

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE JAYUYA

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2003

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Jayuya, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Jayuya, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2003, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. We believe that our audit provides a reasonable basis for our opinion.

The **Municipality** has not maintained a complete and accurate inventory of property, plant and equipment purchased in prior years to June 30, 2003. We were therefore, unable to apply generally accepted auditing procedures to an examination of the costs of assets included in the General Fixed Assets Account Group.

As explained in Note 12, the **Municipality** has not performed a study of the estimated landfill closing and postclosing costs that will be recognized in the general-purpose combined financial statements, as required by the GASB Number 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*". The study did not provide for an estimate of postclosing costs, accordingly, no provision for liability has been made in the financial statements as require by this pronouncement.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group, and for the no provision for liability of landfill closing and postclosing costs, as explained in above paragraphs, the general-purpose combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2003, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2003 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

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The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

CPA DIAZ-MARTINEZ PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico
November 14, 2003



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
ASSETS AND OTHER DEBITS:							
Cash and Investments (Notes 1 E and 2).....	\$ 387,335	\$ 5,859,414	\$ -	\$ -	\$ -	\$ -	\$ 6,246,749
Cash with Fiscal Agent (Note 1 E).....	14,206	213,536	133,613	349,972	-	-	711,327
Restricted Deposit (Note 1 E).....	384,434	-	-	-	-	-	384,434
Receivables:							
Property Taxes.....	-	-	-	6,173	-	-	6,173
Federal Grants (Note 10).....	-	317,358	-	-	-	-	317,358
Others Funds (Note 3).....	1,368,024	1,129,973	468,092	-	-	-	2,966,089
Others Receivables.....	71,137	37,967	-	-	-	-	109,104
Property, Plant and Equipment (Note 5).....	-	-	-	-	10,515,444	-	10,515,444
Amount Available in Debt Service Fund (Note 7).....	-	-	-	-	-	185,598	185,598
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6).....	-	-	-	-	-	6,465,984	6,465,984
Advance Property Taxes (Note 8).....	-	-	-	-	-	820,138	820,138
Social Security Debt (Note 6).....	-	-	-	-	-	7,207	7,207
Water Company Debt (Note 6).....	-	-	-	-	-	88,227	88,227
Vested Compensated Absences (Note 1 I).....	-	-	-	-	-	1,062,487	1,062,487
TOTAL ASSETS AND OTHER DEBITS.....	\$ 2,225,136	\$ 7,558,248	\$ 601,705	\$ 356,145	\$10,515,444	\$ 8,629,641	\$29,886,319

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 145,651	\$ 83,715	\$ -	\$ -	\$ -	\$ -	\$ 229,366
Principal Notes Payable.....	-	-	-	135,000	-	-	135,000
Interest Notes Payable.....	-	-	-	34,770	-	-	34,770
Due to:							
Government Units (Note 4).....	41,689	-	-	-	-	-	41,689
Other Funds (Note 3).....	1,598,065	1,367,247	-	777	-	-	2,966,089
Deferred Revenues:							
Volume of Business Tax (Note 9).....	863,052	-	-	-	-	-	863,052
Federal Grants (Note 10).....	-	589,087	-	-	-	-	589,087
Others	455,571	-	-	-	-	-	455,571
Long-Term Debts:							
General Obligations Bonds (Note 6).....	-	-	-	-	-	6,106,582	6,106,582
Special Obligations Notes (Note 6).....	-	-	-	-	-	545,000	545,000
Advances of Property Taxes (Note 8).....	-	-	-	-	-	820,138	820,138
Social Security Debt (Note 6).....	-	-	-	-	-	7,207	7,207
Water Company Debt (Note 6)	-	-	-	-	-	88,227	88,227
Vested Compensated Absences (Note 1 I).....	-	-	-	-	-	1,062,487	1,062,487
TOTAL LIABILITIES.....	3,104,028	2,040,049	-	170,547	-	8,629,641	13,944,265

