

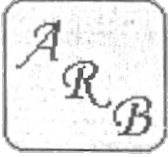
PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P. E. C. E. S.), INC.



FINANCIAL STATEMENTS
JUNE 30, 2005

AND

INDEPENDENT AUDITORS' REPORT



Antonio Rodríguez Borrero
CERTIFIED PUBLIC ACCOUNTANTS
CERTIFIED BUSINESS MANAGER

13 St. BC 4 Villa Universitaria
Box 10162 CUH Station, Humacao, PR 00792

Telephone: (787) 852 – 5607

Fax: (787) 285 – 1606

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Programa de Educación Comunal de Entrega
y Servicios (P.E.C.E.S.), Inc.
Humacao, Puerto Rico

We have audited the accompanying statement of financial position of **Programa de Educación Comunal de Entrega y Servicios (P.E.C.E.S.), Inc.** as of June 30, 2005 and the related statements of activities, and changes in net assets, statement of functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material, I all materials respects, the financial position of **Programa de Educación Comunal de Entrega y Servicios (P.E.C.E.S.), Inc.** as of June 30, 2005 and the results of its operations and changes in net assets, and cash flow for the year then ended in conformity with generally accepted accounting principles in the United States of America.

September 12, 2005
Humacao, Puerto Rico



PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

Current assets:

Cash	\$ 127,325
Accounts receivable:	
Grants	753,442
Other	8,328
Notes receivable:	
Other (Note 3)	-0-
Affiliated Company (Note 4)	-0-
Prepaid expenses	<u>9,046</u>
Total current assets	<u>898,141</u>

Investment (Notes 2 and 5) **24,000**

Property and equipment: (Notes 2, 7 and 10)

Land	576,986
Building	0,490
Improvements	53,172
Equipment	232,808
Construction in progress	<u>59,475</u>
	962,931
Less accumulated depreciation	<u>195,332</u>
Property and equipment – net	<u>767,599</u>

Other assets:

Grants receivable (Note 10)	1, 599,887
Notes receivable:	
Other (Note 3)	8,290
Affiliated company (Note 4)	<u>95,704</u>
Total other assets	<u>1, 703,881</u>

Total assets **\$ 3, 393,621**

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

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2005

LIABILITIES AND NET ASSETS

Current liabilities:

Note payable (Note 6)	\$	72,445
Current maturities of long-term debt (Note 7)		1,087
Accounts payable		21,135
Deferred revenues-grants		<u>827,762</u>
Total current liabilities		922,429
Long-term debt, less current maturities (Note 7)		9,929
Deferred revenues		<u>1,695,591</u>
Total liabilities		2,627,949
Net assets:		<u>765,672</u>
Total liabilities and net assets	\$	<u>3,393,621</u>

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

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2005

Revenues, gains and support	
Grants:	
Governmental	\$ 324,000
Private	231,334
Donations	32,097
Other	<u>185,493</u>
Total revenues, gains and support	<u>772,924</u>
Expenses:	
Program services:	
Youths intervention	379,583
Child care	154,297
Community economic development	131,570
Education	<u>55,998</u>
Total program services	<u>721,488</u>
Support services:	
General and administrative	136,823
Fund raising	<u>19,985</u>
Total support services	<u>156,808</u>
Total expenses	<u>878,256</u>
Decrease in net assets	(105,332)
Net assets at beginning of year	<u>871,004</u>
Net assets at end of year	<u>\$ 765,672</u>

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

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
STATEMENT OF CASH FLOWS

For the year ended June 30, 2005

Cash flows from operating activities:

Changes in net assets	\$(105,332)
Adjustment to reconcile change in net assets to net cash used by operating activities:	
Depreciation	37,125
Gain on sale of property and equipment	(14,100)
(Increase) decrease in assets:	
Accounts receivable	(641,985)
Prepaid expenses	(5,878)
Notes receivable	7,256
Increase (decrease) in liabilities:	
Accounts payable	16,635
Accrued liabilities	2,777
Deferred revenues	694,766
Net cash used by operating activities	<u>(14,290)</u>

Cash flows from investing activities:

Proceed from sale of property and equipment	55,000
Acquisition of property and equipment	(36,038)
Net cash provided by investing activities	<u>18,962</u>

Cash flows from financing activities:

Payments of note payable	(27,555)
Payments of long-term debt	(22,759)
Net cash used by financing activities	<u>(50,314)</u>

Total expenses	<u>878,256</u>
Net decrease in cash	(45,642)
Cash at beginning of year	<u>172,967</u>
Cash at end of year	<u>\$ 127,325</u>

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

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
STATEMENT OF FUNCTIONAL ACTIVITIES

