
Equipment	8,734,845	735,794	106,123	9,364,516
Roads	11,631,981	1,130,570	1,449,822	11,312,729
Bridges	3,153,793	3,463,624	-	6,617,417
<b>Total other capital assets</b>	<b>39,480,686</b>	<b>5,702,863</b>	<b>1,625,145</b>	<b>43,558,404</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	4,770,138	398,937	3,463	5,165,612
Equipment	5,269,097	518,426	85,135	5,702,388
Roads	5,585,340	898,246	1,449,822	5,033,764
Bridges	1,148,155	79,647	-	1,227,802
<b>Total accumulated depreciation</b>	<b>16,772,730</b>	<b>1,895,256</b>	<b>1,538,420</b>	<b>17,129,566</b>
<b>Other capital assets, net</b>	<b>22,707,956</b>	<b>3,807,607</b>	<b>86,725</b>	<b>26,428,838</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 34,167,074</b>	<b>\$ 6,600,208</b>	<b>\$ 3,927,251</b>	<b>\$ 36,840,031</b>

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**NOTE F - CAPITAL ASSETS - Continued**

Depreciation expense was charged to functions as follows:

	<u>Amount</u>
General government	\$ 91,699
Public safety	134,522
Public works	1,632,734
Culture and recreation	5,116
Sanitation	20,653
Welfare	<u>10,532</u>
 Total depreciation expense, governmental activities	 <u><u>\$ 1,895,256</u></u>

**NOTE G - DUE TO GOVERNMENTAL AGENCIES**

Due to governmental agencies as of June 30, 2005 follows:

• **Due to Commonwealth governmental agencies:**

	<u>Amount</u>
Puerto Rico Department of Labor - (unemployment)	\$ 29,161
PRIDCO	30,945
Puerto Rico Retirement System	86,873
Other	<u>7,628</u>
	<u><u>\$ 154,607</u></u>

• **Due to other governments:**

	<u>Amount</u>
HUD (Section 8)	\$ 58,903
Other municipalities (Portabilities)	<u>3,266</u>
	<u><u>\$ 62,169</u></u>

**Commonwealth of Puerto Rico**  
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**NOTE H - DEFERRED REVENUES**

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

Description	Amount
Municipal license taxes	\$ 3,397,636
Others	14,000
	<u>\$ 3,411,636</u>

**NOTE I - LONG TERM LIABILITIES**

A detail of the general obligation bonds, notes and operational loans as of June 30, 2005 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	\$ 53,204
1,150,000	Special Obligation Bond	July 1, 2006	8.5%	\$57,500	115,000
765,000	Public Improvement Bond	January 1, 2011	6.38%	\$39,000 to \$60,000	306,341
400,000	Public Improvement Bond	January 1, 2013	6.13%	\$17,000 to \$32,000	200,000
616,000	Public Improvement Bond	January 1, 2012	5.00%	\$30,000 to \$45,227	270,227
3,500,000	Public Improvement Bond	July 1, 2015	4.7 - 6.6%	\$140,000 to \$330,000	2,555,000
455,000	General Obligation Bond	July 1, 2011	3.27- 5.00%	\$55,000 to \$75,000	455,000
2,100,000	General Obligation Bond	July 1, 2013	2.7 - 4.6%	\$120,000 to \$235,000	1,590,000
1,435,000	General Obligation Bond	July 1, 2006	2.7 - 3.2%	\$285,000 to \$335,000	645,000
830,000	General Obligation Bond	July 1, 2026	2.7 - 5.6%	\$15,000 to \$75,000	795,000
130,000	General Obligation Bond	July 1, 2026	2.7 - 5.6%	\$5,000 to \$10,000	115,000
355,000	General Obligation Bond	July 1, 2028	2.36-6.00%	\$5,000 to \$30,000	350,000
					<u>\$7,449,772</u>

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

The annual requirements to amortize general obligation bonds and operational loans outstanding as of June 30, 2005 are as follows:

Maturing at June 30,	Principal	Interest	Total
2005	\$ 850,500	\$ 357,621	\$ 1,208,121
2006	911,704	318,900	1,230,604
2007	528,000	291,572	819,572
2008	569,000	262,232	831,232
2009	610,000	230,176	840,176
2010 – 2014	2,740,568	649,607	3,390,175
2015 – 2019	605,000	211,403	816,403
2020 – 2024	380,000	119,413	499,413
2025 – 2029	255,000	14,660	269,660
<b>TOTALS</b>	<b>\$ 7,449,772</b>	<b>\$ 2,455,584</b>	<b>\$ 9,905,356</b>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance, July 1, 2004 As Restated	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due within One Year
<b>Governmental activities:</b>					
<b>Bonds and notes payable:</b>					
General obligation bonds	\$ 2,995,000	\$ -	\$ 145,000	\$ 2,850,000	\$ 150,000
General obligation notes	995,000	455,000	350,000	1,100,000	365,000
Public improvement bonds	3,746,772	-	362,000	3,384,772	278,000
Special obligation bond	172,500	-	57,500	115,000	57,500
Total bonds and notes payable	<u>7,909,272</u>	<u>455,000</u>	<u>914,500</u>	<u>7,449,772</u>	<u>850,500</u>
<b>Other liabilities:</b>					
Compensated absences	2,998,996	182,828	182,595	2,999,229	211,980
Bond anticipation note	3,000,000	-	-	3,000,000	-
Note payable to CRIM – financing of delinquent account	390,563	-	165,788	224,775	46,692
Claims and judgment	23,240	46,000	13,240	56,000	56,000
Note payable to CRIM - LIMS	432,803	-	47,320	385,483	50,177
Property Taxes Advances – CRIM	-	364,297	-	364,297	-
Christmas Bonus	332,584	309,437	332,584	309,437	309,437
Total other liabilities	<u>7,178,186</u>	<u>902,562</u>	<u>741,527</u>	<u>7,339,221</u>	<u>674,286</u>
	<u>\$ 15,087,458</u>	<u>\$ 1,357,562</u>	<u>\$ 1,656,027</u>	<u>\$ 14,788,993</u>	<u>\$ 1,524,786</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE I – LONG TERM LIABILITIES - Continued**

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

**Note payable to CRIM (LIMS)**

	Amount
<p>On July 3, 2001 the municipality entered into a financing agreement with the CRIM in the amount of \$539,645 for the payment of the municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of tax payer's properties located in Puerto Rico. The note is payable in semiannual installments of \$36,188, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).</p>	\$ 385,483

Debt service requirements in future years are as follows:

