

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE JAYUYA**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

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**MUNICIPALITY OF JAYUYA, PUERTO RICO  
SINGLE AUDIT  
YEAR ENDED JUNE 30, 2001  
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

DISTRICT OFFICE

**GONZÁLEZ TORRES & CO.  
Certified Public Accountants & Consultants**

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
GENERAL PURPOSE FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
JUNE 30, 2001**

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**GONZÁLEZ TORRES & CO.  
Certified Public Accountants & Consultants**

# GONZÁLEZ TORRES & Co.

*Certified Public Accountants and Consultants*

Member of:

Puerto Rico Society of Certified Public Accountants

American Institute of Certified Public Accountants

Association of Certified Fraud Examiners

## **INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS**

To the Mayor and Municipal Assembly  
Municipality of Jayuya, Puerto Rico  
Jayuya, Puerto Rico

I have audited the accompanying general purpose financial statements of the Municipality of Jayuya, as of June 30, 2001 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Municipality of Jayuya's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

Except as discussed in the following paragraphs, I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements' presentation. I believe that my audit provides a reasonable basis for my opinion.

The Municipality's accounting system and records of property, plant and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose combined financial statements, therefore I do not express an opinion on such amounts represented in the General Fixed Assets Account Group.

As explained in Note 13, the Municipality has not performed a study of the estimated landfill closing and post-closing costs that will be recognized in the general-purpose combined financial statements, as required by the GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs". Accordingly, no provision for liability has been made in the financial statements.

The Municipality does not maintain a complete self-balancing cash account balance in the General Ledger of the General, Special Revenue and Capital Projects Funds. Therefore, I do not express an opinion on cash account balances in the General, Special Revenue and Capital Projects Funds presented on the general-purpose financial statements.

Because of inadequacies in the Municipality's accounting records, I was unable to form an opinion regarding the amount of accounts payable in the special revenue and capital projects funds.

**INDEPENDENT AUDITOR'S REPORT  
ON GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

The Municipality does not maintain a reconciliation and accurate accounting records of all inter-fund transactions in the Due From and Due To accounts balances for the fiscal year 2000-2001. Thus, I was unable to satisfy that inter-fund transactions are reasonable stated.

As explained in the note 14, the fund deficit of the general fund was adjusted in the amount of \$119,944 due to unreconciled differences in assets, liabilities and cash reconciliations. I was unable to obtain evidential matter regarding such amount and alternate procedures could not be performed.

In my opinion, except for the facts described in the third, fourth, fifth, sixth, seventh, and eighth paragraphs of this report, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Jayuya, Puerto Rico, as of June 30, 2001, and the results of its operations and changes in the fund balances for the fiscal year then ended in conformity with generally accepted accounting principles.

San Juan, Puerto Rico  
December 4, 2001

The stamp number 173534  
was affixed to the original copy  
of this report.



*J. A. Gonzalez Torres*  
CPA JOSE A. GONZALEZ TORRES  
LIC. 3728  
Expires December 1, 2004

**MUNICIPALITY OF JAYUYA  
COMBINED BALANCE SHEET  
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GEN. FIXED ASSETS	GEN. LONG TERM DEBT	2001
<b>ASSETS</b>							
Cash (Note 2)	\$677,482	\$183,066	\$2,418,309				\$3,278,857
Cash with Fiscal Agent (Note 2)		13,441	364,187	418,872			796,500
Receivables:							
Federal grants (Note 1)		31,320	1,537,768				1,569,088
From governmental units and other funds	423,694						423,694
Interests			1,950	3,549			5,499
Municipal Taxes	1,204						1,204
General Fixed Assets (Note 6)					12,276,758		12,276,758
Amount to be provided for:							
Advance of Property Taxes (Note 13)						875,061	875,061
Retirement of general long-term debt (Note 7)						3,302,358	3,302,358
Accrued compensated absences (Note 1)						682,882	682,882
Department of Treasury- social security debt						8,009	8,009
Department of Labor- unemployment debt						306,203	306,203
Health Reform (Note 12)						798,279	798,279
<b>TOTAL ASSETS</b>	<b>\$1,102,380</b>	<b>\$227,827</b>	<b>\$4,322,214</b>	<b>\$422,421</b>	<b>\$12,276,758</b>	<b>\$5,972,792</b>	<b>\$24,324,392</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Accounts payable and accrued liabilities	\$608,857	\$61,431	\$20,194				\$690,482
Due to Federal Agency		2,485					2,485
Deferred Revenues	529,388	32,677	1,537,768				2,099,833
Due to other government units and other funds (Note 11)	696,014			145,477			841,491
Accounts Payable- Department of Health (Note 12)						798,279	798,279
Accrued employee benefits (Note 1)						682,882	682,882
Advance of Property Taxes (Note 13)						875,061	875,061
Account Payable - Department of Labor						306,203	306,203
Social Security Debt						8,009	8,009
Matured bonds and notes payable (Notes 7 and 17)				328,800		3,302,358	3,631,158
Interest payable on general obligations (Note 7)				150,475			150,475
<b>TOTAL LIABILITIES</b>	<b>1,834,259</b>	<b>96,593</b>	<b>1,557,962</b>	<b>624,752</b>	<b>-</b>	<b>5,972,792</b>	<b>10,086,358</b>
Investment In General Fixed Assets					12,276,758		12,276,758
Deficit	(731,879)			(202,331)			(934,210)
Fund Balance Designated (see Note 1)		131,234	2,764,252				2,895,486
<b>TOTAL FUND EQUITY AND RETAINED EARNINGS</b>	<b>(731,879)</b>	<b>131,234</b>	<b>2,764,252</b>	<b>(202,331)</b>	<b>12,276,758</b>	<b>-</b>	<b>14,238,034</b>
<b>TOTAL LIAB. &amp; FUND EQUITY AND RETAINED EARNINGS</b>	<b>\$1,102,380</b>	<b>\$227,827</b>	<b>\$4,322,214</b>	<b>\$422,421</b>	<b>\$12,276,758</b>	<b>\$5,972,792</b>	<b>\$24,324,392</b>

See notes to general purpose financial statements

**MUNICIPALITY OF JAYUYA  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund types				Totals
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	Memorandum Only 2001
<b>REVENUES:</b>					
Property Taxes ( Note 3)	\$640,631	\$ -	\$ -	\$203,638	\$844,269
Local Municipal Taxes (Note 4)	637,134				637,134
Intergovernmental Revenues (Note 5)	3,362,166				3,362,166
Rent of Properties	142,309				142,309
Other Revenues	943,867				943,867
Interest	38,104	4,261	40,204	25,226	107,795
Federal Funds		236,068	1,936,064		2,172,132
Other Income		41,636	69,150		110,786
<b>TOTAL REVENUES</b>	<b>5,764,211</b>	<b>281,965</b>	<b>2,045,418</b>	<b>228,864</b>	<b>8,320,458</b>
<b>EXPENDITURES:</b>					
Municipal Assembly	99,307				99,307
Administration	2,844,923		226,764		3,071,687
Public Works and Sanitation	2,020,977				2,020,977
Health	451,044				451,044
Public Safety and Security	446,057				446,057
Sports & Recreation	231,949				231,949
Capital Outlays (Note 1)			1,807,451		1,807,451
Expenditures		544,346	871,456		1,415,802
Principal Retirement				545,717	545,717
Interests			26,162	252,995	279,157
<b>TOTAL EXPENDITURES</b>	<b>6,094,257</b>	<b>544,346</b>	<b>2,931,833</b>	<b>798,712</b>	<b>10,369,148</b>

(Continued)

**MUNICIPALITY OF JAYUYA  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund types				Totals Memorandum Only
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	2001
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(\$330,046)	(\$262,381)	(\$886,415)	(\$569,848)	(\$2,048,690)
<b>OTHER FINANCING SOURCES/USES</b>					
<b>OPERATING TRANSFER IN/OUT:</b>					
Transfer from (to) General Fund		(21,357)	(157,000)	(164,840)	(343,197)
Transfer from Debt Service Fund	164,840				164,840
Transfer to Debt Service Fund	(172,761)			172,761	0
Loans proceeds			1,000,000		1,000,000
Transfer from Capital Project Fund	157,000				157,000
Payments of long-term debt, not from CAE				(172,761)	(172,761)
Transfer from Special Revenue Fund	21,357				21,357
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	170,436	(21,357)	843,000	(164,840)	827,239
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	(159,610)	(283,738)	(43,415)	(734,688)	(1,221,451)
<b>FUND BALANCE (DEFICIT) JUNE 30, 2000</b>	(691,213)	24,644	1,446	532,357	(132,766)
Adjustments (Note 1)	118,944	390,328	2,806,221		3,315,493
<b>FUND BALANCE JUNE 30, 2001</b>	(\$731,879)	\$131,234	\$2,764,252	(\$202,331)	\$1,961,276

