

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE JUANA DIAZ**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUANA DIAZ**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2001**

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DE ASUNTOS MUNICIPALES  
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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUANA DIAZ

YEAR ENDED JUNE 30, 2001

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUANA DIAZ**

**YEAR ENDED JUNE 30, 2001**

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
the Municipal Assembly  
Municipality of Juana Díaz  
Juana Díaz, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Juana Díaz**, as of and for the year ended June 30, 2001, 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. We did not audit the financial statements of Villas del Parque Housing Project no. 63-033-0690660049, a blended component unit, which statements reflect total assets of \$2,134,345 (net of fixed assets accumulated depreciation) as of June 30, 2001, and total revenues of \$391,290 for the year ended. Those statements were audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the Special Revenue Fund, General Fixed Assets and General Long-Term Debt Account Groups for the Villas del Parque Housing Project, is based solely on the report of the other auditor.

Except as discussed in the following paragraphs, we conducted our audit 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 the provisions of the Office of Management and Budget 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 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 of Juana Díaz** General Fixed Assets Account Group per General Ledger do not reconcile with the fixed assets subsidiary records by \$3,977,053. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

The **Municipality of Juana Díaz** has not updated the estimated liability for compensated absences recorded in the general long-term debt account group. Therefore, we do not express an opinion on such amounts included in the general long-term debt account group.

## INDEPENDENT AUDITORS' REPORT (Continued)

As indicated in **Note 13**, at June 30, 2001, the Municipality had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Post closure Care Costs.

In our opinion, based on our audit and the report of other auditor, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the estimated liability for compensated absences, and the transactions disclosed in the preceding paragraph related to landfill closure and post-closure costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Juana Díaz** as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Juana Díaz**, taken as whole. 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. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole..

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 26, 2002

Stamp No. 1785251 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ  
COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents	\$183,239	\$1,252,899		\$1,440,964			\$2,877,102
Cash with fiscal agent		702,206	\$1,781,849	2,069,003			4,553,058
Intergovernmental receivables	385,827	71,124					456,951
Municipal license taxes receivable	763						763
Federal grants receivable		70,878					70,878
Due from other funds	369,515						369,515
Other receivables	62,654	4,562					67,216
Property and equipment					\$30,337,541		30,337,541
Amount available in Debt Service Fund						\$1,781,849	1,781,849
Amount to be provided for retirement of general long-term debt						10,077,802	10,077,802
<b>Total assets and other debits</b>	<b><u>\$1,001,998</u></b>	<b><u>\$2,101,669</u></b>	<b><u>\$1,781,849</u></b>	<b><u>\$3,509,967</u></b>	<b><u>\$30,337,541</u></b>	<b><u>\$11,859,651</u></b>	<b><u>\$50,592,675</u></b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$526,238	\$124,820		\$25,335			\$676,393
Due to other funds		310,150		59,365			369,515
Due to other governmental entities	677,164					149,575	826,739
Deferred municipal license tax revenues	1,119,704						1,119,704
Deferred - other	100,000	12,778					112,778
Deferred federal grant revenues		1,088,561					1,088,561
Claims and judgments						358,613	358,613
General obligation bonds						8,543,000	8,543,000
Notes payable						1,927,408	1,927,408
Advance property tax debt						288,455	288,455
Accrued compensated absences						592,600	592,600
<b>Total liabilities</b>	<b><u>2,423,106</u></b>	<b><u>1,536,309</u></b>		<b><u>84,700</u></b>		<b><u>11,859,651</u></b>	<b><u>15,903,766</u></b>
<b>Fund equity:</b>							
Investment in general fixed assets					30,337,541		30,337,541
<b>Fund balances:</b>							
Reserved for encumbrances	156,158						156,158
Reserved for debt service			1,781,849				1,781,849
<b>Unreserved:</b>							
Designated for specific fund purposes		565,360		3,425,267			3,990,627
Undesignated	(1,577,266)						(1,577,266)
<b>Total fund equity (deficit)</b>	<b><u>(1,421,108)</u></b>	<b><u>565,360</u></b>	<b><u>1,781,849</u></b>	<b><u>3,425,267</u></b>	<b><u>30,337,541</u></b>		<b><u>34,688,909</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$1,001,998</u></b>	<b><u>\$2,101,669</u></b>	<b><u>\$1,781,849</u></b>	<b><u>\$3,509,967</u></b>	<b><u>\$30,337,541</u></b>	<b><u>\$11,859,651</u></b>	<b><u>\$50,592,675</u></b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30,2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$2,829,796		\$820,338		\$3,650,134
Municipal license taxes	1,392,600				1,392,600
Licenses and permits	264,935				264,935
Intergovernmental	3,965,433	\$889,777		\$751,073	5,606,283
Rent of property	144,951	366,644			511,595
Fines and penalties	7,290				7,290
Interest	343,034	24,646			367,680
Federal grants		8,012,596			8,012,596
Miscellaneous	763,509	91,128			854,637
<b>Total revenues</b>	<u>9,711,548</u>	<u>9,384,791</u>	<u>820,338</u>	<u>751,073</u>	<u>20,667,750</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	1,029,393	1,374,955			2,404,348
General government	5,117,217				5,117,217
Public safety	779,570	169,716			949,286
Public works	1,011,570	1,143,211			2,154,781
Public health and sanitation	1,358,150	27,863			1,386,013
Welfare		5,814,872			5,814,872
Economic development	369,324				369,324
Recreation	436,455	14,522			450,977
Human services	306,996				306,996
Principal retirement	45,000	12,440	502,000		559,440
Interest	23,991	99,245	545,377		668,613
<b>Capital outlays</b>	25,087	995,762		2,626,895	3,647,744
<b>Total expenditures</b>	<u>10,502,753</u>	<u>9,652,586</u>	<u>1,047,377</u>	<u>2,626,895</u>	<u>23,829,611</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(791,205)	(267,795)	(227,039)	(1,875,822)	(3,161,861)
<b>Fund balances (deficit) beginning, as restated</b>	<u>(629,903)</u>	<u>833,155</u>	<u>2,008,888</u>	<u>5,301,089</u>	<u>7,513,229</u>
<b>Fund balances (deficit), ending</b>	<u>(\$1,421,108)</u>	<u>\$565,360</u>	<u>\$1,781,849</u>	<u>\$3,425,267</u>	<u>\$4,351,368</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2001**