Maturing at June 30,	Principal	Interest
2005	\$ 50,177	\$ 21,718
2006	53,207	18,907
2007	56,420	15,678
2008	59,827	12,254
2009	63,439	8,624
2010-2012	102,413	5,646
Total	\$ 385,483	\$ 82,827

**Note payable to CRIM (FINANCING OF DELINQUENT ACCOUNTS)**

On March 26, 2002 the municipality entered into a financing agreement with the CRIM in the amount of \$ 470,818 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payment for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

\$ 224,775

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**NOTE I – LONG TERM LIABILITIES - continued**

Debt service requirements in future years are as follows:

June 30,	Principal	Interest
2006	\$ 46,692	\$ 14,610
2007	-	10,643
2008	-	11,575
2009	3,062	11,485
2010	3,268	11,281
2011-2015	19,926	52,811
2016-2020	27,554	45,183
2021-2025	38,102	34,634
2026-2030	52,688	20,048
2031-2033	33,483	2,886
Total	<u>\$ 224,775</u>	<u>\$ 215,156</u>

	<u>Amount</u>
<b>Compensated absences-</b> includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount will be paid with unrestricted funds.	\$ 2,999,229
<b>Bond anticipation note</b> - 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 disburses funds after the Municipality requests the payment of construction project certifications.	\$ 3,000,000
<b>Christmas bonus</b> – represent the accrual portion corresponding to fiscal year 2004-2005 of the Christmas bonus to be paid on December 2005. Amount will be paid with unrestricted funds.	\$ 309,437
<b>Claims and judgment</b> – represents the final settlement of two legal cases paid subsequent to June 30, 2005. Amount will be paid with unrestricted funds.	\$ 56,000
<b>Property tax advances-CRIM</b> - represents amount owed to CRIM due to advances in excess of revenues collected on behalf of the municipality. Amount will be paid with unrestricted funds.	\$ 364,297

**Commonwealth of Puerto Rico**  
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**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.

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 tax rates in force as of June 30, 2005 are 8.53% for real property (of which 8.33% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.53% for personal property (of which 6.33% is paid by taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.5% and 5.5% respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6% on real property and 4% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.5% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund

Residential real property occupied by its owners is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amount, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

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 settlement 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 2004-2005 the CRIM performed the final settlement and determined that the Municipality has a net debt of \$364,297. This amount is recorded as a long term debt.

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**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 \$3,397,636 are recorded as deferred revenues.

**NOTE L – INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the General Fund are comprised of Christmas bonus reimbursement of \$264,814; and revenues for municipal equalization fund of \$3,510,015 received from the Commonwealth of Puerto Rico. Amount recorded in other governmental funds consists of state governmental grants.

**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.

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**NOTE M – RETIREMENT PLAN - Continued**

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.

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>
2002-2003	272,677	138,427
2003-2004	265,904	142,549
2004-2005	237,368	201,431

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**NOTE N - 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.

2. Legal claims

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, except those described below, are pending and legal counsels have not determined an outcome. As a result of two settled cases not to be covered by insurance, the Municipality accrued \$56,000 in the government-wide 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 O - COMMITMENTS**

1. Construction:

The Municipality has active construction projects as of June 30, 2005. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Committed</u>
General facilities	\$ 1,358,027

2. Operating leases:

Operating lease expense for the year amounted to \$76,896.

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE P – FUND BALANCE AND NET ASSETS RESTATEMENTS**

1. Fund balances

Fund balance of EDA fund included as part of the other governmental funds was restated to correct an understatement of payables to contractors as follows:

Description	Amount
Fund balance, other governmental funds at beginning of year as previously reported:	\$ 2,324,066
Correction of beginning balance accounts payable ( amount retained on construction project):	(126,790)
Fund balance, other governmental funds at beginning of year as restated:	<u>\$ 2,197,276</u>

2. Net assets

Net assets as of July 1, 2004 have been restated to include transactions not recorded in previous years as follows:

Description	Amount	Amount
Net Assets at beginning of year as previously reported:		\$ 26,753,784
Adjustments:		
Correction of beginning balance of capital assets and accumulated depreciation:		
Land and improvements	\$ 129,323	
Construction in Progress	1,360,711	
Building and improvements	(202,907)	
Equipment	(3,722)	
Accumulated Depreciation Equipment	394,050	
Correction of beginning balance of accounts payable ( amount retained on construction project)	(126,790)	
Correction of beginning balance of compensated absences	(43,279)	1,507,386
Net Assets at beginning of year as restated:		<u>\$ 28,261,170</u>

**NOTE Q – SUBSEQUENT EVENT**

On September 13, 2005 the Governmental Development Bank of Puerto Rico (GDB) approved a \$1,695,000 loan to the Municipality for the acquisition of equipment at a variable rate for seven years.

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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**NOTE R – SPECIAL ITEMS**

1. Property tax amnesty

Law No. 74 of March 1, 2004 approved by the Commonwealth's Legislature (as amended by Law No. 131 of June 1, 2004) granted to taxpayers (for the period March 1, 2004 to June 30, 2004) an amnesty for payment of real and personal property tax debts. As a result, the CRIM distributed to the municipality \$359,965 on property tax collections as of June 30, 2005 of which \$199,898 were recorded in the general fund, and \$160,067 recorded in the debt service fund. The transaction falls under the definition of special item set forth by GASB 34, as it is a transaction of unusual or infrequent nature within the control of Municipality's management.

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**Required Supplementary Information -**  
**Budgetary Comparison Schedule-General Fund**  
**For the year ended June 30, 2005**

	<u>Budgeted amounts</u>		<u>Actual amounts (budgetary basis)</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 3,851,273	\$ 3,851,273	\$ 4,280,177	\$ 428,904
Municipal tax, licenses and permits	2,868,166	2,868,166	2,985,306	117,140
Intergovernmental	2,660,606	2,660,606	2,726,920	66,314
Rental income and charges for services	3,885,953	4,070,953	4,676,426	605,473
Fines and forfeitures	5,000	5,000	18,978	13,978
Interest	82,000	82,000	142,023	60,023
Other	609,587	424,587	266,996	(157,591)
<b>Total revenues</b>	<u>13,962,585</u>	<u>13,962,585</u>	<u>15,096,826</u>	<u>1,134,241</u>
<b><u>Expenditures</u></b>				
General government	4,315,087	4,529,503	4,478,093	51,410
Public safety	1,297,729	1,176,954	1,174,055	2,899
Public works	4,751,535	5,328,180	5,292,647	35,533
Sanitation	1,644,746	1,645,671	1,644,409	1,262
Health	786,763	786,763	786,763	-
Welfare	409,366	404,506	401,828	2,678
Culture and recreation	392,141	383,009	379,291	3,718
Education	365,218	357,753	356,118	1,635
<b>Total expenditures</b>	<u>13,962,585</u>	<u>14,612,339</u>	<u>14,513,204</u>	<u>99,135</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>(649,754)</u>	<u>583,622</u>	<u>1,233,376</u>
<b>Other financial sources (uses)</b>				
Transfers in		11,471	11,471	-
Transfers out		<u>(371,270)</u>	<u>(367,245)</u>	<u>4,025</u>
Total other financial sources (uses)		<u>(359,799)</u>	<u>(355,774)</u>	<u>4,025</u>
<b>Net change in fund balance</b>		<u>(1,009,553)</u>	<u>227,848</u>	<u>1,237,401</u>
<b>Readjustment from prior year fund balance</b>		<u>1,009,553</u>	<u>-</u>	<u>1,009,553</u>
		<u>\$ -</u>	<u>\$ 227,848</u>	<u>\$ 227,848</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**June 30, 2005**