See notes to general purpose financial statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 BUDGET-GAAP BASIS AND ACTUAL, GENERAL AND DEBT SERVICE FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (UNFAV)	Budget	Actual	Variance Favorable (UNFAV)
<b>REVENUES:</b>						
Property Taxes (Note 3)	\$921,253	\$640,631	(\$280,622)	\$278,077	\$228,864	(\$49,213)
Local Taxes	635,000	637,134	2,134			-
Intergovernmental Revenues	3,411,005	3,362,166	(48,839)			-
Rent of Properties	45,000	142,309	97,309			-
Other Revenues	491,000	943,867	452,867			-
Interest	70,000	38,104	(31,896)			-
<b>TOTAL REVENUES</b>	<b>5,573,258</b>	<b>5,764,211</b>	<b>190,953</b>	<b>278,077</b>	<b>228,864</b>	<b>(49,213)</b>
<b>EXPENDITURES:</b>						
Municipal Assembly	101,910	99,307	2,603			-
Administration	2,598,512	2,844,923	(246,411)			-
Public Works and Sanitation	1,545,242	2,020,977	(475,735)			-
Health	547,880	451,044	96,836			-
Public Safety and Security	509,922	446,057	63,865			-
Sports & Recreation	269,792	231,949	37,843			-
Debt Service:						-
Principal and Interests				278,077	798,712	(520,635)
<b>TOTAL EXPENDITURES</b>	<b>5,573,258</b>	<b>6,094,257</b>	<b>(520,999)</b>	<b>278,077</b>	<b>798,712</b>	<b>(520,635)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>(\$330,046)</b>	<b>(\$330,046)</b>	<b>\$ -</b>	<b>(\$569,848)</b>	<b>(\$569,848)</b>

See notes to general purpose financial statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Jayuya, Puerto Rico (the Municipality) was founded in the year 1911, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the General Elections of Puerto Rico. The legislative body (Municipal Assembly) consists of 12 members also elected in the general elections for a four year period.

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

The Municipality's accounting policies conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

**(A) REPORTING ENTITY**

The Municipality's financial statements include the operations of all departments and areas for which the Municipality exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**(B) USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

**(C) BASIS OF PRESENTATION- FUND ACCOUNTING**

The accounts of the Municipality are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Municipality.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(D) GOVERNMENTAL FUND TYPES**

Government funds are those through which most governmental functions of the Municipality are financed. The acquisition, use and balances of the Municipality's 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 following are the Municipality's governmental fund types:

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

**Special Revenue Fund-** Special revenue is used to account for the proceeds of specific revenue sources that are legally restricted to specific purposes.

**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.

**Capital Project Fund-** The capital project fund is used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds.

Long Term Liabilities expected to be financed from governmental funds are accounted for in the general long - term debt account group, not in the governmental fund.

The two account group are not "Funds". They are concerned only with the measurement of financial position. They are not involved with measurement of result of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non - current liabilities. Since they do not affect net current assets, such as long - term amounts are not recognized as governmental fund type expenditures of fund liabilities. They are instead reported as liabilities in the general long - term debt account group.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(E) ACCOUNT GROUPS**

Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

**(F) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to the Fixed Assets and Long-Term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "Financial Flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (Net Current Assets) is considered a measure of "Available Spendable Resources." Governmental fund operating statements present increases (Revenues and Other Financing Sources) and decreases (Expenditures and Other Financing Uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "Available Spendable Resources" during a period.

Fixed assets used in governmental fund type operations (General Fixed Assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (Infrastructure) general fixed assets consisting of certain improvements other than Building, including Roads, Bridges, Curbs and Gutters, Streets and Sidewalks, Drainage Systems and Lighting Systems, have been capitalized. Such assets are normally immovable and of value only to the city. Depreciation has not been provided on general fixed assets.

The general fixed assets acquired are recorded as expenditures in the government fund and will be capitalized at cost in the general fixed assets account group. Donated general fixed assets will be recorded at their estimated fair market value at the time they were received by the Municipality. The information to account for these general fixed assets is not available.

The general long-term debt is used to account for the long term debt as bonds, notes payable, accrued compensated absences, debts to other government units for long term among other payables for long term basis.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(G) BASIS OF ACCOUNTING**

The Municipality uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting is followed by the governmental funds. The modified accrual basis of accounting, recognizes revenues when both "measurable and available". Measurable means that amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for interest on long - term debt obligations, which is recorded when due, and compensated absences, which are recorded in the general long - term debt. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only when they fail to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues are recorded as revenues when received.

**(H) ENCUMBRANCES**

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation for the future obligation. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

**(I) BUDGETARY DATA**

The Municipality follows these procedures, which are in accordance with the Municipal Law, in establishing the budgetary data reflected in the general purpose financial statements.

- (1) Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(I) BUDGETARY DATA (CONTINUED)**

- (3) Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make the necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting except for encumbrances as described below.

The actual results of operations, presented in the Statement of Revenue and Expenditures-Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis. The budget prepared for each of the special revenue funds is based in a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue fund.

Accounting Basis per the combined Statement of Revenues, Expenditures and changes in Fund Balances	(\$330,046)
Adjustments:	
Funds received over budget	(190,953)
Funds spent over budgeted expenditures	<u>520,999</u>
Budgetary Basis per the Combined Statement of Revenues and Expenditures - Budget and Actual	<u>\$ -</u>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(J) INVENTORIES**

The general fund purchases office and printing supplies, gasoline oil and other items. The cost of purchases is recorded as an expenditure and the inventory is not recorded in the general purpose financial statements.

**(K) INTER-FUND TRANSACTIONS**

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

**(L) COMPENSATED ABSENCES**

The vacation policy of the Municipality provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Sick-leave accumulates to all employees at a rate of 1.5 days per month up to a maximum of 90 days. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave to the maximum allowed.

Employees' maximum allowed accumulated vacations and sick leave together with the employer's share of payroll taxes are accounted for in the General Long-Term Debt Account Group.

**(M) INSURANCE**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**(N) FEDERAL AND STATE GRANT REVENUE**

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

**(O) TOTAL COLUMNS**

Total columns on the combined statements-overview are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or, results of operations, in conformity with generally accepted accounting principles or changes in financial principles. Such data is not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**(2) CASH**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and short-term investments individually by fund in the general purpose financial statements. Interests earned on certificates of deposit and other short-term investments are recognized as a revenue of the general fund, except for interest earned in the special revenue fund. The Municipality's deposits with commercial financial institutions, which included \$1,450,000 in interest deposits at June 30, 2001 were entirely covered by Federal Depository Insurance or collateral held by the Treasury Department of the Commonwealth of Puerto Rico. Interest received from these deposits were between 3.75% and 6.30%. The fair value of certificates of deposits is the same of the principal amount invested, according management consideration. Cash with fiscal agent is detailed as follows:

**Capital Project Fund:** Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(3) PROPERTY TAXES**

The "Municipal Revenue Collection Center" (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding taxes. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at estimated current values in 1957 and of personal property are based at the current value at the date of the assessment. Real property taxes are billed by "CRIM" and due in the two equal installments in July and January following the assessment date. Personal property taxes are self assessed and are due in May 15<sup>th</sup>, when the related property tax return is required to be filed.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively belong to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate which is appropriated for general purposes, and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of 1.25% represents the "ad valorem" tax withheld by "CRIM" and restricted for debt service which is accounted for through the debt service fund. The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the "ad valorem" tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exception is granted. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000. However, the Municipality receives the full amount levied.

As of June 30, 2001, the Municipality of Jayuya received advances of property taxes in excess of the amount collected by "CRIM" of \$339,726, which are included as an account payable to other governmental units in the Balance Sheet of the General Purpose Financial Statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(4) MUNICIPAL BUSINESS TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their annual declarations by April 15<sup>th</sup>.

The tax rates are as follows:

- From 1.00% for financial institutions, thrift and loan associations.
- .30% for all other non-financial organizations.

Taxes are payable in two equal semiannual installments on or before July 1 and January 1 following the levy date. A 5% discount is granted only if the total amount is paid on or before the filing date of April 15<sup>th</sup>. Collections of taxes applicable to the next fiscal year are recorded as deferred revenues.

**(5) INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority and the Puerto Rico Water Company among other quasi-public corporations and state government funds.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. All of these intergovernmental revenues are accounted for through the general fund except for those directly related to the special revenue fund.