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

COMBINED BALANCE SHEET –
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	MEMORANDUM ONLY
FUND EQUITY (DEFICIT):							
Investment in Property, Plant and Equipment (Note 5).....	\$ -	\$ -	\$ -	\$ -	\$10,515,444	\$ -	\$10,515,444
Fund Balance:							
Reserved for Encumbrances (Note 1 L)	280,069	-	-	-	-	-	280,069
Unreserved (Deficit):							
Designated for Debt Service (Note 1 L).....	-	-	-	185,598	-	-	185,598
Designated for Subsequent Years Expenditures.....	14,206	5,518,199	601,705	-	-	-	6,134,110
Undesignated (Deficit)	<u>(1,173,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,173,167)</u>
TOTAL FUND EQUITY (DEFICIT).....	<u>(878,892)</u>	<u>5,518,199</u>	<u>601,705</u>	<u>185,598</u>	<u>10,515,444</u>	<u>-</u>	<u>15,942,054</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,225,136</u>	<u>\$ 7,558,248</u>	<u>\$ 601,705</u>	<u>\$ 356,145</u>	<u>\$10,515,444</u>	<u>\$ 8,629,641</u>	<u>\$29,886,319</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8).....	\$ 1,065,121	\$ -	\$ -	\$ 203,987	\$ 1,269,108
Volume of Business Taxes (Note 9).....	923,491	-	-	-	923,491
Federal Assistance (Note 10).....	-	2,822,639	-	-	2,822,639
Intergovernmental (Note 10).....	3,802,158	3,520,514	223,667	-	7,546,339
Charges for Services.....	78,596	-	-	-	78,596
Licenses and Permits.....	384,418	-	-	-	384,418
Miscellaneous.....	1,570,984	-	-	-	1,570,984
TOTAL REVENUES.....	7,824,768	6,343,153	223,667	203,987	14,595,575
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	731,244	-	-	-	731,244
General Government.....	2,856,220	286,749	-	-	3,142,969
Public Safety.....	443,222	-	-	-	443,222
Public Works.....	1,276,364	-	-	-	1,276,364
Culture and Recreation.....	347,659	-	-	-	347,659
Sanitation.....	538,909	-	-	-	538,909
Human Services and Welfare.....	1,519,229	3,321,614	-	-	4,840,843
Urban Development.....	-	1,142,589	1,971,490	-	3,114,079
Capital Outlays.....	157,615	-	-	-	157,615
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	409,900	409,900
Interest Payment.....	-	-	-	152,096	152,096
TOTAL EXPENDITURES.....	7,870,462	4,750,952	1,971,490	561,996	15,154,900
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(45,694)	1,592,201	(1,747,823)	(358,009)	(559,325)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Proceed of Note	\$ 575,000	\$ 3,000,000	\$ -	\$ -	\$ 3,575,000
Operating Transfer In	-	161,458	1,764,464	145,743	2,071,665
Operating Transfer Out	<u>(307,201)</u>	<u>(1,764,464)</u>	<u>-</u>	<u>-</u>	<u>(2,071,665)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>267,799</u>	<u>1,396,994</u>	<u>1,764,464</u>	<u>145,743</u>	<u>3,575,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	222,105	2,989,195	16,641	(212,266)	3,015,675
Fund Balances (Deficit), as Restated at Beginning of Year (Note 14)	<u>(1,100,997)</u> ✓	<u>2,529,004</u>	<u>585,064</u>	<u>397,864</u>	<u>2,410,935</u>
FUND BALANCES (DEFICIT) AT END YEAR	<u>(\$ 878,892)</u> ✓	<u>\$ 5,518,199</u>	<u>\$ 601,705</u>	<u>\$ 185,598</u>	<u>\$ 5,426,610</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 1,065,121	\$ 1,065,121	\$ -	\$ 423,953	\$ 203,987	(\$ 219,966)
Volume of Business Taxes	850,000	923,491	73,491	-	-	-
Intergovernmental	3,842,313	3,802,158	(40,155)	-	-	-
Charges of Services	70,000	78,596	8,596	-	-	-
Licenses and Permits	334,925	384,418	49,493	-	-	-
Miscellaneous	219,503	213,066	(6,437)	-	-	-
TOTAL REVENUES.....	6,381,862	6,466,850	84,988	423,953	203,987	(219,966)
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	775,388	766,762	8,626	-	-	-
General Government:						
Finance	1,433,798	1,357,165	76,633	-	-	-
Personnel	384,583	311,163	73,420	-	-	-
Insurance	127,983	127,983	-	-	-	-
Public Safety	453,982	443,637	10,345	-	-	-
Public Works	1,337,347	1,320,144	17,203	-	-	-
Culture and Recreation	361,559	356,617	4,942	-	-	-
Sanitation	552,425	538,909	13,516	-	-	-
Human Services and Welfare	630,163	616,288	13,875	-	-	-
Capital Outlays	178,891	157,615	21,276	-	-	-
Amortization of Property Tax	-	-	-	-	-	-
Debt Service	-	-	-	423,953	561,996	(138,043)
TOTAL EXPENDITURES AND ENCUMBRANCES	6,236,119	5,996,283	239,836	423,953	561,996	(138,043)
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances.....	145,743	470,567	324,824	-	(358,009)	(358,009)