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Property taxes	\$2,851,010	\$2,851,010		\$841,389	\$820,338	(\$21,051)
Municipal license taxes	1,420,000	1,392,600	(\$27,400)			
Licenses and permits	240,000	264,935	24,935			
Intergovernmental	3,705,330	3,965,433	260,103			
Rent of property	150,061	144,951	(5,110)			
Fines and penalties	2,000	7,290	5,290			
Interest	408,588	343,034	(65,554)			
Miscellaneous	1,384,088	763,509	(620,579)			
Total revenues	<u>10,161,077</u>	<u>9,732,762</u>	<u>(428,315)</u>	<u>841,389</u>	<u>820,338</u>	<u>(21,051)</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	1,036,409	1,034,424	1,985			
General government	4,715,375	5,135,297	(419,922)			
Public safety	769,063	781,209	(12,146)			
Public works	1,027,006	1,099,595	(72,589)			
Public health and sanitation	1,365,121	1,360,369	4,752			
Economic development	374,737	372,472	2,265			
Recreation	451,715	446,573	5,142			
Human services	321,725	319,874	1,851			
<b>Capital outlays</b>	26,876	29,036	(2,160)			
<b>Debt service:</b>						
Principal retirement	45,000	45,000		532,000	502,000	30,000
Interest	28,050	23,991	4,059	537,153	545,377	(8,224)
Total expenditures and encumbrances	<u>10,161,077</u>	<u>10,647,840</u>	<u>(486,763)</u>	<u>1,069,153</u>	<u>1,047,377</u>	<u>21,776</u>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>		(915,078)	(915,078)		(227,039)	725
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Net change in encumbrances		145,087				
GAAP adjustments to revenues		(21,214)				
<b>Fund balances (deficit) beginning, as restated</b>		<u>(629,903)</u>			<u>2,008,888</u>	
<b>Fund balances (deficit), ending</b>		<u><u>(\$1,421,108)</u></u>			<u><u>\$1,781,849</u></u>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The **Municipality of Juana Díaz** (the Municipality) was established in 1787. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

**A. Financial reporting entity:**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. 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 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 the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the financial statements of Villas del Parque Housing Project no. 63-033-0690660049 were included in the general-purpose financial statements as a blended component unit.