**(6) GENERAL FIXED ASSETS**

The following is a summary of the general fixed assets as of June 30, 2001:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$3,975,840	\$ -	\$48,769	\$ -	\$4,024,609
Building and Improvements	3,681,603	-	-	-	3,681,603
Motor Vehicles	899,607	-		334,308	565,299
Furniture and Equipment	<u>4,048,826</u>	<u>-</u>	<u>12,771</u>	<u>56,350</u>	<u>4,005,247</u>
Totals	<u>\$12,605,876</u>	<u>\$ -</u>	<u>\$61,540</u>	<u>\$390,658</u>	<u>\$12,276,758</u>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(7) GENERAL AND SPECIAL OBLIGATIONS**

The following is a summary of the long-term debt, payable to Government Development Bank for Puerto Rico at June 30, 2001:

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Long-Term Notes	\$ -	\$1,478,000	\$1,478,000
Matured Bonds	<u>2,153,158</u>	<u>-</u>	<u>2,153,158</u>
	<u>\$2,153,158</u>	<u>\$1,478,000</u>	<u>\$3,631,158</u>

**GENERAL OBLIGATIONS - BONDS AND NOTES:**

\$117,200, Series of 1997, payable in annual installments ranging from 3,000 to 7,900, excluding interest, through January 1, 2022; interest at 4.5%.	\$ 111,100
\$250,000, Series of 1996, payable in annual installments ranging from \$36,000 to \$42,000, excluding interest, through January 1, 2003; interest at 4.87%.	92,000
\$300,000, Series of 1985, payable in annual installments ranging from \$6,000 to \$21,000, excluding interest, through January 1, 2010; interest at 5%.	152,183
\$325,000, Series of 1991, payable in annual installments ranging from \$6,000 to \$25,000, excluding interest, through January 1, 2015; interest at 6%.	248,000
\$340,000, Series of 1999, payable in annual installments ranging from \$51,000 to \$63,000, excluding interest, through January 1, 2003; interest at 4.5%.	123,000
\$505,000, Series of 1999, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2022; variable interest from 6.31% at 7.5%.	480,000
\$70,000, Series 1988, payable in quarterly installments of \$875, excluding interest, through July 1, 2007; interest at 8%.	21,875
\$650,000, Series 1987, payable in annual installments ranging from \$30,000 to \$35,000, excluding interest, through July 1, 2007; variable interest from 6% at 8.5%.	245,000
\$905,000, Series 1987, payable in annual installments ranging from \$45,000 to \$50,000, excluding interest, through July 1, 2007; interest at 9%.	320,000
\$400,000, Series of 1996, payable in annual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2016; variable interest from 6% at 8%.	<u>360,000</u>
<b>TOTAL BONDS PAYABLE</b>	<b><u>2,153,158</u></b>
\$1,000,000 of HUD Guaranteed Loan Fund, Section 108, interest payable quarterly from 3.5% to 4.5% for construction of new facilities, total loan in the amount of \$4,000,000 (See Note 17)	1,000,000
\$145,000, Series of 1998, payable in semiannual installments ranging from \$15,000 to \$25,000, excluding interest, through July 1, 2005; variable interest from 4.865% at 6.310%.	110,000
\$240,000, Series of 2000, payable in annual installments ranging from \$25,000 to \$45,000, excluding interest, through July 1, 2006; variable interest from 0% at 7.5%.	215,000
\$250,000, Series 1998, payable in annual installments ranging from \$31,000 to \$41,000, excluding interest, through July 1, 2005; interest at 4.75%.	<u>153,000</u>
<b>TOTAL NOTES PAYABLE</b>	<b><u>1,478,000</u></b>
<b>TOTAL GENERAL OBLIGATIONS-BOND AND NOTES</b>	<b><u>\$ 3,631,158</u></b>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

The annual requirements to amortize the general long-term debt outstanding as of June 30, 2001, including interest payments of \$1,183,857 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 328,800	\$ 150,475	\$ 479,275
2003	334,000	149,808	483,808
2004	234,000	128,832	362,832
2005	243,000	112,453	355,453
2006 and there after	<u>2,491,358</u>	<u>642,289</u>	<u>3,133,647</u>
	<u>\$3,631,158</u>	<u>\$1,183,857</u>	<u>\$4,815,015</u>

Interests payable for the year 2001 of \$150,475 will be paid by the Debt Service Fund.

**(8) DEBT SERVICE FUND**

Revenues of the debt service fund consist of accretion of discounts on investments which are recorded as interest income on investments and the ad valorem property taxes which are recognized as revenue when they are collected and reported, before, by the P.R. Department of Treasury and now, by the Municipal Revenue Collection Center (CRIM). Interest income is for the payment of interest or special obligations of the general obligations bonds and notes.

On the fiscal year ended June 30, 2001, principal and interest on these obligations are paid by the Governmental Development Bank from funds obtained from the following:

Property Taxes	<u>\$228,864</u>
Payments at June 30, 2001 were as follows:	
Principal	\$ 216,917
Interest	102,520
	<u>\$ 319,437</u>

**(9) EMPLOYEE'S RETIREMENT PLAN**

Substantially all employees participate in the Retirement System of the Commonwealth of Puerto Rico (System), a multiple-employer public employee retirement system. All employees which at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 and with the minimum years of service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

Covered employees are required by Commonwealth statute to contribute, depending on selected alternatives, from 5.775 percent to 8.275 percent of their salary to the plan. The Municipality is required by the same statute to contribute 9.275 percent of the participant's salary.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increase and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulation sufficient assets to pay benefits when due, and make comparisons between public employee retirement system, and employers.

**(10) CONTINGENCIES**

During the year ended June 30, 2001, the Municipality paid the amount of \$70,000 in legal proceedings from previous years, in which the Municipality assume responsibility. In addition, the Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The Legal Counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he can not offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal Counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

The Municipality participates in a number of federally-assisted grant programs. These grants are subject to audits to assure compliance with grant provisions. The audits of some of these programs for or including the year ended June 30, 2001, are in progress. Accordingly, the amount of expenditures which may be disallowed by the granting agencies, if any, will be established at some future date. However, the Municipality expects such amounts, if any, to be immaterial.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE, 30 2001**

**(11) FUND BALANCE-UNDESIGNATED**

For purposes of budget control and adjustment, the following is a reconciliation of amounts adjusted against undesignated fund balance for general fund as of June 30, 2001.

Deficit, before adjustments of payables to other government units	<u>\$ 35,508</u>
Less accounts payable to other government units:	
Puerto Rico Water Authority	134,189
General Services Administration	3,151
Governmental Retirement Agency	37,166
Department of Treasury-current portion	36,000
CRIM	339,726
Others	<u>145,782</u>
	<u>696,014</u>
Deficit, after adjustments of intergovernmental payables	<u>\$ 731,879</u>

**(12) ACCOUNT PAYABLE TO DEPARTMENT OF HEALTH**

The amount is payable to Department of Health according Health Reform Act, to cover administration and expenses for the Health Insurance Agency in Puerto Rico. Several Public Health Centers have been sold to private companies by Department of Health. The Department of Health makes charges to the Municipalities for their administration expenses. The balance of account payable is for the years ended prior to June 30,1997. However, payment to Department of Health for Reform Act comes from Puerto Rico Electronic Lottery, not from the general fund, according Law 29 of July 1, 1997. Effective July 1,1997, current charges of the Department of Health are paid from the monthly reimbursements of property taxes collected by the Municipal Collection Center.

**(13) ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

According to the Environmental Protection Agency's (EPA) regulations, the Municipality must follow certain closure functions and post-closure monitoring and maintenance procedures. In addition, the Municipality has not adopted the GASB Number 18 in order to comply with these regulations.

As of June 30, 2001 the Municipality has not performed a study of the estimated closing and post-closing costs that will be recognized in the financial statements as required by the new accounting policy. Also, the Municipality has one active landfill for which maintenance costs were incurred during the Fiscal Year 2000-01. Accordingly, no provision of future cost was recognized in the financial statement as required by this accounting pronouncement.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(14) ADJUSTMENTS**

Fund balance as of June 30, 2001 was adjusted due to differences in assets, liabilities, revenues and expenditures that could not be adequately determined.

**(15) PAYMENT PLANS WITH GOVERNMENTAL AGENCIES**

The Municipality entered in certain payment plans with governmental agencies and recognized a long term debt, from which current portion is accumulated in the general fund. The payment plans are the following:

Department of Labor

Account payable in the amount of \$440,931, including principal and interest, payable in monthly installments of \$12,248 through the year 2004. The account payable correspond to unemployment tax due as of June 30, 2001.

Department of Treasury

Account payable in the amount of \$919,017, payable in monthly installments of \$7,658 through the year ended June 30, 2010. The accounts payable correspond to property taxes received in advance and social security debt.

**(16) GASB-34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: Government-wide financial statements and fund presentation. The Government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for statements except the focus for presentation is on major funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The management's discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB-34 will begin to take effect for the Municipality in fiscal year after June 15, 2003.