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer In (Out).....	(\$ 145,743)	(\$ 145,743)	\$ -	\$ -	\$ 145,743	\$ 145,743
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses.....	\$ -	324,824	\$ 324,824	\$ -	(212,266)	(\$ 212,266)
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance.....		(126,172)				
Proceed of Bonds.....		575,000				
GAAP Adjustments to Revenue.....		32,566				
Accrual Liability for Certain Debts Not Recognized in Budget		(62,655)				
Net Changes in Unbudgeted Items.....		(521,458)				
Fund Balances (Deficit), as Restated at Beginning of Year (Note 14)		(1,100,997)			397,864	
FUND BALANCE (DEFICIT) AT END OF YEAR.....		(\$ 878,892)			\$ 185,598	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Jayuya, Puerto Rico (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 the Commonwealth of Puerto Rico. The legislative body consists of 12 legislators also elected in the general elections of Puerto Rico for a four-year period.

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

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

A. Financial Reporting Entity

The general-purpose financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and account groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has considered all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, fiscal dependency of the potential component units and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to

(1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

B. Basis of Presentation

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set off self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

GOVERNMENTAL FUNDS

Governmental 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 financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following are the **Municipality's** governmental fund types:

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

Special Revenue Fund – This is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the General Fixed Assets Account Group.

ACCOUNT GROUPS

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the Municipality:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the Municipality.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay

liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys 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 recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

D. Budgetary Accounting

The Municipality's Annual Budget is prepared on the budgetary basis of accounting, represents departmental appropriations recommended by the Mayor, and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year.

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Combined Financial Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance – Budget and Actual, is presented on the budgetary basis to enhance comparability.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).

3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

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

E. Cash and Investment

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

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

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

F. Receivable

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

G. Inventories

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

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the **Municipality**. Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

I. Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrues a liability for compensated absences, which meet the following criteria: (1) the **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (3) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by **GASB Number 16**, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

J. Insurance

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

K. Interfund Transactions

The **Municipality** has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

L. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. The **Municipality** has the following reservations of fund balance:

Encumbrance – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

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

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

L. Reservations of Fund Balance (continuation)

Fund Deficit in the General Fund is primarily attributable to prior year adjustments due to unrecorded debts and cash accounts reconciliation. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

M. Claims and Judgments

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

N. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH AND INVESTMENTS

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposit. The Municipality's cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit.

ISSUED BY	NUMBER	AMOUNT	RATE	DATE
Popular Bank	1110000044	\$ 400,000	1.55%	08-11-03
Popular Bank	1110000046	3,000,000	1.55%	08-28-03
Popular Bank	1110000048	100,000	1.55%	08-11-03
Popular Bank	1110000053	400,000	1.55%	07-27-03
TOTAL		<u>\$3,900,000</u>		

NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2003 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Interfund Loans	\$1,367,247	\$1,598,065
Interest Receivable from Debt Service Fund	777	-
Special Revenue:		
Interfund Loans	1,129,973	1,367,247
Capital Project:		
Interfund Loans	468,092	-
Debt Services:		
Interest Payable to General Fund	-	777
TOTAL	<u>\$2,966,089</u>	<u>\$2,966,089</u>

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
AEELA	\$ 846
Retirement System Administration	37,151
Other	3,692
TOTAL	<u>\$41,689</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

DESCRIPTION	BALANCE JULY 1, 2002	ADDITIONS AND ADJUSTMENTS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2003
Land.....	\$ 1,762,068	\$ 224,430	\$ -	\$ 1,986,498
Buildings and Improvements.....	3,871,286	118,500	-	3,989,786
Machinery and Equipment.....	<u>3,798,881</u>	<u>863,867</u>	<u>123,588</u>	<u>4,539,160</u>
TOTAL.....	<u>\$ 9,432,235</u>	<u>\$ 1,206,797</u>	<u>\$ 123,588</u>	<u>\$10,515,444</u>