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**NOTE A - BUDGET POLICY**

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981 as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at time the budget is prepared.

Budget amendments, are approved by the Municipal Legislature. Certain budget transfers within the limitations and restriction of the Autonomous Municipal Law can be approved by the Mayor or by the Municipal Legislature. The Budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchases orders, contracts) are considered expenditure when commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statement 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 the current year. Encumbrance's appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapse at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenues funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternative achieved through general obligation bond indentures and legal contractual grant agreement provisions.

**NOTE B – BUDGET READJUSTMENT**

During the year the approved operational budget was increased by \$ 1,009,553 from previous year excess fund balance. The purpose of the same was to create various special purpose funds for construction and to increase the amount assigned to certain expenditures in the general fund.

**NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY 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:

**COMMONWEALTH OF PUERTO RICO**  
**Municipality of San German**  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**June 30, 2005**

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**NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY BASIS TO GAAP**  
**- Continued**

Net change in fund balance (Budgetary basis)	\$ 227,848
Timing differences	
Current year encumbrances	435,868
Prior year encumbrances	(364,816)
Basis of accounting differences:	
Expenditures in GAAP not in Budget	(201,305)
Expenditure in budget not in GAAP	<u>78,310</u>
Net change in fund balance (GAAP basis)	<u>\$ 175,905</u>

**SINGLE AUDIT SECTION**

**Commonwealth of Puerto Rico  
Municipality of San German  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (note B)</u>	<u>Pass-Through Entity Identifying Number (note C)</u>	<u>Federal Expenditures (note A)</u>
<b><u>U.S. Department of Agriculture</u></b>			
Direct program: Community Facilities Loans and Grants	10.766	N/A	\$ 785,794
<b><u>U.S. Department of Commerce</u></b>			
Direct program: Grants for Public Works and Economic Development	11.300	N/A	172,640
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct program: Community Development Block Grant-Entitlement Grants	14.218	N/A	771,519
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	AB - 57 FC - 57 FD - 57	750,161
Passed through the Puerto Rico Department of Housing: Home Investment Partnership Program	14.239	N/AV	85,136
Direct program: Section 8 Housing Choice Vouchers	14.871	N/A	375,240
			<u>1,982,056</u>
<b><u>U.S. Department of Justice</u></b>			
Passed through the P.R. Department of Justice: Local Law Enforcement Block Grant	16.592	N/A	72,731
<b><u>U.S. Department of Transportation - National Highway Traffic Safety Administration</u></b>			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission): State and Community Highway Safety	20.600	03-03-76	34,041
<b><u>Federal Emergency Management Agency</u></b>			
Passed through the Puerto Rico Governor's Office - (Governor's (Governor's Authorized Representative-GAR): Public Assistance Grants	83.544	125-99-125	41,212
<b><u>U.S. Department of Health and Human Services</u></b>			
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	66,043
Passed through the " Instituto de Servicios Comunes Inc.(INSEC)" Community Services Block Grant	93.569	CSBG 03-04-32	22,377
			<u>88,420</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 3,176,894</u></u>

The accompanying notes are an integral part of this schedule.

**Commonwealth of Puerto Rico**  
**Municipality of San German**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the year ended June 30, 2005**

**NOTE A – BASIS OF PRESENTATION**

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". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**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 ENTITY IDENTIFYING 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	Other Governmental Funds
10.766	\$ 785,794
11.300	172,640
14.218	771,519
14.228	750,161
14.239	85,136
14.871	375,240
16.592	72,731
20.600	34,041
83.544	41,212
93.044	66,043
93.569	22,377
Total federal awards expenditures:	3,176,894
Total non-federal awards expenditures:	3,264,375
Total expenditures, fund statements:	<u>\$ 6,441,269</u>

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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 governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San German, Puerto Rico (the Municipality) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management in a separate letter dated December 16, 2005.

This report is intended for the information of the management and the Municipal Legislature 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.

2110799



Rodriguez, Rivera & Tolo LLP

**Report on Compliance With Requirements Applicable to Each Major Program and on 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, Puerto Rico (the Municipality) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the compliance of the Municipality with *Community Development Block Grant - State's Program* regarding *Special tests and provisions - tests for compliance with accounting records (budgetary requirements)*, as described in the accompanying schedule of findings and questioned costs as item **2004 III-7**, nor were we able to satisfy ourselves as to Municipality's compliance with those requirements by other auditing procedures.

As described in item **2005 III-2** in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the requirements regarding *Davis-Bacon Act* that are applicable to its *Community Development Block Grant - Entitlement Grant*, and to its *Community Development Block Grant - State's Program*. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with the requirements applicable to those programs.

As described in item **2005 III-5** in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the requirements regarding *Special Tests and Provisions - tests to participant files of donation of construction materials* that are applicable to its *Community Development Block Grant – Entitlement Grant*. Compliance with such requirement is necessary, in our opinion, for the Municipality to comply with the requirements applicable to this program.

In our opinion, except for the effects of such compliance, if any, as might have been able to examine sufficient evidence regarding the Municipality's compliance with *Community Development Block Grant - State's Program* regarding *Special tests and provisions - tests for compliance with accounting records (budgetary requirements)*, and except for the non-compliance described in the fourth and fifth paragraphs, the Municipality of San German, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

### **Internal Control over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items **2005 III-1** to **2005 III-8**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items **2005 III-2**, **2005 III-5** and **2005 III-7** to be material weaknesses.

This report is intended for the information of the management and the Municipal Legislature 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.