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**(17) HUD GUARANTEED LOAN FUND (SECTION 108)**

During the year ended June 30, 2001, the Municipality obtained a loan from HUD, in the amount of \$4,000,000 for the rehabilitation of Catalina Figueroa Building for the construction of educational facilities. The Municipality received the amount of \$1,000,000 recognized as loan proceeds in the capital project fund. The interest fluctuates between 3.5% and 4.5%. For the year ended June 30, 2001, no principal payments were made and the Municipality is currently paying only interest charges due to the construction is in process. The amount of \$3,000,000 has not been disbursed by the Federal Agency and is not recognized as loan payable in the general long-term debt account group. The total estimated costs for the project amounted \$4,000,000.

**MUNICIPALITY OF JAYUYA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**JUNE 30, 2001**

FEDERAL GRANTOR PASS-THRU	FEDERAL GRANT NUMBER	EXPENDITURES
<b>US Department of Housing and Urban Development:</b>		
<u>Direct Program:</u>		
Section 8 Housing Choice Vouchers	14.871	\$22,352
Pass-through the Office of the Commissioner of Municipal Affairs (OCAM):		
Community Development Block Grant	14.228	1,294,313
<b>US Department of Health and Human Services</b>		
Passed-through Instituto de Servicios Comunes, Inc. (INSEC)		
Community Services Block Grant	93.569	86,997
Passed-through State - Office of the Governor, Regional Elderly Office		
Special Program for Aging, Title III, Part C	93.045	95,559
<b>US Department of Commerce:</b>		
<u>Direct Program:</u>		
Economic Development Administration	11.300	562,550
<b>US Federal Emergency Management Agency:</b>		
Passed-through State - Office of the Governor, Public Assistance Grant	83.544	447,908
<b>US Department of Agriculture:</b>		
<u>Direct Program:</u>		
Water and Disposal Systems for Rural Communities	10.760	88,488
Rural Self-Help Housing Technical Assistance	10.420	6,918
Passed-through State - Office of the Governor, Regional Elderly Office		
Child and Adult Care Food Program	10.558	21,086
<b>Total Federal Assistance Expenditures</b>		<b>\$2,626,171</b>

The accompanying notes to Schedule of Federal Financial Assistance are an integral part of this Schedule.

**MUNICIPALITY OF JAYUYA**  
**NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**JUNE 30, 2001**

**(1) GENERAL**

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal assistance programs of the Municipality of Jayuya, Puerto Rico. The Municipality of Jayuya reporting entity is defined in note 1 to the general purpose financial statements. Federal financial assistance received were pass through funds from general agency.

**(2) BASIS OF ACCOUNTING**

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting which is described in note 1 to the general purpose financial statements.

**(3) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Expenditures included in the accompanying Schedule agree with the amounts included in the general purpose financial statements as follows:

Fund Statements	Federal Assistance	State & Municipal Assistance	Total per Financial Statements
Special Revenue	\$232,912	\$311,434	\$544,346
Capital Project	<u>2,393,259</u>	<u>538,574</u>	<u>2,931,833</u>
	<u>\$2,626,171</u>	<u>\$850,008</u>	<u>\$3,476,179</u>

# GONZÁLEZ TORRES & Co.

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

To the Mayor and Municipal Assembly  
Municipality of Jayuya  
Jayuya, Puerto Rico

I have audited the general purpose financial statements of Municipality of Jayuya, Puerto Rico as of June 30, 2001 and for the year then ended, and have issued my report thereon dated December 4, 2001, which was qualified because I was unable to audit the fixed assets of the General Fixed Assets Account Group, for no provision for liability of landfill closing and post-closing costs, for differences in the cash account balance in the General, Special Revenue and Capital Project Funds, for accounts payable in the Special Revenue and Capital Project Funds, for transactions not recorded in the Due From and Due To accounts balances and unreconciled differences in assets, liabilities and cash reconciliations. Except as discussed in the preceding sentence, I conducted my audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Municipality of Jayuya's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed some instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2001-1 to 2001-6.

In planning and performing my audit, I considered the Municipality of Jayuya's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, would adversely affect the Municipality of Jayuya's ability to record process summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-1 to 2001-6.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2001-1 to 2001-3, to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 4, 2001

The stamp number 6755594  
was affixed to original of this report.



*José A. González Torres*  
CPA JOSÉ A. GONZÁLEZ TORRES  
LIC. 3728  
Expires on December 1, 2004

# GONZÁLEZ TORRES & Co.

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Association of Certified Fraud Examiners

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

To the Mayor and Municipal Assembly  
Municipality of Jayuya  
Jayuya, Puerto Rico

I have audited the compliance of Municipality of Jayuya, Puerto Rico 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, 2001. The Municipality of Jayuya's major federal programs are identified in the summary of auditor's results of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of Municipality of Jayuya's management. My responsibility is to express an opinion on Municipality of Jayuya's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Jayuya's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Municipality of Jayuya's compliance with those requirements.

As described in items 2001-1 to 2001-6 in the accompanying schedule of findings and questioned costs, the Municipality of Jayuya did not comply with requirements regarding Equipment and Real Property Management, Reporting and Cash Management that are applicable to its Community Development Block Grant and Public Assistance Grant programs. Compliance with such requirements is necessary, in my opinion, for the Municipality of Jayuya to comply with requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Jayuya complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2001-1 to 2001-6.

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

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Municipality of Jayuya ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2001-1 to 2001-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My 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, I consider items 2001-1 to 2001-3, to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 4, 2001

The stamp number 35595 was affixed to the original of this report.



*José A. González Torres*  
CPA JOSÉ A GONZÁLEZ TORRES  
LIC. 3728  
Expires on December 1, 2004

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2001**

1. Summary of audit results:

**Part I Financial Statements:**

1. Type of audit report:

- |  |   |
|--|---|
| <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |

2. Reportable conditions reported

- |   |                             |
|---|-----------------------------|
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|---|-----------------------------|

3. Reportable condition reported as a major weakness:

- |   |                             |
|---|-----------------------------|
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|---|-----------------------------|

4. Material noncompliance disclosed:

- |   |                             |
|---|-----------------------------|
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|---|-----------------------------|

**Part II Federal Awards**

1. Type of report: on compliance for major programs:

- |  |   |
|--|---|
| <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| <input type="checkbox"/> Adverse opinion     | <input type="checkbox"/> Disclaimer of opinion        |

2. Reportable condition reported as a major weakness:

- |   |                             |
|---|-----------------------------|
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|---|-----------------------------|

3. Material noncompliance disclosed:

- |   |                             |
|---|-----------------------------|
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
|---|-----------------------------|

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2001**

1. Summary of audit results (continued):

Part II **Federal Awards (continued):**

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes  No

5. Major Programs:

<b>CFDA Number (s)</b>	<b>Federal Program Grantor and Program Name</b>
14.228	<b><i>US Department of Housing and Urban Development:</i></b> Community Development Block Grant
83.544	<b><i>US Federal Emergency Management Administration:</i></b> Public Assistance Grant
11.300	<b><i>US Department of Commerce:</i></b> Economic Development Administration

6. Dollar threshold used to distinguish Type A and Type B programs:

\$300,000 or 3% of total federal awards expended

7. Low-risk auditee

Yes  No

8. Waive risk criteria under 520 (i) of Circular A-133

Yes  No

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**MATERIAL WEAKNESSES:**

**Finding 2001-1**

**Community Development Block Grant (14.228)**

**US Department of Housing and Urban Development - Pass-through State - Office of the Commissioner of Municipal Affairs**

**Requirement:** Compliance and Internal Control

**Noncompliance:** Equipment and Real Property Management

**Condition:**

My examination of the Municipality of Jayuya property records and reports noted the following deficiencies; (a) balance in the computerized property records and reports do not reconcile with the ending balances reported in the audited financial statements.; (b) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance; (c) there is no adequate internal control procedure to assure the proper valuation and timeliness of recognition of real estate inventory.

The Federal Programs Department does not have a property ledger including the equipment cost, acquisition date, use and condition of property, grant or agreement, the name of the property's legal owner nor the percentage of federal participation in property cost.

**Questioned Costs:**

No questioned costs were identified.

**Criteria:**

Subpart C, 24 CFR 85.32 (d) (1), stated that property records must be maintained including a description of the property, serial number or other identification number, the source of property, percentage of federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of disposal and sale price of property. A physical inventory of the property must be taken and the result reconciled with the property records at least on every two years, respectively.

Article 10.002 of State Act Number 81 of August 30, 1991 stated that the Municipality should maintain updated property accounting records.