NOTE 6 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund (See Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality. General obligations bonds and notes payable as of June 30, 2003, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$300,000 Series 1985, payable in annual installments ranging from \$6,000 to \$21,000, excluding interests at 5.00%, through January 1, 2010.....	\$ 124,182
\$650,000, Series 1987, payable in annual installments ranging from \$30,000 to \$35,000, excluding interests at 8.50%, through July 1, 2007.....	140,000
\$905,000, Series 1987, payable in annual installments ranging from \$45,000 to \$50,000, excluding interests at 9.00%, through July 1, 2007.....	185,000

DESCRIPTION	AMOUNT
\$70,000, Series 1988, payable in quarterly installments of \$875, excluding interests at 8.00%, through July 1, 2007.....	\$ 14,000
\$325,000 Series 1991, payable in annual installments ranging from \$6,000 to \$25,000, excluding interests at 6.00%, through January 1, 2015.....	224,000
\$400,000, Series 1996, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding interests at 8.00%, through July 1, 2016.....	315,000
\$505,000, Series 1999, payable in semiannual installments ranging from \$10,000 to \$40,000, excluding variable interests from 6.31% to 7.50%, through July 1, 2022.....	450,000
\$117,200, Series 1997, payable in annual installments ranging from \$3,000 to \$7,900, excluding interests at 4.50%, through January 1, 2022.....	104,400
\$1,000,000, Series 2001, payable in annual installments ranging from \$50,000 to \$100,000, excluding interests at 4.08%, through August 1, 2003 (Paid through SBGP Fund).....	1,000,000
\$3,000,000, Series 2002, payable in annual installments ranging from \$165,000 to \$195,000, excluding interests at 5.00, through August 1, 2022 (Paid through SBGP Fund).....	3,000,000
\$155,000, Series 2003, payable in annual installments ranging from \$20,000 to \$25,000, excluding interests at 5.50%, through July 1, 2009.....	135,000
\$420,000, Series 2003, payable in annual installments ranging from \$5,000 to \$40,000, excluding interests at 7.00%, through July 1, 2027.....	<u>415,000</u>
Total General Obligations – Bonds.....	<u>6,106,582</u>
Notes Payable:	
\$145,000, Series 1998, payable in semiannual installments ranging from \$15,000 to \$25,000, excluding interests at 7.00%, through July 1, 2005.....	50,000
\$250,000, Series 1998, payable in annual installments ranging from \$31,000 to \$41,000, excluding interests at 4.75%, through July 1, 2005.....	80,000

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
Notes Payable:	
\$240,000, Series 2000, payable in annual installments ranging from \$25,000 to \$45,000, excluding interests at 7.50%, through July 1, 2006	\$ 120,000
\$385,000, Series 2002, payable in semiannual installments ranging from \$45,000 to \$65,000, excluding interests at 7.25%, through July 1, 2008	<u>295,000</u>
Total Notes Payable.....	<u>545,000</u>
Total General Obligations Bonds and Notes	<u>\$6,651,582</u>

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2003 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2004	\$ 369,100	\$ 353,235	\$ 722,335
2005	388,300	342,268	730,568
2006	509,400	319,624	829,024
2007	481,600	295,711	777,311
2008	394,300	271,222	665,522
2009-2013	1,564,682	1,104,958	2,669,640
2014-2018	1,494,500	674,116	2,168,616
2019-2023	1,324,700	247,127	1,571,827
2024-2028	<u>125,000</u>	<u>23,450</u>	<u>148,450</u>
TOTAL	<u>\$ 6,651,582</u>	<u>\$ 3,631,711</u>	<u>\$10,283,293</u>

B. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
Property Tax Advance – MRCC.....	\$ 631,040	\$ -	\$ 44,448	\$ 586,592
Property Tax Adv. – Treas Dept	268,586	-	35,040	233,546
Social Security Debt.....	8,167	-	960	7,207
State Health Insurance Plan	704,744	-	704,744	-
Department of Labor (Unemployment)	524,143	-	524,143	-
Water Company Debt.....	-	88,227	-	88,227
Compensated Absences	<u>986,460</u>	<u>76,027</u>	<u>-</u>	<u>1,062,487</u>
TOTAL.....	<u>\$3,123,140</u>	<u>\$ 164,254</u>	<u>\$1,309,335</u>	<u>\$1,978,059</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2003:

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
General.....	\$2,804,482	\$3,575,000	\$ 272,900	\$6,106,582
Notes	682,000	-	137,000	545,000
Others Debts.....	<u>3,123,140</u>	<u>164,254</u>	<u>1,309,335</u>	<u>1,978,059</u>
TOTAL.....	<u>\$6,609,622</u>	<u>\$3,739,254</u>	<u>\$1,719,235</u>	<u>\$8,629,641</u>

NOTE 7 DEBT RETIREMENT

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

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 6). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution. The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the **Municipality** of 1.00% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

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

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

The **Municipality** records as revenue in the general fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt. The revenue for the basic contribution over property not exonerated is recorded in the General Fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Account Group, for the Prior Advance Property Taxes owed to Treasury Department and Municipal Revenue Collection Center (MRCC), expenditures in the General Fund and recognized as revenue in accordance with GAAP.

NOTE 9 VOLUME OF BUSINESS TAX

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

- a. 1.00% for financial institutions and savings and loan associations.
- b. 0.30% for all other organizations.

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

NOTE 10 INTERGOVERNMENTAL REVENUES

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

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

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447, that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

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

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

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

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

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

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan. The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

Contributions in 2003 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately \$178,195. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2003.

NOTE 12 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

According to the Environmental Protection Agency's (EPA) regulations, the **Municipality** must follow certain closure functions and postclosure 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, 2003, the **Municipality** has not performed a study of the estimated closing and postclosing 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 costs are incurred during Fiscal Year 1999-00. Accordingly, no provision of future cost was recognized in the financial statement as require by this accounting pronouncement.

NOTE 13 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

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

B. FEDERAL GRANTS

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. It is the **Municipality's** opinion that no additional liabilities will arise from audits previously performed or to be performed.

NOTE 14 BEGINNING FUND BALANCES RESTATEMENT

Beginning Fund Balances for the following funds have been restated by accounting adjustments that affect the Fund Equity of these Governmental Funds, as follows:

	GENERAL	SPECIAL REVENUE	DEBT SERVICE
Beginning Fund Balance at July 1, 2002	(\$ 948,867)	\$2,824,163	\$ 523,049
Change in Accounting Principles	-	-	(130,854)
Final Liquidation of Fiscal Year 2001-02	-	-	5,669
Reclassification of Fund Balance as Deferred Revenue	(447,289)	-	-
Elimination of Interfund Debt.....	295,159	-	-
Elimination of Interfund Debt.....	-	(295,159)	-
Beginning Fund Balance, as Restated, July 1, 2002.....	<u>\$1,100,997</u>	<u>\$2,529,004</u>	<u>\$ 397,864</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 GASB STATEMENTS NUMBERS 33, 34 (AS AMENDED), 37, 38 AND 39

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management’s Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government’s financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.
- B. Basic Financial Statements – should include:
 - 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:
 - a. Statement of Net Assets
 - b. Statement of Activities
 - 2. Fund Financial Statements – Fund financial statements for the primary government’s governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
 - 3. Notes to the Financial Statements – One set of notes for both financial statements.
- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the Municipality in fiscal year beginning after June 15, 2003. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U. S. Department of Agriculture:			
Pass Through State – Office of the Governor, Regional Elderly Office:			
Child and Adult Care Food Program.....	10.558	N/AV	\$ 35,626
Direct Program:			
Water and Waste Disposal Systems For Rural Communities	10.766		<u>71,664</u>
Total U.S. Department of Agriculture.....			<u>107,290</u>
U.S. Department of Commerce:			
Economic Development Administration	11.300		<u>97,245</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choices Vouchers	14.871		20,166
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
State Block Grant Program (SBGP)	14.228	02-FD 01-FD 00-FD-FC 99-FD-FC 98-FD 97-FD 95-FD	1,161,776
Community Development Block Grants Section 108 Loan Guarantees	14.248		<u>367,213</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,549,155</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>1,753,690</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
Subtotal Expenditures of Federal Awards (Balance Brought Forward)			<u>\$1,753,690</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	FEMA1136DR-PR FEMA1247DR-PR	359,270
Hazard Mitigation Grant	83.548	N/AV	<u>203,619</u>
Total U.S. Federal Emergency Management Administration (FEMA):			<u>562,889</u>
U.S. Department of Health and Human Services			
Pass-Through Office of the Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	N/AV	179,430
Pass-Through Instituto de Servicios Comunales, Inc. (INSEC):			
Community Services Block Grant	93.569	N/AV	53,328
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	N/AV	<u>273,302</u>
Total U.S. Department of Health and Human Services			<u>506,060</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,822,639</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 GENERAL