**Blended Component Unit:** Villas del Parque Housing Project is a housing development consisting of eighty-four dwelling units located in Juana Díaz. The Project is owned by the Municipality, but the activities on it are carried-on by a management agent unrelated to the Municipality. The housing development is designated to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The Project operates under financing from US Department of Agriculture Section 515 Rural

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

**A. Financial reporting entity (continued):**

Rental Housing Loans Program, and with a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with US Housing and Urban Development. For financial reporting purposes, the Housing Project is reported as if it were part of the Municipality's operations because its purpose is to provide low-income housing to citizens of the Municipality. The Financial Statements of the blended component unit can be obtained directly from the management agent office, P.O. Box 7759, Ponce, PR 00732-7759.

**B. Basis of presentation:**

The Municipality records its transactions in the fund types and account groups described below:

**Governmental fund types:**

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

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

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

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

**Capital Projects** - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**B. Basis of presentation (continued):**

**Account groups:**

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt - is used to account for all long-term debt obligations of the Municipality.

**C. Basis of accounting:**

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter 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 corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

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 essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**D. 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:

Encumbrances – 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.

**E. Budgetary data:**

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**E. Budgetary data (continued):**

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

**F. Inventories:**

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

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**H. Cash and cash equivalents:**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**J. Compensated absences:**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

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.
4. 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. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

**K. Insurance:**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**L. Total columns (memorandum only):**

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

**M. Use of estimates in the preparation of general purpose financial statements:**

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**N. 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.

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

The amounts due to other governmental entities in the General Fund include the following:

Internal Revenue Services (FICA tax)	\$ 412,715
Retirement System Administration	140,757
Puerto Rico Aqueduct and Sewer Authority	96,580
General Services Administration	2,795
Department of Labor	24,317
	<hr/>
Total	\$ 677,164

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):**

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	<u>\$ 149,575</u>
Total	<u>\$ 149,575</u>

**3. PROPERTY TAXES:**

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.38% for real property and 6.38% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.55% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**3. PROPERTY TAXES (CONTINUED):**

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the actual collections were more than advances by \$340,794. Such amount was included as an intergovernmental receivable in the General Fund. Also, the Municipality has a \$288,455 property tax advance debt balance from prior years; such balance was included as a long-term debt in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2001.

**4. MUNICIPAL LICENSE TAXES:**

The municipal license 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 Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

**5. INTERGOVERNMENTAL:**

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**5. INTERGOVERNMENTAL (CONTINUED):**

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

**6. CASH AND CASH EQUIVALENTS:**

Cash in bank accounts	\$ 1,877,102
Certificates of deposit (90 days or less)	<u>1,000,000</u>
 Total cash and cash equivalents	 <u>\$ 2,877,102</u>

**7. DEBT SERVICE FUND:**

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

**8. GENERAL FIXED ASSETS:**

A summary of changes in the General Fixed Assets Account Group is as follows:

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$ -	\$ 3,320,627	\$ -	\$ 3,320,627
Buildings and Improvements	15,619,281	3,293,426	5,245,982	13,666,725
Machinery and Equipment	<u>5,870,915</u>	<u>7,479,274</u>	<u>-</u>	<u>13,350,189</u>
 Total	 <u>\$ 21,490,196</u>	 <u>\$14,093,327</u>	 <u>\$ 5,245,982</u>	 <u>\$ 30,337,541</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$8,355,000
Debt issued	-
Principal retirements	(382,000)
Adjustments and/or Reclassifications	570,000
Balance at June 30, 2001	\$ 8,543,000

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1983 Series	1-1-07	\$ 200,000	5.00%	\$ 75,000
1986 Series	7-1-06	1,200,000	5.88% to 8.50%	285,000
1992 Series	1-1-16	1,758,000	5.63%	1,452,000
1995 Series	7-1-18	615,000	6.11% to 8.21%	545,000
1995 Series	1-1-19	835,000	4.50%	707,000
1995 Series	7-1-08	1,680,000	4.70% to 6.88%	1,250,000
1997 Series	7-1-16	1,180,000	4.70% to 6.63%	1,065,000
1998 Series	1-1-02	86,000	5.00%	4,000
1998 Series	7-1-19	2,270,000	4.87% to 6.51%	2,175,000
2000 Series	7-1-14	1,025,000	6.13% to 7.81%	985,000
Total general obligation bonds				\$ 8,543,000

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 411,000
2003	438,000
2004	465,000
2005	501,000
2006	544,000
Thereafter	6,184,000
Total	\$ 8,543,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9, GENERAL OBLIGATION BONDS (CONTINUED):**