**Effect:**

The Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1). The Municipality does not maintain an accurate property record.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**Cause:**

There is no internal control procedure implemented to assure that property register includes all the necessary information, as required by Subpart C, 24 CFR 85.32 (d) (1) and Article 10.002 of State Act Number 81 of August 30, 1991. The Municipality's accounting system fails to provide complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.

**Recommendation:**

The Municipality should implement internal control procedures in order to comply with this requirement.

CHARLES E. KO  
DISTAFF LIPERT

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**MATERIAL WEAKNESSES:**

**Finding 2001-2**

**Requirement:**

Reportable condition over accounting records

**Condition:**

During my examination of the Municipality of Jayuya cash accounts I noted the following deficiencies: (a) the General, Special Revenue and Capital Projects Funds show overstated and understated cash balances; (b) General Ledger cash amounts were not reconciled with the adjusted cash in bank balance; (c) the interfund cash transactions and corresponding Due From and Due To accounts balances are not reconciled and accurately accounted for; and (d) the Special Revenue and Capital Projects accounts payable balances were not adequately and accurately maintained.

**Criteria:**

Article 8.010 (c) (2) and (3) of State Act Number 81 of August 30, 1991 stated that the Municipality should maintain accurate accounting records and fund controls.

**Effect:**

The Municipality did not maintain an adequate control of the accounting regarding cash, interfund and accounts payable transactions.

**Cause:**

The Municipality's accounting system fails to provide complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.

**Recommendation:**

The Municipality should implement internal control procedures in order to comply with this requirement.

MUNICIPALITY OF JAYUYA, PUERTO RICO  
SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2001

**MATERIAL WEAKNESSES:**

**Finding 2001-3**

**Public Assistance Grant (CFDA No. 83.544)**

**US Federal Emergency Management Agency - Pass-Through State - Office of Governor's Authorized Representative (GAR)**

**Requirement:** Compliance and Internal Control

**Noncompliance:** Cash Management

**Condition:**

The Municipality of Jayuya transferred the funds remaining from the finished Small Projects to the Municipality's operating account.

**Questioned Cost:**

\$157,000.00

**Criteria:**

At close-out of the disaster contract, the State is required to certify that all projects were properly completed and that the State contribution, as specified in the FEMA-State Agreement, was paid to each subgrantee (44 CFR sections 206.204(e) and 206.205(a)). The Governor's Authorized Representative (GAR) requires the Municipalities that they must wait for the GAR to perform an audit of the projects before allowing the use of the funds that remained from the Small Projects.

**Effect:**

It could be understood that the Municipality is using funds that it does not own.

**Cause:**

The Municipality did not wait for the audit of the State's Office of the Governor Authorized Representative.

**Recommendation:**

The Municipality should wait for the State audit procedures to finish before using funds.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**REPORTABLE CONDITION:**

**Finding 2001-4**

Reportable condition over employee records.

**Condition:**

On the samples selected to test the compliance with local and federal regulations in the recruitment process, I found lack of proper documentation in some employee files with respect to the evaluation of the general conditions to the enrollment of employees as required on the Autonomous Municipality's Law, title 21, Section 4557 and Section 4572.

**Criteria:**

Section 4557 refers to the rules and regulations which govern the recruitment and selection of an employee and establishes general conditions to the employment of a candidate such as:

1. Be fiscally and mentally able to perform his/her duties and assignment.
2. Be a citizen of the United States of America or a legal alien authorized to work in the United States of America.

Section 4572 refers to rules and regulations which govern the employee file maintenance and retention. This section requires that each Municipality must maintain an employee file in a complete fashion with all relevant data since the beginning of their duties to the date of termination.

**Cause and effect:**

On the sample of thirty two (32) employees of the payroll period examined, I found the following documents missing:

1. Four (4) employee files did not include I-9 form.
2. Twenty-five (25) employee files did not include "Anti-Drug Policy Acknowledgment".
3. Eleven (11) employees files did not include the Police Department's Good Behavior Certificate.

**Recommendations:**

Adherence to policies and procedures established by the Municipality should be required. In accordance with the regulations the review of each employee's file should be required, to assure compliance and prevent missing documentation.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**REPORTABLE CONDITION:**

**Finding 2001-5**

Reportable condition over disbursement process

**Condition:**

I noted in my tests of Municipality of Jayuya internal control over disbursements process, that the supporting documents relating to three checks issued were not stamped as paid.

**Criteria:**

Article 8.010 of State Act Number 81 of August 30, 1991, stated that the Municipality should maintain accurate accounting records and fund controls.

**Effect:**

Liabilities could be paid twice by the Municipality, an unallowable cost.

**Cause:**

There are no adequate internal control procedures implemented to assure this compliance.

**Recommendation:**

The Municipality should implement internal control procedures in order to comply with this requirement.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2001**

**REPORTABLE CONDITION:**

**Finding 2001-6**

**Community Development Block Grant (14.228)**  
**US Department of Housing and Urban Development - Pass-through State - Office of the**  
**Commissioner of Municipal Affairs**

**Requirement:** Compliance and Internal Control

**Noncompliance:** Cash Management - Excess of Cash

**Condition:**

Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.

**Questioned Cost:**

No questioned costs were identified.

**Criteria:**

Code of Federal Regulation, 24 CFR Subpart I, Section 570.487 (c), stated that units of general Governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for CDBG, according with Treasury Circular 1075.

**Cause:**

Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies, to be used for immediate needs.

**Effect:**

It could be understood that the Federal Program Department is requesting funds in excess of the immediate expenditures expended.

**Recommendation:**

I recommend to Management to revise their forecast procedures in order to comply with this requirement.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COST**  
**JUNE 30, 2001**

**I. Audit findings that have been fully corrected:**

00-III-01 (2000 Fiscal Year):

CFDA 14.228 - Internal Control - Allowable Cost/Cost Principles

No questioned costs.

Comments:

It was not noted in my tests of the Municipality's internal control over disbursement process.

00-III-02 (2000 Fiscal Year):

CFDA 14.228 - Compliance and Internal Control - Allowable Cost/Cost Principles

Questioned costs: \$52,787.97

Comments:

It was not noted in my tests of the Municipality's internal control over disbursement process.

00-III-03 (2000 Fiscal Year):

CFDA 83.544 - Compliance and Internal Control - Allowable Cost/Cost Principles

*Faint*

Questioned costs: \$17,775.97

Comments:

It was not noted in my tests of the Municipality's internal control over disbursement process.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COST**  
**JUNE 30, 2001**

**II. Audit findings not corrected or partially corrected:**

99-III-01 (1999 Fiscal Year)

CFDA 14.228 - Cash Management - Excess of Cash

Comments: The Municipality's management should revise their forecast procedures in order to comply with this requirement.

99-III-02 (1999 Fiscal Year)

CFDA 83.544 and CFDA 10.766 - Davis-Bacon Act

Comments: Municipality Mayor gave instructions to perform monitoring, and include a copy of this form in project files. The responsibility was assigned to one employee, Federal Labor Standards Specialist.

99-III-03 (1999 Fiscal Year)

CFDA 14.228 - Equipment and Real Property Management

Comments: The Municipality should implement internal control procedures in order to comply with this requirement.

98-III-01 (1998 Fiscal Year) Cash Management-Excess of Cash

See Finding 99-III-01 above.

98-III-02 (1998 Fiscal Year) Equipment and Real Property Management

See Finding 99-III-03 above.

97-III-01 (1997 Fiscal Year) Cash Management-Excess of Cash

See Finding 99-III-01 above.

97-III-02 (1997 Fiscal Year) Equipment and Real Property Management

See Finding 99-III-03 above.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COST**  
**JUNE 30, 2001**

III. **Corrective Action taken is significantly different from corrective action previously reported:**

None.

IV. **Audit Finding is no longer valid:**

None.



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**MUNICIPALITY OF JAYUYA, PUERTO RICO  
GENERAL PURPOSE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2001  
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**



**MUNICIPALITY OF JAYUYA, PUERTO RICO  
GENERAL PURPOSE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2001  
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

**GONZALEZ TORRES & CO  
Certified Public Accountant & Consultants**

MUNICIPALITY OF JAYUYA, PUERTO RICO  
GENERAL PURPOSE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

JUNE 30, 2001

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Association of Certified Financial Examiners

## INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

To the Mayor and Municipal Assembly  
Municipality of Jayuya, Puerto Rico  
Jayuya, Puerto Rico

I have audited the accompanying general purpose financial statements of the Municipality of Jayuya, as of June 30, 2001 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Municipality of Jayuya's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

Except as discussed in the following paragraphs, I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

The Municipality's accounting system and records of property, plant and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose combined financial statements, therefore I do not express an opinion on such amounts represented in the General Fixed Assets Account Group.