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$1,704,441	\$1,118,198	\$2,822,639
State & Municipal Expenditures	<u>3,046,511</u>	<u>853,292</u>	<u>3,899,803</u>
TOTAL EXPENDITURES	<u>\$4,750,952</u>	<u>\$1,971,490</u>	<u>\$6,722,442</u>

NOTE 6 LOAN OUTSTANDING

At June 30, 2003, the **Municipality** had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.228), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance at June 30, 2003 was \$4,000,000.

NOTE 7 MAJOR PROGRAMS

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

END OF NOTES



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INDEPENDENT AUDITORS' 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 Honorable Mayor and
Members of the Municipal Legislature
Municipality of Jayuya, Puerto Rico**

We have audited the financial statements of **Municipality of Jayuya, Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2003, and have issued report thereon dated November 14, 2003, which was qualified because we been unable to audit the fixed assets of the General Fixed Assets Account Group. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider being reportable condition. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 03-II-01.

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

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described being material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated November 14, 2003.

This report is intended for the information and use of the management, other within the organization, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

CPA DIAZ-MARTINEZ PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico
November 14, 2003





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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Jayuya, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Jayuya, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The **Municipality's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-02 through 03-III-06.

Internal Control Over Compliance

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

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

Page 2

We noted certain matters involving the internal control over compliance and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-04.

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

This report is intended for the information and use of the management, other within the organization, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

CPA DIAZ-MARTINEZ PSC
CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 14, 2003



PART III
FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?

Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	State Block Grant Program (SBGP)
14.248	Section 108 Loan Guarantees
83.544	Public Assistance Grant

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

\$300,000

Auditee qualified as low-risk auditee?

Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 03-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property record and reports we noted the following deficiencies; (a) balance in 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 not adequate internal control procedures to assure the proper valuation and timeliness of recognition of real estate inventory.
CRITERIA	Article 10.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-01
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of Municipality's internal control over disbursements process, that four (4) Receiving Reports from the State Block Grant Program were not available for our examination.
CRITERIA	Code of Federal Regulations, Subpart C, CFR 24 Section 85.20 (b) (3) (OMB Common Rule) requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
CAUSE	There is no adequate internal control procedures implemented to assure this compliance.
EFFECT	Liabilities could be paid twice by the Municipality , an unallowable cost.
RECOMMENDATION	Municipality should stamp as paid all disbursement supporting documents and should implement an adequate control over recordkeeping in order to assure compliance with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-02
FEDERAL PROGRAMS	SECTION 108 LOAN GRANTEES (CFDA NO. 14.248) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS PUBLIC ASSISTANCE GRANTS (CFDA NO. 83.544) U.S. FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION PASS-THROUGH STATE – OFFICE OF THE GOVERNOR
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS BACON
CONDITION	Municipality did not perform the required procedures to ensure that contractors paid prevailing wages according to the Department of Labor rates as established by the Davis-Bacon Act.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). The procedures establish that the Municipality must interview the employees at the beginning, at a middle stage and at the end of the project. Also the Municipality should verify if the contractor is paying the prevailing wages according to the Department of Labor.
CAUSE	Municipality's is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
EFFECT	Municipality did not perform the required procedures ensure contractors and subcontractors compliance with the Act.
RECOMMENDATION	We recommend management to perform the required procedures that includes obtaining prevailing wage rates from the Department of Labor and comparing it with the payroll of the contractor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, and to perform interviews to contractor's and subcontractor's laborers accordingly to the established requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-03
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	It was noted in our tests of equipment and real property management that the Municipality does not maintained an appropriate real property record as required by the federal regulation.
CRITERIA	Code of Federal Regulations, Subpart J, CFR 24, Section 570.506 (a) stated that the Municipality shall establish and maintain at minimum records providing a full description of each activity assisted (or being assisted) with CDBG funds, including its location (if the activity has a geographical locus), the amount of CDBG funds budgeted, obligated and expended for the activity.
CAUSE	Municipality does not maintain the appropriate information on the real property records to assure that it is in accordance with the federal regulation.
EFFECT	Municipality is not in compliance with CFR 24, Section 570.506 (a).
RECOMMENDATION	Municipality should revise its real property records and complete it according to the federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-04
FEDERAL PROGRAM	SECTION 108 LOAN GUARANTEES (CFDA NO. 14.248) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	The model for construction contracts over \$10,000 used by the Municipality did not contain the clauses detailed for compliance with the provisions for suspension and debarment, granting access to GAO and other federal agencies to books and documents, Davis-Bacon, contract work hours and safety standards; and compliance with Executive Order 11246 EEO, Clear Air and Clear Water Act Energy Policy and Conservation Act for contracts over \$100,000, as required by the program regulation.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13), and 44 CFR Section 13.36 (l) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	Federal Program and Finance Departments did not maintain appropriate procurement standard procedures; in order to assure that contractor complies with some requirements.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13), and 44 CFR Section 13.36 (l) (1-13) of OMB Common Rules.
RECOMMENDATION	We recommend management to update contract model according with the federal requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-05
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test of Housing Rehabilitation we noted that three (3) participant files does not have the application form and five (5) files does not have the photo before and/or the household repair.
CRITERIA	The Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to file a application form in order to determined if the participant unit is eligible to be rehabilitated under the criteria of the program and there has to be a photo before and after the household repair.
EFFECT	Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
CAUSE	Municipality does not file an application form to the participant and the file does not have the photo before and after the household repair order to document if the participant unit is eligible to be rehabilitate and if the rehabilitation have been completed under the Housing Rehabilitation criteria.
RECOMMENDATION	We recommended management to implemented adequate procedures in order to comply with this pass through entity requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-06
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test of Housing Rehabilitation we noted that six (6) participant files does not have the initial (preliminary) unit inspection and seven (7) files does not have the intermediate and final unit inspection.
CRITERIA	The Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to conduct an initial unit inspection to determine if the unit is eligible to be rehabilitate under the criteria of the program. The intermediate and final unit inspections are conducted to determine if the unit is being rehabilitated and that the rehabilitation has been completed.
CAUSE	Municipality does not conduct an initial, intermediate and final unit inspection in order to document if the participant unit is eligible to be rehabilitate and if the rehabilitation have been completed under the Housing Rehabilitation criteria.
EFFECT	Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
RECOMMENDATION	We recommended management to implemented adequate procedures in order to comply with this pass-through entity requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(2) Audit Findings not Corrected or Partially Corrected: (continuation)

Finding Number 02-III-05 **Special Tests and Provisions – Initial Inspections.**

CFDA Number 14.228

Questioned Cost None

Auditee Comments The Mayor gave instructions to the Federal Programs Director to implement adequate procedures in order to comply with this pass-through entity requirement.

Finding Number 02-III-06 **Special Tests and Provisions – Intermediate Inspections.**

CFDA Number 14.228

Questioned Cost None

Auditee Comments The Mayor gave instructions to the Federal Programs Director to implement adequate procedures in order to comply with this pass-through entity requirement.

FISCAL YEAR 2001

Finding Number 2001-1 **Equipment & Real Property Management – Subsidiary Records.**

CFDA Number 14.228

Questioned Cost None

Auditee Comments See Finding Number 02-III-02 above.

FISCAL YEAR 2000

Finding Number 00-III-05 **Davis-Bacon Act – Monitoring of Payroll.**

CFDA Number 83.544

Questioned Cost None

Auditee Comments The Mayor gave an instruction to perform a 100% test of monitoring and interviewing, and include copy of this form on project file. The responsibility was assigned to one employee, Federal Labor Standard Specialist.

Finding Number 00-III-06 **Equipment & Real Property Management – Subsidiary Records.**

CFDA Number 14.228

Questioned Cost None

Auditee Comments See Finding Number 02-III-02 above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

NONE

(4) Audit findings is no longer valid:

FISCAL YEAR 1999, 1998 and 1997

Finding Numbers 99-III-03 Equipment & Real Property Management – Subsidiary Records.
 98-III-02
 97-III-02

CFDA Number 14.228

Questioned Cost None

Auditee Comments More than two years are passed without Pass-through Agency action. Also, see Finding Number 02-III-02 above.

END OF SCHEDULE