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

**10. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 2,269,848
Debt issued	-
Payments during the current year	(177,440)
Adjustments\Reclassifications	<u>(165,000)</u>
Balance at June 30, 2001	<u>\$ 1,927,408</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1998 Series	7-1-02	530,000	4.86% - 6.71%	\$ 240,000
1999 Series	7-1-03	155,000	4.86% - 6.71%	100,000
2000 Series	7-1-04	160,000	4.86% - 6.71%	130,000
Section 515 - USDA	12-1-31	Not available	7.00% - 9.00%	<u>1,457,408</u>
<b>Total notes payable</b>				<u><b>\$ 1,927,408</b></u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 191,118
2003	207,306
2004	88,582
2005	54,954
2006	21,426
Thereafter	<u>1,364,022</u>
Total	<u><b>\$ 1,927,408</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED)**

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year-credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED):**

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 290,721. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- \* The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- \* Future pension payments reflect an assumption of 5% salary increase.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED):**

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. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. 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 ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

**12. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

Operating transfers represent transfers between funds to specific purposes designated by the management.

**13. LANDFILL OBLIGATIONS:**

The Municipality of Juana Díaz owns and operates a solid waste landfill. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2001, the Municipality has not prepared the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not prepared the estimated obligation for landfill closure and post closure costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**14. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$358,613 in the general long-term debt account group for a final unfavorable judgment. The amount presented in the general long-term debt group of account represents the amount of determined as liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**15. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances for General, Special Revenue and Capital Projects Funds, and the beginning Net Assets for the Enterprise Fund have been restated by accounting and financial statements presentation errors detected during the fiscal year that affect the Fund Equity and Net Assets section of those Governmental and Proprietary Funds, as follows:

Description	General	Special Revenue	Capital Projects	Enterprise Fund
Beginning Fund Balances at July 1, 2000	\$ 592,156	\$ -	\$ 5,193,096	\$ 661,026
Capital Project cash reported in the General Fund instead of Capital Project Fund, and cash balances not supported by accounting records	(571,327)		572,075	
Special Revenue cash reported in the Capital Project Fund instead of Special Revenue Fund		541,603	(541,628)	
Increase in property tax receivable due to difference between CRIM fiscal year 1999-2000 preliminary and final liquidation	13,808			
General Fund accounts receivable not recorded	49,163			
General Fund account receivable from contractor recorded in the General Fund as due from US-FEMA; such receivable did not comply with the revenue recognition concept per modified accrual basis of accounting	(414,499)			
Accounts receivable not supported by documentation	(107,801)			
Interfund accounts receivable\payable not supported by accounting records	(191,403)	16,766	107,251	
Accounts Payable not recorded			(29,705)	
To record Housing Project as a Special Revenue Fund Blended Component Unit instead of Enterprise Fund (including conversion from accrual to modified accrual basis of accounting)		274,786		(661,026)
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	<u>\$ (629,903)</u>	<u>\$ 833,155</u>	<u>\$ 5,301,089</u>	<u>\$ -</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**16. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:**

On June 22, 2001, the Municipal Assembly approved an increase of property tax rates from 8.38% for real property and 6.38% for personal property to 8.58% and 6.58%, respectively. Amended property tax rates will be effective on July 1, 2002.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ 392,842
<b>Total U.S. Department of Agriculture</b>			<u>392,842</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Community Development Block Grants - Entitlement Grants	14.218		1,020,478
Direct Program (Cluster of Programs):			
Section 8 Rental Voucher Program	14.855		421,484
Section 8 Rental Certificate Program	14.857		32,578
Total Cluster of Programs			<u>454,062</u>
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants-State's Program	14.228	94-FD-34 95-FD-34 97-FD-34 98-FD-34 99-FD-34	<u>636,748</u>
<b>Total U.S. Department of Housing and Urban Development:</b>			<u>2,111,288</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Direct Program: Public Safety Partnership and Community Policing Grants	16.710		121,283
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office): Juvenile Justice and Delinquency Prevention	16.540	Not Available	<u>36,863</u>
<b>Total U.S. Department of Justice</b>			<b><u>158,146</u></b>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management - State and Local Assistance	83.534	Not Available	9,820
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DRPR	<u>435,487</u>
<b>Total U.S. Federal Emergency Management Agency</b>			<b><u>445,307</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Program for Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	9,854
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	40,117
Head Start Program	93.600	Not Available	4,626,453
Pass-through the Commonwealth of Puerto Rico - Municipality of Ponce:			
HIV Emergency Relief Project Grants	93.914	Not Available	<u>228,589</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>4,905,013</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 8,012,596</b></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Juana Díaz** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. 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*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund on the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 8,012,596
Non federal programs Expenditures	<u>1,639,990</u>
Total expenditures in the general purpose financial statements	<u>\$ 9,652,586</u>



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**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 the Municipal Assembly  
Municipality of Juana Díaz  
Juana Díaz, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Juana Díaz** as of and for the year ended June 30, 2001, and have issued our report thereon dated March 26, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the estimated liability for compensated absences recorded in the general long-term debt account group, nor the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, 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 of Juana Díaz's** general purpose 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 general purpose 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 of Juana Díaz's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Juana Díaz's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs items **01-01** through **01-05**.