As explained in Note 13, the Municipality has not performed a study of the estimated landfill closing and post-closing costs that will be recognized in the general-purpose combined financial statements, as required by the GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs". Accordingly, no provision for liability has been made in the financial statements.

The Municipality does not maintain a complete self-balancing cash account balance in the General Ledger of the General, Special Revenue and Capital Projects Funds. Therefore, we do not express an opinion on cash account balances in the General, Special Revenue and Capital Projects Funds presented on the general-purpose financial statements.

Because of inadequacies in the Municipality's accounting records, I was unable to form an opinion regarding the amount of accounts payable in the special revenue and capital projects funds.

**INDEPENDENT AUDITOR'S REPORT  
ON GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

The Municipality does not maintain a reconciliation and accurate accounting records of all inter-fund transactions in the Due From and Due To accounts balances for the fiscal year 2000-2001. Thus, I was unable to satisfy that inter-fund transactions are reasonable stated.

As explained in the note 14, the fund deficit of the general fund was adjusted in the amount of \$119,944 due to unreconciled differences in assets, liabilities and cash reconciliations. I was unable to obtain evidential matter regarding such amount and alternate procedures could not be performed.

In my opinion, except for the facts described in the third, fourth, fifth, sixth, seventh, and eighth paragraphs of this report, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Jayuya, Puerto Rico, as of June 30, 2001, and the results of its operations and changes in the fund balances for the fiscal year then ended in conformity with generally accepted accounting principles.

San Juan, Puerto Rico  
December 4, 2001

The stamp number 135590  
was affixed to the original copy  
of this report.



*J. A. Gonzalez Torres*  
CPA JOSE A. GONZALEZ TORRES  
L.C. 3728  
Expires December 1, 2004

**MUNICIPALITY OF JAYUYA  
COMBINED BALANCE SHEET  
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GEN. FIXED ASSETS	GEN. LONG TERM DEBT	2001
<b>ASSETS</b>							
Cash (Note 2)	\$677,482	\$183,066	\$2,418,309				\$3,278,857
Cash with Fiscal Agent (Note 2)		13,441	364,187	418,872			796,500
Receivables:							
Federal grants (Note 1)		31,320	1,537,768				1,569,088
From governmental units and other funds	423,694						423,694
Interests			1,950	3,549			5,499
Municipal Taxes	1,204						1,204
General Fixed Assets (Note 6)					12,276,758		12,276,758
Amount to be provided for:							
Advance of Property Taxes (Note 13)						875,061	875,061
Retirement of general long-term debt (Note 7)						3,302,358	3,302,358
Accrued compensated absences (Note 1)						682,882	682,882
Department of Treasury- social security debt						8,009	8,009
Department of Labor- unemployment debt						306,203	306,203
Health Reform (Note 12)						798,279	798,279
<b>TOTAL ASSETS</b>	<b>\$1,102,380</b>	<b>\$227,827</b>	<b>\$4,322,214</b>	<b>\$422,421</b>	<b>\$12,276,758</b>	<b>\$5,972,792</b>	<b>\$24,324,392</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Accounts payable and accrued liabilities	\$608,857	\$61,431	\$20,194				\$690,482
Due to Federal Agency		2,485					2,485
Deferred Revenues	529,388	32,677	1,537,768				2,099,833
Due to other government units and other funds (Note 11)	696,014			145,477			841,491
Accounts Payable- Department of Health (Note 12)						798,279	798,279
Accrued employee benefits (Note 1)						682,882	682,882
Advance of Property Taxes (Note 13)						875,061	875,061
Account Payable - Department of Labor						306,203	306,203
Social Security Debt						8,009	8,009
Matured bonds and notes payable (Notes 7 and 17)				328,800		3,302,358	3,631,158
Interest payable on general obligations (Note 7)				150,475			150,475
<b>TOTAL LIABILITIES</b>	<b>1,834,259</b>	<b>96,593</b>	<b>1,557,962</b>	<b>624,752</b>	<b>-</b>	<b>5,972,792</b>	<b>10,086,358</b>
Investment In General Fixed Assets					12,276,758		12,276,758
Deficit	(731,879)			(202,331)			(934,210)
Fund Balance Designated (see Note 1)		131,234	2,764,252				2,895,486
<b>TOTAL FUND EQUITY AND RETAINED EARNINGS</b>	<b>(731,879)</b>	<b>131,234</b>	<b>2,764,252</b>	<b>(202,331)</b>	<b>12,276,758</b>	<b>-</b>	<b>14,238,034</b>
<b>TOTAL LIAB. &amp; FUND EQUITY AND RETAINED EARNINGS</b>	<b>\$1,102,380</b>	<b>\$227,827</b>	<b>\$4,322,214</b>	<b>\$422,421</b>	<b>\$12,276,758</b>	<b>\$5,972,792</b>	<b>\$24,324,392</b>

See notes to general purpose financial statements.

**MUNICIPALITY OF JAYUYA**  
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund types				Totals
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	Memorandum Only 2001
<b>REVENUES:</b>					
Property Taxes ( Note 3)	\$640,631	\$ -	\$ -	\$203,638	\$844,269
Local Municipal Taxes (Note 4)	637,134				637,134
Intergovernmental Revenues (Note 5)	3,362,166				3,362,166
Rent of Properties	142,309				142,309
Other Revenues	943,867				943,867
Interest	38,104	4,261	40,204	25,226	107,795
Federal Funds		236,068	1,936,064		2,172,132
Other Income		41,636	69,150		110,786
<b>TOTAL REVENUES</b>	<b>5,764,211</b>	<b>281,965</b>	<b>2,045,418</b>	<b>228,864</b>	<b>8,320,458</b>
<b>EXPENDITURES:</b>					
Municipal Council	99,307				99,307
Administration	2,844,923		226,764		3,071,687
Public Works and Sanitation	2,020,977				2,020,977
Health	451,044				451,044
Public Safety and Security	446,057				446,057
Sports & Recreation	231,949				231,949
Capital Outlays (Note 1)			1,807,451		1,807,451
Expenditures		544,346	871,456		1,415,802
Principal Retirement				545,717	545,717
Interests			26,162	252,995	279,157
<b>TOTAL EXPENDITURES</b>	<b>6,094,257</b>	<b>544,346</b>	<b>2,931,833</b>	<b>798,712</b>	<b>10,369,148</b>

(Continued)

**MUNICIPALITY OF JAYUYA  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES / ALL GOVERNMENT FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund types			Totals	
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	Memorandum Only 2001
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(\$330,046)	(\$262,381)	(\$886,415)	(\$569,848)	(\$2,048,690)
<b>OTHER FINANCING SOURCES/USES</b>					
<b>OPERATING TRANSFER IN/OUT:</b>					
Transfer from (to) General Fund		(21,357)	(157,000)	(164,840)	(343,197)
Transfer from Debt Service Fund	164,840				164,840
Transfer to Debt Service Fund	(172,761)			172,761	0
Loans proceeds			1,000,000		1,000,000
Transfer from Capital Project Fund	157,000				157,000
Payments of long-term debt, not from CAE				(172,761)	(172,761)
Transfer from Special Revenue Fund	21,357				21,357
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	170,436	(21,357)	843,000	(164,840)	827,239
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	(159,610)	(283,738)	(43,415)	(734,688)	(1,221,451)
<b>FUND BALANCE (DEFICIT) JUNE 30, 2000</b>	(691,213)	24,644	1,446	532,357	(132,766)
Adjustments (Note 1)	118,944	390,328	2,806,221		3,315,493
<b>FUND BALANCE JUNE 30, 2001</b>	(\$731,879)	\$131,234	\$2,764,252	(\$202,331)	\$1,961,276

See notes to general purpose financial statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 BUDGET-GAAP BASIS AND ACTUAL, GENERAL AND DEBT SERVICE FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (UNFAV)	Budget	Actual	Variance Favorable (UNFAV)
<b>REVENUES:</b>						
Property Taxes (Note 3)	\$921,253	\$640,631	(\$280,622)	\$278,077	\$228,864	(\$49,213)
Local Taxes	635,000	637,134	2,134			-
Intergovernmental Revenues	3,411,005	3,362,166	(48,839)			-
Rent of Properties	45,000	142,309	97,309			-
Other Revenues	491,000	943,867	452,867			-
Interest	70,000	38,104	(31,896)			-
<b>TOTAL REVENUES</b>	<b>5,573,258</b>	<b>5,764,211</b>	<b>190,953</b>	<b>278,077</b>	<b>228,864</b>	<b>(49,213)</b>
<b>EXPENDITURES:</b>						
Municipal Council	101,910	99,307	2,603			-
Administration	2,598,512	2,844,923	(246,411)			-
Public Works and Sanitation	1,545,242	2,020,977	(475,735)			-
Health	547,880	451,044	96,836			-
Public Safety and Security	509,922	446,057	63,865			-
Sports & Recreation	269,792	231,949	37,843			-
Debt Service:						
Principal and Interests				278,077	798,712	(520,635)
<b>TOTAL EXPENDITURES</b>	<b>5,573,258</b>	<b>6,094,257</b>	<b>(520,999)</b>	<b>278,077</b>	<b>798,712</b>	<b>(520,635)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>(\$330,046)</b>	<b>(\$330,046)</b>	<b>\$ -</b>	<b>(\$569,848)</b>	<b>(\$569,848)</b>

See notes to general purpose financial statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Jayuya, Puerto Rico (the Municipality) was founded in the year 1911, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the General Elections of Puerto Rico. The legislative body (Municipal Council) consists of 12 members also elected in the general elections for a four year period.