For the year ended June 30, 2005

	Youth Intervention	Child Care	Community Economic Development	Education	Total Program Services	General and Administrative	Total Expenses
Salaries	\$236,281	\$114,810	\$79,157	\$34,720	\$464,968	\$64,943	\$529,911
Payroll taxes	24,586	11,924	8,229	5,631	50,370	6,176	56,546
Recreation expenses:							
Travel	14,024	1,500	443	255	16,222	100	16,322
Activities	15,460	0	242	1,990	17,692	1,546	19,238
Education materials	13,561	4,563	1,929	2,445	22,498	4,247	26,745
Professional services	33,300	4,250	8,478	65	46,093	15,140	61,233
Rent	10,583	0	0	1,058	11,643	8,875	20,518
Workmen compensation insurance	2,485	0	517	355	3,357	221	3,578
Repairs and maintenance	268	0	0	691	959	205	1,164
Telephone	6,509	871	1,059	0	8,439	9,266	17,705
Utilities	1,434	3,224	1,434	0	6,092	3,528	9,620
Insurance	2,636	1,349	2,035	380	6,400	12,176	18,576
Interest	1,034	57	70	1,570	2,731	7,034	9,765
Community reconstruction	0	0	19,588	0	19,588	0	19,588
Other	4,426	4,987	0	1,224	10,637	0	10,637
Total expenses before depreciation	365,589	147,535	123,181	50,384	687,689	133,457	821,146
Depreciation	12,994	6,762	8,389	5,614	33,759	3,366	37,125
Total expenses	\$379,586	\$154,297	\$131,570	\$55,998	\$721,448	\$136,823	\$858,271

The accompanying notes are integral part of these financial statements.

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

1. ORGANIZATION:

Programa de Educación Comunal de Entrega y Servicios (P.E.C.E.S.), Inc. is a non-profit corporation organized under the laws of the Commonwealth of Puerto Rico on April 1988.

The Corporation has been created in the hope of improving the quality of live and the economic, social and educational conditions of the residents of the community of Punta Santiago, the beach area, of Humacao, Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared to focus on P.E.C.E.S., Inc as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished b classification of fund balances and transactions into the following classes of net assets:

Unrestricted net assets – Net assets resulting from public support and revenue not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets resulting from public support and revenue whose use by P.E.C.E.S., Inc. is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of P.E.C.E.S., Inc. pursuant to those donor-imposed stipulations.

Permanently restricted net assets – Net assets resulting from public support and revenue whose use by P.E.C.E.S., Inc. is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of P.E.C.E.S., Inc.

Revenue recognition – Contributions are recognized as revenue when they are received or unconditionally pledge. Contributions receivable represent amounts committed by donors that have not been received by P.E.C.E.S., Inc.

Investments – Investments are carried at cost.

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and equipment – Property and equipment are carried at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets.

Income tax status – P.E.C.E.S., Inc. is a nonprofit organization and is exempt from Federal income taxes under Section 501 (c) (3) of the U.S. Internal Revenue Code.

3. NOTES RECEIVABLE:

Notes receivable as of June 30, 2005 consist of:

Note	Interest Rate	Monthly Payment	Current	Long-Term	Total	Due Date
1	4.0%	\$ 213.63	\$ -0-	\$ 7,676	\$ 7,467	January 1, 2005
3	4.0%	\$ 35.73	-0-	823	823	April 8, 2005
			\$ -0-	\$ 8,290	\$8,290	

4. NOTE RECEIVABLE AFFILIATED COMPANY:

Represents 4.0% note receivable from Grupo Comunitario de Reciclaje, Inc. P.T., due on December 2007. The note is payable in monthly installments of \$2,024.90, including interest.

Current	\$	-0-
Long-term		95,704
Total	\$	95,704

5. INVESTMENT:

P.E.C.E.S., Inc. invested \$24,000 in preferred stocks of Grupo Comunitario de Reciclaje, Inc. P.T.

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

6. NOTE PAYABLE:

Note payable as of June 30, 2005 consists of:

Secured note payable to Banco Popular de Puerto Rico at prime rate, due on October 16, 2004, secured with grants receivable.

\$ 72,445

7. LONG-TERM DEBT:

Long-term debt as of June 30, 2005 consists of:

4.75% secured note payable to Rural Housing Service Payable in monthly installments of \$133.00 including Interest until November 15, 2013, secured with property.

\$ 11,016

Less current maturities

(1,087)

Long-term debt

\$ 9,929

Maturities of long-term debt in each of the next five years after June 30, 2005 are as follows:

2006	\$ 1,087
2007	1,141
2008	1,197
2009	1,256
2010	1,318
Subsequent years	5,017
	<u>\$ 11,016</u>

PROGRAMA DE EDUCACION COMUNAL DE ENTREGA
Y SERVICIOS (P.E.C.E.S.), INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

8. COMMITMENTS:

The Corporation conducts its operations in an old school building owned by the Department of Education; these facilities are provided without cost. P.E.C.E.S., Inc. is responsible the maintenance cost of the building

In addition, the Corporation leased certain facilities under an operating lease which expires on June 2006. The lease agreement provides for an annual rent of \$18,000.

Rent expensed charged to operations for the years ended June 30, 2005 amounted to \$20,518.

9. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION:

During the year ended June 30, 2005 the Corporation paid interest in the amount of \$9,765.

10. GRANT RECEIVABLE AND COMMITMENTS:

On February 8, 2002 the “Fideicomiso de los Niños” approved a grant to P.E.C.E.S., Inc. in the amount of \$2,109,798. The grant is for the purchase of a land lot in the amount of \$550,000, construction of facilities and equipment for \$1,455,382 and \$104,416 for administrative expenses.

11. CONCENTRATION OF CREDIT RISK:

At June 30, 2005 the Corporation maintains cash in financial institutions secured by Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The cash balance were secured at June 30, 2005.