2110800



Rodriguez, Rivera & Torres LLP

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2005

**Section I - Summary of Auditor's Results:**

***Part I - Financial Statements***

- Type of auditor's report issued:  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion
- Internal control over financial reporting:
- Material weaknesses identified?  Yes  No
  - Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

***Part II - Federal Awards***

- Internal control over major programs:
- Material weaknesses identified?  Yes  No
  - Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported
- Type of auditor's report on compliance for major programs:  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion
- Audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133:  Yes  No

Identification of major programs:	CFDA Number	Name of Federal Program or Cluster
	10.766	Community Facilities Loans and Grants
	14.218	Community Development Block Grant - Entitlement Grants
	14.228	Community Development Block Grant - State's Program
	14.871	Section 8 Housing Choice Vouchers

- Dollar threshold used to distinguish between type A and type B programs:  \$300,000
- Auditee qualified as low-risk auditee:  Yes  No

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

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

For the year ended June 30, 2005

**Section II – Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:**

**None to be reported.**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133:

**Reference Number:** 2005 III-1  
**Agency:** U. S. Department of Agriculture – Rural Development  
**Program:** Community Facilities Loans and Grants  
**CFDA Number:** 10.766  
**Project:** Construction of Bridge  
**Regulation/Requirement:** Special Tests and Provisions - tests to accounting records for compliance with 7 CFR 3016.20 (b)  
**Type:** Reportable condition  
**Questioned Costs:** \$ -0-

**Criteria:** Accounting records - 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, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:** Program general ledger maintained by the Federal Programs Office is incomplete and not balanced. Even though the Municipality maintains a parallel computerized accounting system, the amounts reported or accounted in the program manual general ledger system do not agree with general ledger of centralized accounting system.

**Context:** We examined the general ledger of the program and noted that record does not include significant payables and expenditure accounts. This instance is present in other major programs since is a systemic problem.

**Cause:** Internal controls over recording and reconciliation of accounting records at the federal programs office are inadequate. There are no adequate review and reconciliation procedures of program transactions on a monthly basis between the federal programs office and the centralized computerized accounting system at the finance department.

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

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

For the year ended June 30, 2005

**III. Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133:**

**Reference Number:** 2005 III-1 – continued

**Effect:** Inadequate accounting records, without formal and adequate reconciliation procedures between the federal programs office and the finance department, may cause the occurrence of errors and irregularities which may not be timely detected. Program amounts included in the basic financial statements and the accompanying schedule of expenditures of federal awards were properly verified and adjusted by personnel of the finance department.

**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 federal agency 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.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-2  
**Agency:** U. S. Department of Housing and Urban Development  
**Pass-through Entity:** Office of Commissioner of Municipal Affairs (OCAM)-CFDA  
14.228  
**Programs:** Community Development Block Grant -- Entitlement Grants  
Community Development Block Grant -- State's Program  
**CFDA Numbers:** 14.218 and 14.228  
**Regulation/Requirement:** Davis-Bacon Act  
**Type:** Material weakness\material instance of noncompliance  
**Questioned Costs:** \$-0-

**Criteria:**

The Davis Bacon Act requires that all laborers and mechanics employed on the site of a project financed with federal funds be paid not less than the wages and fringe benefits determined by the Department of Labor to be prevailing in the area. As part of the requirements of the Davis-Bacon Act, the Municipality should conduct regular compliance checks, such as payroll review and site visits, as often as necessary to ensure compliance with contract labor standards. The contractor and subcontractors must provide certified payrolls weekly for the life of the project in accordance with the Copeland Anti-Kickback Act. The Municipality should ensure that the payrolls are submitted on time, no later than a week after the wages have been paid. On-site inspections should be made regularly after reviewing the payrolls to crosscheck the information.

**Condition:**

Our tests made over two construction activities financed with CDBG funds disclosed the following:

- (1) In one of the projects we did not find evidence of payroll reviews on 39 payrolls submitted by the contractor. Also, the payrolls were submitted quarterly rather than weekly. The site visits and interviews were made almost one year after the project had begun.
- (2) In the other project, we did not find evidence of payroll reviews on 28 payrolls, which were submitted quarterly by the contractor. Also, during our audit period, the Municipality's personnel had not made the site visits and employee interviews even though the project was in process during 2004-2005.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-2 – continued

**Cause:** The Municipality has not followed adequate procedures to assure compliance with Davis Bacon requirements on CDBG grants. Employees are not aware of the specific requirements regarding Davis Bacon Act.

**Effect:** There is no adequate evidence to support the compliance of the applicable requirement by the Federal Programs Office. If this procedure is not properly done and documented, a contractor may pay at rates other than prevailing rates and not be timely detected and corrected.

**Recommendation:** The Municipality should assign to a specific employee duties related to contractor's payrolls review to determine contractor's compliance with Davis-Bacon Act requirements for CDBG grants. Management should enforce contractors to submit payrolls weekly and comply with regulations. Payrolls should include signature and conclusion of Municipality's employees as evidence of wage rates review. On-site inspections should be made regularly after reviewing the payrolls to crosscheck the information. Employee interviews should be carefully planned to crosscheck the information provided on the certified payrolls and observed at the site.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-3  
**Agency:** U. S. Department of Housing and Urban Development  
**Pass-through Entity:** Office of Commissioner of Municipal Affairs (OCAM)-CFDA  
14.228  
**Programs:** Community Development Block Grant – Entitlement Grants  
Community Development Block Grant – State’s Program  
**CFDA Numbers:** 14.218 and 14.228  
**Regulation/Requirement:** Procurement, Suspension, and Debarment  
**Type:** Reportable condition  
**Questioned Costs:** \$-0-

**Criteria:** Nonfederal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Contractors, which are paid with federal funds, must certify that the organization and its principals are not suspended or debarred.

**Condition:** Our tests made over two construction activities financed with CDBG funds disclosed that the contract files did not include evidence of the required suspension and debarment certifications.

**Cause:** The Municipality has not followed the procedures required in federal regulations to obtain from contractors the suspension and debarment certification that should have been submitted by the contractors.

**Effect:** There is no adequate evidence to support the compliance of the applicable requirement by the Federal Programs Office which increase the risk that the Municipality may contract with unqualified contractors.

**Recommendation:** The Program should enforce the required procedures to obtain the suspension and debarment certifications from contractors before contracts are signed.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-4  
**Agency:** U. S. Department of Housing and Urban Development  
**Program:** Community Development Block Grant – Entitlement Grants  
**CFDA Number:** 14.218  
**Regulation/Requirement:** Special Tests and Provisions - tests to accounting records for compliance with 24 CFR 85.20(b)  
**Type:** Reportable condition  
**Questioned Costs:** \$-0-

**Criteria:** 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, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:** A complete general ledger has not been maintained by the Municipality. Grant receivables and payables are not recognized. Even though the Municipality maintains a parallel computerized accounting system, the amounts reported or accounted in the program manual general ledger system do not agree with general ledger of centralized accounting system.