**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 (CONTINUED)***

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 reportable conditions that are also considered to be material weaknesses. However, we believe items **01-01** through **01-03** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Juana Díaz** in a separate letter dated March 26, 2002.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 26, 2002

Stamp No.1785252 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor  
and the Municipal Assembly  
Municipality of Juana Díaz  
Juana Díaz, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Juana Díaz** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Juana Díaz'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 of Juana Díaz's** management. Our responsibility is to express an opinion on the **Municipality of Juana Díaz'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 of Juana Díaz's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Juana Díaz's** compliance with those requirements.

As described in items **01-16** in the accompanying schedule of findings and questioned costs, the **Municipality of Juana Díaz** did not comply with requirement regarding Matching that is applicable to its Head Start Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Juana Díaz** to comply with requirement applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality of Juana Díaz** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **01-06** through **01-15**, and **01-17** through **01-19**.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Juana Díaz'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 **01-06** through **01-16**, **01-19** and **01-20**.

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 on 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 material weakness. However, of the reportable conditions described above, we consider items **01-07**, **01-08**, **01-15**, **01-16**, and **01-19** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Juana Díaz** in a separate letter dated March 26, 2002.



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

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 26, 2002

Stamp No.1785253 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: **Qualified**

Internal control over financial reporting:

Material weakness identified? Yes  X  No    

Reportable conditions identified not considered to be material weaknesses? Yes  X  None reported    

Noncompliance material to financial statements noted? Yes      No  X

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes  X  No    

Reportable conditions identified not considered to be material weaknesses? Yes  X  None reported    

Type of auditors' report issued on compliance for major programs: **Unqualified, except Qualified for Head Start Program (CFDA No. 93.600)**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes  X  No    

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant - Entitlement Program
83.544	Public Assistance Grant Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes      No  X

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

<b>Finding Reference</b>	<b>01-01</b>
<b>Requirement</b>	<b>Fixed\ Capital Assets and Expenditures - Subsidiary Ledger</b>
<b>Statement of Condition</b>	During our examination of Municipality's property records and reports we noted the General Fixed Assets Account Group per General Ledger did not reconcile with the fixed assets subsidiary records by \$3,977,053.
<b>Criteria</b>	Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure the reconciliation of the property records and reports.
<b>Effect of Condition</b>	The Municipality does not maintain an adequate control of the accountability regarding equipment and real property transactions.
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to maintain a Fixed Assets Subsidiary Records reconciled with the General Fixed Assets Account Group per General Ledger
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

*CAB  
Contrata  
y el Plan de  
12/13/01*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

<b>Finding Reference</b>	<b>01-02</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	The Municipality has not updated the estimated liability for compensated absences recorded in the general long-term debt account group as part of the Municipality's general-purpose financial statements for the year ended June 30, 2001.
<b>Criteria</b>	<i>GASB Statements No. 16</i> requires a liability for compensated absences should be recorded when future payments for such absences have been earned by employees.
<b>Cause of Condition</b>	The Municipality did not maintain update compensated absences records for each employee. Therefore, accrued compensated absences balances for each employee were not available for financial statements purposes.
<b>Effect of Condition</b>	Municipality is not in compliance with the <i>GASB Statement No. 16</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should maintain updated information about accrued compensated absences for all employees. Also, we recommend that the Municipality should include in its general-purpose financial statement the compensated absences liability necessary to comply with the <i>GASB Statement No. 16</i> .
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>01-03</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	The Municipality did not include in its general-purpose financial statements an estimate of the obligation for landfill closure and post closure.
<b>Criteria</b>	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
<b>Effect of Condition</b>	Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

**Finding Reference**      **01-04**

**Requirement**            **Cash Receipts\Revenue, Receivable - Collections**

**Statement of Condition** We performed a cash receipt test and examined a sample of sixty (60) collections. The following summarize the deficiencies found:

- a. In two (2) cases the deposit was realized before the receipt was issued.
- b. In two (2) cases the municipal license tax certificates issued to taxpayer were not available for examination.
- c. In two (2) cases the taxpayer audited financial statements required for sales volume tax return were not available for examination.