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

The Municipality's accounting policies conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

**(A) REPORTING ENTITY**

The Municipality's financial statements include the operations of all departments and areas for which the Municipality exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**(B) USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

**(C) BASIS OF PRESENTATION- FUND ACCOUNTING**

The accounts of the Municipality are organized on the basis of funds or accounts groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Municipality.

MUNICIPALITY OF JAYUYA, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2001

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) GOVERNMENTAL FUND TYPES

Government funds are those through which most governmental functions of the Municipality are financed. The acquisition, use and balances of the Municipality's 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 following are the Municipality's governmental fund types:

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

**Special Revenue Fund-** Special revenue is used to account for the proceeds of specific revenue sources that are legally restricted to specific purposes.

**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.

**Capital Project Fund-** The capital project fund is used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, except projects to be financed through the special revenue funds.

Long Term Liabilities expected to be financed from governmental funds are accounted for in the general long - term debt account group, not in the governmental fund.

The two account group are not "Funds". They are concerned only with the measurement of financial position. They are not involved with measurement of result of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non - current liabilities. Since they do not affect net current assets, such as long - term amounts are not recognized as governmental fund type expenditures of fund liabilities. They are instead reported as liabilities in the general long - term debt account group.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(E) ACCOUNT GROUPS**

Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

**(F) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to the Fixed Assets and Long-Term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "Financial Flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (Net Current Assets) is considered a measure of "Available Spendable Resources." Governmental fund operating statements present increases (Revenues and Other Financing Sources) and decreases (Expenditures and Other Financing Uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "Available Spendable Resources" during a period.

Fixed assets used in governmental fund type operations (General Fixed Assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (Infrastructure) general fixed assets consisting of certain improvements other than Building, Including Roads, Bridges, Curbs and Gutters, Streets and Sidewalks, Drainage Systems and Lighting Systems, have been capitalized. Such assets are normally immovable and of value only to the city. Depreciation has not been provided on general fixed assets.

The general fixed assets acquired are recorded as expenditures in the government fund and will be capitalized at cost in the general fixed assets account group. Donated general fixed assets will be recorded at their estimated fair market value at the time they were received by the Municipality. The information to account for these general fixed assets is not available.

The general long-term debt is used to account for the long term debt as bonds, notes payable, accrued compensated absences, debts to other government units for long term among other payables for long term basis.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(G) BASIS OF ACCOUNTING**

The Municipality uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting is followed by the governmental funds. The modified accrual basis of accounting, recognizes revenues when both "measurable and available". Measurable means that amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for interest on long - term debt obligations, which is recorded when due, and compensated absences, which are recorded in the general long - term debt. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific

purpose or project before any amounts will be paid to the Municipality; therefore revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only to failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues are recorded as revenues when received.

**(H) ENCUMBRANCES**

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation for the future obligation. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

**(I) BUDGETARY DATA**

The Municipality follows these procedures, which are in accordance with the Municipal law, in establishing the budgetary data reflected in the general purpose financial statements.

- (1) Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.

**MUNICIPALITY OF JAYUYA, PUERTO RICO  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2001**

**POLICIES (CONTINUED)**

**(I) BUDGETARY DATA (CONTINUED)**

- (3) Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting except for encumbrances as described below.

The actual results of operations, presented in the Statement of Revenue and Expenditures-Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis. The budget prepared for each of the special revenue funds is based in a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue fund.

Accounting Basis per the combined Statement of Revenues, Expenditures and changes in Fund Balances	(\$330,046)
Adjustments:	
Funds received over budget	(190,953)
Funds spent over budgeted expenditures	<u>520,999</u>
Budgetary Basis per the Combined Statement of Revenues and Expenditures - Budget and Actual	<u>\$ -</u>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(J) INVENTORIES**

The general fund purchases office and printing supplies, gasoline oil and other items. The cost of purchases is recorded as an expenditure and the inventory is not recorded in the general purpose financial statements.

**(K) INTER-FUND TRANSACTIONS**

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal funds.

**(L) COMPENSATED ABSENCES**

The vacation policy of the Municipality provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Sick-leave accumulates to all employees at a rate of 1.5 days per month up to a maximum of 90 days. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave to the maximum allowed.

Employees' maximum allowed accumulated vacations and sick leave together with the employers share of payroll taxes are accounted for in the General Long-Term Debt Account Group.

**(M) INSURANCE**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**(N) FEDERAL AND STATE GRANT REVENUE**

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

**(O) TOTAL COLUMNS**

Total columns on the combined statements-overview are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or, results of operations, in conformity with generally accepted accounting principles or changes in financial principles. Such data are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**(2) CASH**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and short-term investments individually by fund in the general purpose financial statements. Interests earned on certificates of deposit and other short-term investments are recognized as a revenue of the general fund, except for interest earned in the special revenue fund. The Municipality's deposits with commercial financial institutions, which included \$1,450,000 in interest deposits at June 30, 2001 were entirely covered by Federal Depository Insurance or collateral held by the Treasury Department of the Commonwealth of Puerto Rico. Interest received from these deposits were between 3.75% and 6.30%. The fair value of certificates of deposits is the same of the principal amount invested, according management consideration. Cash with fiscal agent is detailed as follows:

**Capital Project Fund:** Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(3) PROPERTY TAXES**

The "Municipal Revenue Collection Center" (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding taxes. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at estimated current values in 1957 and of personal property are based at the current value at the date of the assessment. Real property taxes are billed by the "CRIM" and due in the two equal installments in July and January following the assessment date. Personal property taxes are self assessed and are due in May 15<sup>th</sup>, when the related property tax return is required to be filed.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively belong to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate which is appropriated for general purposes, and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of 1.25% represents the "ad valorem" tax withheld by the "CRIM" and restricted for debt service which is accounted for through the debt service fund. The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the "ad valorem" tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exception is granted. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000. However, the Municipality receives the full amount levied.

As of June 30, 2001, the Municipality of Jayuya received advances of property taxes in excess of the amount collected by the CRIM of \$339,726, which are included as an account payable to other governmental units in the Balance Sheet of the General Purpose Financial Statements.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(4) MUNICIPAL BUSINESS TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their annual declarations by April 15<sup>th</sup>.

The tax rates are as follows:

- From 1.00% for financial institutions, thrift and loan associations.
- .30% for all other non-financial organizations.

Taxes are payable in two equal semiannual installments on or before July 1 and January 1 following the levy date. A 5% discount is granted only if the total amount is paid on or before the filing date of April 15<sup>th</sup>. Collections of taxes applicable to the next fiscal year are recorded as deferred revenues.

**(5) INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Authority and the Puerto Rico Aqueduct and Sewer Authority among other quasi-public corporations and state government funds.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. All of these intergovernmental revenues are accounted for through the general fund except for those directly related to the special revenue fund.