**Context:** We examined the general ledger of Program Year 2004. Record does not include significant receivables and payables accounts. This instance is present in other major programs since is a systemic problem.

**Cause:** General ledger is maintained on cash basis and not on modified accrual basis.

**Effect:** General ledger is not complete and does not include significant transactions at year end.  
Program amounts included in the basic financial statements and the accompanying schedule of expenditures of federal awards were properly verified and adjusted by personnel of the Finance Department by applying alternative procedures.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

*Reference Number:* 2005 III-4 – continued

<b>Recommendation:</b>	Complete program general ledgers should be maintained and program transactions should be recorded on a modified accrual basis of accounting. Responsible personnel should be properly trained in accounting matters.
<b>Views of responsible officials and planned corrective actions:</b>	See accompanying corrective action plan submitted by management and included as part of this audit report.

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

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

For the year ended June 30, 2005

**III. Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133:**

<b>Reference Number:</b>	<b>2005 III-5</b>
<b>Agency:</b>	<b>U. S. Department of Housing and Urban Development</b>
<b>Program:</b>	<b>Community Development Block Grant – Entitlement Grants</b>
<b>CFDA Number:</b>	<b>14.218</b>
<b>Regulation/Requirement:</b>	<b>Special Tests and Provisions - tests to participant files of donation of construction materials</b>
<b>Type:</b>	<b>Material weakness\material instance of noncompliance</b>
<b>Questioned Costs:</b>	<b>\$ -0-</b>

**Criteria:** The Municipality's internal control policies include procedures to monitor the use of construction materials donated including site visits and time requirements. The participant is required to use and perform the unit improvements within 6 months after receipt of materials. The Municipality should perform a final site visit on or before the 6 month period and remove the materials if not used.

**Condition:** Our tests to 10 participant files disclosed the following:

- (1) In 6 cases there was no evidence of follow-up or final visits as a monitoring procedure to determine final use of construction materials and the conclusion of unit improvements.
- (2) In 8 cases the 6-month period had expired and the unused materials had not been removed from the participant's home or an extension of time was not granted by the program's director.
- (3) In 1 case the time granted had expired and as of our test date the improvements had not been started. The program's director granted the time extension after we disclosed the deficiency.

**Cause:** The Municipality is not following internal controls procedures and applicable compliance requirements related to monitoring of use of construction materials and have not established specific procedures for the granting of time extensions for those case that require them.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-5 – continued

**Effect:** The Municipality did not comply with applicable regulations. Certain participants may have not used the donated materials which have not been picked up by applicable municipal personnel, exposing them to loss or misuse.

**Recommendation:** The federal programs office employees in charge of unit's inspection should comply with internal controls procedures and applicable compliance requirements related to monitoring of use of construction materials. Specific procedures should be established for the granting of time extensions and the management, accountability and storage of materials removed from participants. Inventory should be maintained on a perpetual record.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133:

<b>Reference Number:</b>	<b>2005 III-6</b>
<b>Agency:</b>	<b>U. S. Department of Housing and Urban Development</b>
<b>Pass-through Entity:</b>	<b>Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Program:</b>	<b>Community Development Block Grant – State’s Program</b>
<b>CFDA Number:</b>	<b>14.228</b>
<b>Regulation/Requirement:</b>	<b>Reporting</b>
<b>Type:</b>	<b>Reportable condition</b>
<b>Questioned Costs:</b>	<b>\$ -0-</b>

**Criteria:** 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 and must be submitted within required dates. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. The Municipality is required to submit to the pass-through entity a quarterly report of the financial activities related to the grant.

**Condition:**

- Several accounts and data included in a financial report tested do not agree or do not reconcile with program’s general ledger.
- Certain program year’s budget accumulated balances and summary information per reports do not agree with the general ledger and pass-through entity’s balances.

**Context:** From a total population of 24 program year reports prepared for the year we tested 1 report for each quarter for a total of 4 reports. In 1 report (program year 1999) there were a significant number of accounts with differences with the general ledger. Also, in this same report, the accumulated balances for administrative expenditures and budget available do not agree with the general ledger.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-6 – continued

**Cause:** The program accounting records and controls are inadequate (see related Finding No. 2005 III-8).

**Effect:** The Municipality is not in compliance with applicable regulations related to program financial reporting.

**Recommendation:** A complete review of accounting records should be performed by personnel of the federal programs office in coordination with personnel of the pass-through entity (OCAM) in order to correct and conciliate accumulated report's balances. 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.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-7  
**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(b)  
**Type:** Material weakness\material instance of noncompliance  
**Questioned Costs:** \$ -0-

**Criteria:** 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, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:**

- a. Program general ledgers maintained by the Federal Programs Office are incomplete and not balanced. In addition, even though the Municipality maintains a parallel computerized accounting system, the amounts reported or accounted in the program manual general ledgers system do not agree with general ledger of centralized accounting system.
- b. Budgetary information recorded in the program general ledgers is incomplete and budgetary transfers do not balance.

**Context:** We examined the general ledger of Program Year 2003. Record does not include significant receivables and payables accounts. This instance is present in other program year’s general ledgers and other major programs since is a systemic problem.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-7 – continued

**Cause:** Internal controls over recording and reconciliation of accounting records at the federal programs office are inadequate. There is not an adequate review and reconciliation procedures of program transactions on a monthly basis between the Federal Programs Office and the centralized computerized accounting system at the Finance Department. Also, accruals and deferrals are analyzed at year-end and adjusted only outside the accounting records for financial statement presentation purposes.

**Effect:** Inadequate accounting records and lack of adequate reconciliation procedures between the Federal Programs Office and the Finance Department may cause occurrence of errors and irregularities which may not be detected within a reasonable period of time. As a result, we were unable to perform adequate tests for compliance in individual accounts with budgetary requirements. Program amounts included in the basic financial statements and the accompanying schedule of expenditures of federal awards were properly verified and adjusted by personnel of the Finance Department by applying alternative procedures.

**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.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-8  
**Agency:** U. S. Department of Housing and Urban Development  
**Program:** Section 8 Housing Choice Vouchers  
**CFDA Number:** 14.871  
**Regulation/Requirement:** Special Tests and Provisions - tests to accounting records for compliance with 25 CFR 85.20(b)  
**Type:** Reportable condition  
**Questioned Costs:** \$ -0-

**Criteria:** Accounting records - 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, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:** We examined the program general ledger maintained by the Federal Programs Office and noted that equity accounts may have no adequate balances. Equity accounts include unreserved surplus, reserved surplus, cumulative HUD annual contributions and operating reserve. Also, there is no recognition of the amount due to (overpayment) or due from (underpayment) the federal agency (HUD).

**Context:** This instance is present in other major programs since is a systemic problem.

**Cause:** Errors in posting of closing entries identified in the voucher for payment of annual contributions and operating statement.

**Effect:** Accounts contain erroneous balances which may lead to erroneous accounting and program determinations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

For the year ended June 30, 2005

III. Federal Award Findings and Questioned Costs Reported in Accordance with *OMB Circular A-133*:

**Reference Number:** 2005 III-8 – continued

**Recommendation:** The grantee should revise, in communication with grantor agency, those equity account balances and post the applicable corrections in the general ledger. Personnel in charge of Section 8 program accounting should be trained on accounting matters and on the effect of final year adjusting and closing entries.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management and included as part of this audit report.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	Capital Assets	2004 II-1	<p>The auditor's test disclosed the following:</p> <p>(1) Land and Improvement</p> <p style="padding-left: 40px;">Land and improvement records included items and a significant donated asset not valued.</p> <p>(2) Construction in Progress</p> <p style="padding-left: 40px;">Construction in progress records disclosed inaccurate and unsupported project balances as of 6-30-04.</p> <p>(3) Building and improvement</p> <p style="padding-left: 40px;">Building and improvement records reported items erroneously capitalized, a significant asset was not properly classified as construction in progress, and donated assets not properly valued.</p>	<p>The differences found by the auditors were corrected before the conclusion of the audit, therefore the capital assets ending balance was adjusted accordingly.</p> <p>During the year the personnel was trained on how to keep accurate records and on how to gather and document information supporting capital asset and donated property valuation, so that the described situation will not be repeated.</p>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of Agriculture – Rural Development Community Facilities Loans and grants CFDA No. 10.766	2004 III-1	There is no adequate evidence to support the contractor's payrolls review at the federal programs office.	<p>The office of federal programs has appointed an assistant accountant to review and certify, on a weekly basis, the payrolls submitted by the contractors. A monthly report is prepared and approved by the Director of the Office of Federal Programs.</p> <p>The employee in charge of performing the review must perform tests to contractor's payrolls in order to determine that the same is in compliance with the requirements of the Davis Bacon Act.</p> <p>In addition to the Director of the Federal Program, the Municipal Secretary has been instructed to verify the contracts funded with Federal Grants to assure that all required clauses are included.</p> <p>Finding has not been cleared by grantor agency.</p>
2004	U.S. Department of Agriculture – Rural Development: Community Facilities Loans and grants CFDA No. 10.766	2004-III-2	<p>a. The general ledger maintained by the Federal Program Office is incomplete and not balanced. The amounts reported in the manual general ledger does not agree with the ones reported in the computerized accounting system.</p>	<p>a. Personnel was appointed to work in the accounting area for the purpose of making corrections and ensure that the amounts reported and accounted in the program's manual general ledger agree with the computerized accounting system See current year finding <b><u>2005 III-1.</u></b></p>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of Agriculture – Rural Development: Community Facilities Loans and grants CFDA No. 10.766	2004 III-2 – continued	b. The employee in charge of accounting and reporting performed incompatible duties such as: preparation of bank conciliation and recording of purchase orders, vouchers for payments, request of funds, cash receipts in the program general ledgers as well as in the centralized accounting system.	b. An assistant accountant was appointed in order to segregate accounting duties. At present, the employee in charge of the accounting books entries is not responsible for bank reconciliations; neither is in charge of the preparation of purchase order. Finding has not been cleared by grantor agency.
2004	U.S. Department of Commerce: Grants for Public Works and Economic Development CFDA No. 11.300	2004 III-3	The Municipality has excess cash in bank for an unreasonable period of time, after transfer of funds by the Federal Government	The Federal Program Director has established measures to monitor the bank accounts to ensure that the time elapsing between the transfer of funds from the US Treasury and the payment to suppliers is reasonable, thus avoiding an excess of cash in bank accounts.  Finding has not been cleared by grantor agency.
2004	U.S. Department of Commerce: Grants for Public Works and Economic Development CFDA No. 11.300	2004 III-4	a. There is no evidence that the required Davis – Bacon Act clause and the prevailing wages rates table were included as part of the construction contract.  b. There is no evidence to support the contractor’s payrolls review at the federal program’s office.	The office of federal programs has appointed an assistant accountant to review and certify, on a weekly basis, the payrolls submitted by the contractors. A monthly report is prepared and approved by the Director of the Office of Federal Programs.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of Commerce: Grants for Public Works and Economic Development CFDA No. 11.300	2004 III-4 - continued	<ul style="list-style-type: none"> <li>c. Certain payrolls were missing and the statements of compliance were not properly certified by the contractor.</li> <li>d. Documents included with the statement of compliance were enlarged copies of the payment stubs issued to the Company's workers in which the information given was the name, address and social security number of the employee; total hours worked; hourly rate; salary paid to date etc. The worker's job position within the company was not indicated.</li> </ul>	<p>The employee in charge of performing the review must perform tests to contractor's payrolls in order to determine that the same is in compliance with the requirements of the Davis Bacon Act.</p> <p>In addition to the Director of the Federal Program, the Municipal Secretary has been instructed to verify the contracts funded with Federal Grants to assure that all required clauses are include.</p> <p>Finding has not been cleared by grantor agency.</p>
2004	U.S. Department of Commerce: Grants for Public Works and Economic Development CFDA No. 11.300	2004 III-5	Financial reports were not found and others tests do not agree with accounting data.	<p>The Federal Program Director and personnel will take necessary measures to ensure that the financial reports are filed on a timely basis and that the same are accurate and reconciled with accounting records.</p> <p>Finding has not been cleared by grantor agency.</p>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of Commerce: Grants for Public Works and Economic Development CFDA No. 11.300	2004 III-6	<ul style="list-style-type: none"> <li>a. Program's manual general ledger is incomplete, out of balance and the same does not agree with computerized accounting system.</li> <li>b. The employee in charge of accounting records performs other incompatible duties.</li> </ul>	<p>The Federal Program Director and personnel will take necessary measures to ensure that:</p> <ul style="list-style-type: none"> <li>1. The financial status report are filed on time and that the same is accurate and reconciled with accounting records,</li> <li>2. That the manual general ledger be reconciled with the computerized accounting system and,</li> <li>3. Duties were segregated so that the person in charge of record keeping will not performs reconciliation of bank account, request payment, or record payment vouchers.</li> </ul> <p>Finding has not been cleared by grantor agency.</p>
2004	U.S. Department of HUD: Community Development Block Grant – State's Program CFDA No. 14.228	2004 III-7	<ul style="list-style-type: none"> <li>a. Several accounts and data included in financial reports tested do not agree or do not reconcile with programs general ledger.</li> <li>b. Certain program year's budget accumulated balances and summary information per reports does not agree with the general ledger and pass through entity.</li> <li>c. In 2 quarters there is no evidence of reports submission to the pass though entity.</li> </ul>	<p>The program accountant has cleared most of the differences found in the financial reports and has been working to reconcile the balance in the general ledger with the reports submitted.</p> <p>See current year finding <b><u>2005 III-7</u></b></p> <p>Also we are keeping records to support timely submission of reports to pass through entity.</p>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA No. 14.228	2004 III-7 - continued	d. Certain reports included footing errors which disclose that the same was not revised by applicable supervisory personnel.	The Federal Program Director and personnel will take necessary measures to ensure that the reports are accurate.  See current year finding <b><u>2005 III-7.</u></b>
2004	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA No. 14.228	2004 III-8	a. Program ledger maintained by the Federal Program Office is incomplete and not balanced. The amounts reported in the manual general ledger does not agree with the computerized system  b. Budgetary information recorded in the program general ledger is incomplete and transfers in and out do not balance	This situation has been substantially corrected. Personnel have been assigned to correct prior period findings and were also instructed to accurately record all transactions in the ledgers. The accounting data in the manual general ledger is reconciled with the computerized accounting system.  See current year finding <b><u>2005 III-8.</u></b>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA No. 14.228	2004 III-9	<ul style="list-style-type: none"> <li>a. Tests performed by the auditors revealed a case of possible conflict of interest, where an employee in charge of inspection had a family relationship with the participant</li> <li>b. There is no proof that the employee performing the inspection doesn’t have any financial interest or ownership in the unit under inspection.</li> </ul>	<p>The management of the federal program has advised the personnel on how to avoid and detect possible instances of conflict of interest in donation of materials.</p> <p>Also they were instructed to strictly follow internal controls and procedures that have been established to control construction materials donations and to perform and document on recipient’s records follow-up or final inspection visits.</p> <p>Finding has not been cleared by grantor agency.</p>
2004	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA No. 14.228	2004 III-10	All participants file tested do not have evidence of follow-up and monitoring procedures and in addition there are no adequate procedures related to unused materials.	<p>Condition has been corrected as follow:</p> <ol style="list-style-type: none"> <li>1. Procedures has been adopted to set a final date on which materials may be used and a visit is programmed to ensure that materials is been used for the purpose for which they was intended.</li> <li>2. Personnel have been instructed to document follow –up and monitoring procedures.</li> </ol> <p>See current year finding <u>2005 III-6.</u></p>