**(6) GENERAL FIXED ASSETS**

The following is a summary of the general fixed assets as of June 30, 2001:

	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$3,975,840	\$ -	\$48,769	\$ -	\$4,024,609
Building and Improvements	3,681,603	-	-	-	3,681,603
Motor Vehicles	899,607	-		334,308	565,299
Furniture and Equipment	<u>4,048,826</u>	<u>-</u>	<u>12,771</u>	<u>56,350</u>	<u>4,005,247</u>
Totals	<u>\$12,605,876</u>	<u>\$ -</u>	<u>\$61,540</u>	<u>\$390,658</u>	<u>\$12,276,758</u>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

The following is a summary of the long-term debt, payable to Government Development Bank for Puerto Rico at June 30, 2001:

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Long-Term Notes	\$ -	\$1,478,000	\$1,478,000
Matured Bonds	<u>2,153,158</u>	<u>-</u>	<u>2,153,158</u>
	<u>\$2,153,158</u>	<u>\$1,478,000</u>	<u>\$3,631,158</u>
 <b>GENERAL OBLIGATIONS - BONDS AND NOTES:</b>			
\$117,200, Series of 1997, payable in annual installments ranging from 3,000 to 7,900, excluding interest, through January 1, 2022; interest at 4.5%.			\$ 111,100
\$250,000, Series of 1996, payable in annual installments ranging from \$36,000 to \$42,000, excluding interest, through January 1, 2003; interest at 4.87%.			92,000
\$300,000, Series of 1985, payable in annual installments ranging from \$6,000 to \$21,000, excluding interest, through January 1, 2010; interest at 5%.			152,183
\$325,000, Series of 1991, payable in annual installments ranging from \$6,000 to \$25,000, excluding interest, through January 1, 2015; interest at 6%.			248,000
\$340,000, Series of 1999, payable in annual installments ranging from \$51,000 to \$63,000, excluding interest, through January 1, 2003; interest at 4.5%.			123,000
\$505,000, Series of 1999, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2022; variable interest from 6.31% at 7.5%.			480,000
\$70,000, Series 1988, payable in quarterly installments of \$875, excluding interest, through July 1, 2007; interest at 8%.			21,875
\$650,000, Series 1987, payable in annual installments ranging from \$30,000 to \$35,000, excluding interest, through July 1, 2007; variable interest from 6% at 8.5%.			245,000
\$905,000, Series 1987, payable in annual installments ranging from \$45,000 to \$50,000, excluding interest, through July 1, 2007; interest at 9%.			320,000
\$400,000, Series of 1996, payable in annual installments ranging from \$10,000 to \$40,000, excluding interest, through July 1, 2016; variable interest from 6% at 8%.			<u>360,000</u>
<b>TOTAL BONDS PAYABLE</b>			<u><b>2,153,158</b></u>
\$1,000,000 of HUD Guaranteed Loan Fund, Section 108, interest payable quarterly from 3.5% to 4.5% for construction of new facilities, total loan in the amount of \$4,000,000 (See Note 17)			1,000,000
\$145,000, Series of 1998, payable in semiannual installments ranging from \$15,000 to \$25,000, excluding interest, through July 1, 2005; variable interest from 4.865% at 6.310%.			110,000
\$240,000, Series of 2000, payable in annual installments ranging from \$25,000 to \$45,000, excluding interest, through July 1, 2006; variable interest from 0% at 7.5%.			215,000
\$250,000, Series 1998, payable in annual installments ranging from \$31,000 to \$41,000, excluding interest, through July 1, 2005; interest at 4.75%.			<u>153,000</u>
<b>TOTAL NOTES PAYABLE</b>			<u><b>1,478,000</b></u>
<b>TOTAL GENERAL OBLIGATIONS-BOND AND NOTES</b>			<u><b>\$ 3,631,158</b></u>

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

The annual requirements to amortize the general long-term debt outstanding as of June 30, 2001, including interest payments of \$1,183,857 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 328,800	\$ 150,475	\$ 479,275
2003	334,000	149,808	483,808
2004	234,000	128,832	362,832
2005	243,000	112,453	355,453
2006 and there after	<u>2,491,358</u>	<u>642,289</u>	<u>3,133,647</u>
	<u>\$3,631,158</u>	<u>\$1,183,857</u>	<u>\$4,815,015</u>

Interests payable for the year 2001 of \$150,475 will be paid by the Debt-Service Fund.

**(8) DEBT SERVICE FUND**

Revenues of the debt service fund consist of accretion of discounts on investments which are recorded as interest income on investments and the ad valorem property taxes which are recognized as revenue when they are collected and reported, before, by the P.R. Department of Treasury and now, by the Municipal Revenue Collection Center (CRIM). Interest income is for the payment of interest or special obligations of the general obligations bonds and notes.

On the fiscal year ended June 30, 2001, principal and interest on these obligations are paid by the Governmental Development Bank from funds obtained from the following:

Property Taxes	<u>\$228,864</u>
Payments at June 30, 2001 were as follows:	
Principal	\$ 216,917
Interest	<u>102,520</u>
	<u>\$ 319,437</u>

**(9) EMPLOYEE'S RETIREMENT PLAN**

Substantially all employees participate in the Retirement System of the Commonwealth of Puerto Rico (System), a multiple-employer public employee retirement system. All employees which at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 and with the minimum years of service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

Covered employees are required by Commonwealth statute to contribute, depending on selected alternatives, from 5.775 percent to 8.275 percent of their salary to the plan. The Municipality is required by the same statute to contribute 9.275 percent of the participant's salary.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increase and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulation sufficient assets to pay benefits when due, and make comparisons between public employee retirement system, and employers.

**(10) CONTINGENCIES**

During the year ended June 30, 2001, the Municipality paid the amount of \$70,000 in legal proceedings from previous years, in which the Municipality assume responsibility. In addition, the Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The Legal Counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he can not offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal Counsel with the information currently available can not determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

The Municipality participates in a number of federally-assisted grant programs. These grants are subject to audits to assure compliance with grant provisions. The audits of some of these programs for or including the year ended June 30, 2001, are in progress. Accordingly, the amount of expenditures which may be disallowed by the granting agencies, if any, will be established at some future date. However, the Municipality expects such amounts, if any, to be immaterial.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE, 30 2001**

**(11) FUND BALANCE-UNDESIGNATED**

For purposes of budget control and adjustment, the following is a reconciliation of amounts adjusted against undesignated fund balance for general fund as of June 30, 2001.

Deficit, before adjustments of payables to other government units	<u>\$ 35,508</u>
Less accounts payable to other government units:	
Puerto Rico Water Authority	134,189
General Services Administration	3,151
Governmental Retirement Agency	37,166
Department of Treasury-current portion	36,000
CRIM	339,726
Others	<u>145,782</u>
	<u>696,014</u>
Deficit, after adjustments of intergovernmental payables	<u>\$ 731,879</u>

**(12) ACCOUNT PAYABLE TO DEPARTMENT OF HEALTH**

The amount is payable to Department of Health according Health Reform Act, to cover administration and expenses for the Health Insurance Agency in Puerto Rico. Several Public Health Centers have been sold to private companies by Department of Health. The Department of Health make charges to the municipalities for their administration expenses. The balance of account payable is for the years ended prior to June 30,1997. However, payment to Department of Health for Reform Act comes from Puerto Rico Electronic Lottery, not from the general fund, according law 29 of July 1, 1997. Effective July 1,1997, current charges of the Department of Health are paid from the monthly reimbursements of property taxes collected by the Municipal Collection Center.

**(13) ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS**

According to the Environmental Protection Agency's (EPA) regulations, the Municipality must follow certain closure functions and post-closure monitoring and maintenance procedures. In addition, the Municipality has not adopted the GASB Number 18 in order to comply with these regulations.

As of June 30, 2001 the Municipality has not performed a study of the estimated closing and post-closing cost for will be recognized in the financial statements as require the new accounting policy. Also, the Municipality has one active landfill for which maintenance cost are incurred during the Fiscal Year 2000-01. Accordingly, no provision of future cost was recognized in the financial statement as required by this accounting pronouncement.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(14) ADJUSTMENTS**

Fund balance as of June 30, 2001 was adjusted due to differences in assets, liabilities, revenues and expenditures that could not be adequately determined.

**(15) PAYMENT PLANS WITH GOVERNMENTAL AGENCIES**

The Municipality entered in certain payment plans with governmental agencies and recognized a long term debt, from which current portion is accumulated in the general fund. The payment plans are the following:

Department of Labor

Account payable in the amount of \$440,931, including principal and interest, payable in monthly installments of \$12,248 through the year 2004. The account payable correspond to unemployment tax due as of June 30, 2001.

Department of Treasury

Account payable in the amount of \$919,017, payable in monthly installments of \$7,658 through the year ended June 30, 2010. The accounts payable correspond to property taxes received in advance and social security debt.

**(16) GASB-34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for statements except the focus for presentation is on major funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The management's discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB-34 will begin to take effect for the Municipality in fiscal year after June 15, 2003.

**MUNICIPALITY OF JAYUYA, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(17) HUD GUARANTEED LOAN FUND (SECTION 108)**

During the year ended June 30, 2001, the Municipality obtained a loan from HUD, in the amount of \$4,000,000 for the rehabilitation of Catalina Figueroa Building for the construction of educational facilities. The Municipality received the amount of \$1,000,000 recognized as loan proceeds in the capital project fund. The interest fluctuates between 3.5% and 4.5 %. For the year ended June 30, 2001, no principal payments were made and the Municipality is currently paying only interest charges due to the constructions is in process. The amount of \$3,000,000 has not been disbursed by the Federal Agency and is not recognized as loan payable in the general long-term debt account group. The total estimated costs for the project amounted \$4,000,000.

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