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned costs Reported in Accordance with OMB Circular A-133 - Continued**

Fiscal year Ended June 30,	Program	Finding No.	Condition	Management Response and Status
2004	U.S. Department of HUD: Section 8 Housing Choice Vouchers CFDA No. 14.871	2004 III-11	The equity accounts in the program's general ledger may have no adequate balance	<p>The Section 8 accountant visited the Municipality of Mayaguez Federal Program Office for advice on how to keep the accounting records and on how to perform the closing procedure.</p> <p>Also the reserves were adjusted according to the last closing statement revised by HUD.</p> <p>See current year finding <u>2005 III-9.</u></p>



Estado Libre Asociado de Puerto Rico  
Municipio Autónomo de San Germán



**Oficina del Alcalde**  
**MANAGEMENT RESPONSE TO THE**

Hon. Isidro Negrón Irizarry  
Alcalde

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2005

**III. Federal Awards and Questioned Costs Reported in Accordance with OMB  
Circular A-133:**

**Reference Number:** 2005 III-1  
**Agency:** US Department of Agriculture – Rural Development  
**Program:** Community Facilities Loans and Grants  
**Project:** Construction of Bridge  
**Regulation Requirement:** Special Tests and Provisions-test to accounting records  
for compliance 7 CFR 3016.20(b)

A review of the program records is being undertaken to assure that all transactions are accurately posted. The staff is being trained and internal controls over recording and reconciliation of the accounting records have been established. A monthly review and reconciliation procedures of program transactions have been set up on a monthly basis between our office and the centralized computerized accounting system at the finance department.

**Reference Number:** 2005 III -2  
**Agency:** US Department of Housing and Urban Development  
**Program:** Community Development Block Grant – Entitlement  
Grants  
Community Development Block Grant – State's  
Program  
**Regulation Requirement:** Davis – Bacon Act

The following measures have been taken to assure compliance with the Davis Bacon Act:

- a. The personnel has been instructed as to the requirements of the Davis Bacon Act.
- b. The duties related to the review of contractor's payroll have been assigned to a specific employee.
- c. Contractors are being required to submit payrolls on a weekly basis.
- d. The employee performing the review must sign the document as evidence of wage rates reviewed, and
- e. Perform inspections to the construction site to verify that the information provided is correct.



*"Construyendo un  
Nuevo San Germán"*

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

Year ended June 30, 2005

**Reference Number:** 2005 III-3  
**Agency:** US Department of Housing and Urban Development  
**Program:** Community Development Block Grant – State’s  
Community Development Block Grant – State’s  
**Regulation Requirement:** Procurement, Suspension, and Debarment

The following steps will be implemented in order to comply with the federal regulation as not to contract debarred or suspended contractors:

- a. The Municipal Secretary will check the Federal publication list before signing any contract with contractors and prepare a certification to that effect.
- b. The Municipal Secretary’s certification will form part of the contractors file and a copy of the same will be sent to the Federal Program Office.
- c. A person will be assigned at the Federal Program Office to regularly check all contractors against the Federal publication list and the same will document his findings.

**Reference Number:** 2005 III-4, 6, and 7  
**Agency:** US Department of Housing and Urban Development  
**Program:** Community Development Block Grant – Entitlement  
Grants  
Community Development Block Grant – State’s  
Program  
**Regulation Requirement:** Special tests and provisions – test to accounting records  
for compliance with 24 CFR 8n .20(b)  
Reporting

Since findings 4, 6 and 7 are similar in nature we have grouped them together in our comments.

As to this matter we do not concur with the auditors opinion since the two sets of books kept by the municipality are accurate and complete. One set of books is kept in the cash basis ( manual system) and the other in the modified accrual basis (Uniform Accounting System). The first is used to keep track of projects costs for each program year and the other is used for financial statement reporting purposes.

Since there is a general ledger open for each program year from 1999 to the present, consistently kept in the cash basis, converting now, those books to a modified accrual basis would be burdensome, time consuming and impractical.

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

Year ended June 30, 2005

**Reference Number:            2005 III-4, 6, and 7- Continued**

The account payable subsidiary is only processed on the computerized accounting system due to the large amount of transactions daily processed. Manually maintaining and reconciling an accounts payable subsidiary with the control account in the general ledger would be very difficult to deal with.

Also accounts receivables and payables are not recognized at each year end because the manual system is not closed until all the funds received are expended. The information gathered there is only used to prepare reports, other than financial statements, required by the passthrough agency.

The most significant difference between the manual and the computerized system is that in last one the modified accrual of accounting is used.

Employees assigned to record keeping has spent numerous hours verifying that the same is accurate and complete, differences detected, if any, are being analyzed to determine the proper course of action to correct the same.

Nevertheless the program accountant has been advised to:

- Request support from the passthrough entity (OCAM) to reconcile the differences between our record and theirs.
- To continue reviewing the program records to assure that all transactions are properly recorded.
- To reconcile ledgers maintained at the program office with the centralized accounting system.

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

Year ended June 30, 2005

**Reference Number:** 2005 III-5  
**Agency:** US Department of Housing and Urban Development  
**Program:** Community Development Block Grant – Entitlement Grant  
**Regulation Requirement:** Special tests and provisions tests to participants files of donation of construction materials.

In relation to construction material donations, employees working in this area have been instructed to strictly observe the following established internal controls and procedures to document on recipients records follow-up or final inspection visits:

- a. Include in the recipient's record a photo of the property at the beginning of the construction, two others while the construction is in process and the last one when finished.
- b. At the bottom, each photo must indicate the date and location of the property and any other remark deemed necessary.

In order to ensure that construction materials donated is not lost or missed used, and to document granting time extensions a chart has been prepared that must be filled out by the employee in charge.

**Reference Number:** 2005 III-8  
**Agency:** US Department of Housing and Urban Development  
**Program:** Section 8 Housing Choice Vouchers  
**Regulation Requirement:** Special tests and provisions - tests to accounting records for compliance with 24 CFR 85.20(b).

The balances of the equity accounts in the Section 8 general ledger are those carried over from previous years. The only problem lies in that the computerized system is not programmed to close the accumulative HUD annual contribution and the same has to be done with a journal entry. This adjusting entry and the one recognizing the overpayment or underpayment from HUD are entered after the closing.

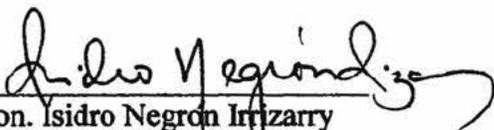
**MANAGEMENT RESPONSE TO THE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

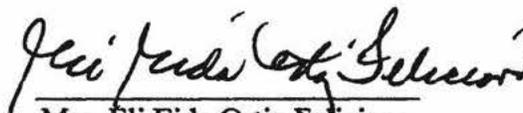
Year ended June 30, 2005

**Reference Number: 2005 III-8 -Continued**

As far as we are aware of there was only one account that contained an erroneous balance in the manually kept general ledger due to a posting error when closing the accounts. This error does not represent a material deviation that could cause an improper program determination since the Section 8 year end closing financial statement are prepared after reconciling the manual system with the computerized one.

However, the program accountant has been instructed to carefully revise the accounting books, to correct any error if present, and to exercise due care in the future.

  
\_\_\_\_\_  
Hon. Isidro Negron Irrizarry  
Mayor

  
\_\_\_\_\_  
Mrs. Eli Eida Ortiz Feliciano  
Finance Director

  
\_\_\_\_\_  
Mr. Luis E. Padovani  
Federal Program Director

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

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

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

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

**RETURN TO**

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

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

<b>1. Fiscal period ending date for this submission</b> Month Day Year 06 / 30 / 2005 Fiscal Period End Dates Must Be In 2004, 2005, or 2006		<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>4. FEDERAL GOVERNMENT USE ONLY</b> Date received by Federal clearinghouse	
<b>5. Auditee Identification Numbers</b>			
<b>a. Primary Employer Identification Number (EIN)</b> 66 - 0433531		<b>b. Are multiple EINs covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No	
<b>d. Data Universal Numbering System (DUNS) Number</b> 09 - 112 - 8991		<b>e. Are multiple DUNS covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No	
		<b>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</b>	

**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  
PR 00683 -

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

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

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

**f. Auditee contact E-mail**

**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  
PR 00681 - 1080

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

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

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

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

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

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

Signature of certifying official    Date  
 [Signature]    Month Day Year  
 3 / 24 / 06  
 Printed Name of certifying official  
 ELI EIDA ORTIZ-FELICIANO  
 Printed Title of certifying official  
 FINANCE DIRECTOR

Signature of auditor    Date  
 [Signature]    Month Day Year  
 03 / 24 / 06

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

- 1. Type of audit report  
Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion
- 2. Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No
- 3. Is a reportable condition disclosed? 1  Yes 2  No - SKIP to Item 5
- 4. Is any reportable condition reported as a material weakness? 1  Yes 2  No
- 5. Is a material noncompliance disclosed? 1  Yes 2  No

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

- 1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No
- 2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))
- 3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No
- 4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6
- 5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No
- 6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No
- 7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)
- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input checked="" type="checkbox"/> Agriculture                         | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input checked="" type="checkbox"/> Commerce                            | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 09 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input style="width: 100px;" type="text"/>                   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input style="width: 100px;" type="text"/>                   |

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

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

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

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

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1	0 .766	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY FACILITIES LOANS AND GRANTS	\$ 785,794 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	N	2005 III-1
1	1 .300	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT	\$ 172,640 .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	4 .218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANTS	\$ 771,519 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	DIN	2005 III-2, 2005 III-3, 2005 III-4, 2005 III-5
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 750,161 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	DILN	2005 III-2, 2005 III-3, 2005 III-6, 2005 III-7
1	4 .239	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME INVESTMENT PARTNERSHIP PROGRAM	\$ 85,136 .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	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 375,240 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	N	2005 III-8
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 72,731 .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	\$ 34,041 .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	\$ 41,212 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR THE AGING-TITLE III PART B-GRANTS FOR SUPPORTIVE SERVI	\$ 66,043 .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
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$ 3,176,894 .00</b>	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> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</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>5</sup> N/A for NONE

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
9	3 .569	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY SERVICES BLOCK GRANT	\$ 22,377 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	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			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
	.	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> →				\$ 3,176,894 .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> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</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>5</sup> N/A for NONE