**Criteria**                    The Section Four (4) of the Chapter three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto establishes that the Official Collector should realize a daily revision of amount collected and amounts debited in bank to assure that the revenues has been duly accounted and processed in the period of collection.

The Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that the Municipality should maintain adequately documented taxpayers files, including a set of financial statements for taxpayers with a volume of business in excess of one million dollars, municipal license tax certificate, income tax return, etc.

**Cause of Condition**      The internal control procedures fail to assure that receipts are issued at time of collection and to assure that taxpayer files are properly documented and daily collections are duly accounted for.

**Effect of Condition**      The Municipality is not complying with regulations stated in the Section Four (4) of the Chapter three (3) and Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

**Finding Reference**      **01-04 (Continued)**

**Recommendation**      The Municipality should implement the following procedures in order to avoid these situations in a future:

- a. Assign an employee to revise all sales volume sales taxpayers files to verify if such files include all documents required by law.
- b. Issue receipts at the time of collections.

**Questioned Costs**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>01-05</b>
<b>Requirement</b>	<b>Payroll and Related Liabilities - Payroll Preparation and Timekeeping</b>
<b>Statement of Condition</b>	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the deficiencies noted:</p> <ul style="list-style-type: none"><li>a. In five (5) employees files the Notifying of Nomination Form did not include the employee classification (Regular, Transitory and Other).</li><li>b. In five (5) employees files the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 15, 2001.</li><li>c. In nine (9) employees files no evidence was found about the Notifying of Nomination Form applicable to the salary paid to such employees for the payroll period ended June 15, 2001.</li><li>d. Compensated Absences records relating to forty-five (45) employees selected in the sample were not available for examination.</li></ul>
<b>Criteria</b>	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.</p>
<b>Cause of Condition</b>	<p>There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.</p>
<b>Effect of Condition</b>	<p>Municipality did not maintain an adequate control over the personnel files and the compensated absences records.</p>
<b>Recommendation</b>	<p>We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

**Finding Reference**      **01-05 (Continued)**

**Questioned Costs**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-06</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees; contractor's and subcontractor's laborers interviews were not made periodically and contractor weekly payrolls were not requested promptly during activity of construction project, to be reviewed by the Municipal Employee responsible of apply monitoring procedures.
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
<b>Cause of Condition</b>	The Municipality did not apply all monitoring system procedures developed by it to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.
<b>Recommendation</b>	We recommend management to follow monitoring system procedures developed by it, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible municipal employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-07</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment</b>
<b>Statement of Condition</b>	In our contract provisions test we observed that the Contracts did not include provisions for compliance with executive order 11246 Equal Employment Opportunity, provisions for compliance with sections 103 and 107 of the contracts work hours and Safety Standards Act, provision for compliance with the Clean Air Act and Water Act, provision for compliance with Energy Policy and Conservation Act, provision for compliance with the Copeland "Anti-kickback", provisions for compliance with Davis Bacon Act, provision for granting access to GAO or other Federally Agency, to books, documents, etc. and the provision for retention of all required records for a three year period.
<b>Criteria</b>	24 CFR, Subpart C, Section 85.36 (I) (1-13), states that sub grantee's contract must contain provisions described in paragraph (I) of this section.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate procurement standard procedures in order to assure that contractor complies with some requirement.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36, (I) (1-13).
<b>Recommendation</b>	We recommend management to update contract sample according with the federal requirement.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-08</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Rehabilitation</b>
<b>Statement of Condition</b>	<p>During our examination of twenty-five (25) Housing Rehabilitation Participant's files we noted the following:</p> <ul style="list-style-type: none"><li>a. The total of examined files (25) has not the pre-rehabilitation inspections duly completed or a document that describes the participant housing unit deficiencies to be corrected.</li><li>b. In the twenty-five (25) examined files the contract of participation between the Municipality and the participant did not include the participant housing unit deficiencies to be corrected. Also, eighteen (18) of these contracts did not have the Mayor's signature.</li><li>c. The total of examined files (25) files did not contain accurate and completed evidence of inspections realized by the program in order to verify if the rehabilitation work was carried out in accordance with the specifications.</li><li>d. Six (6) files did not include evidence of the family income.</li><li>e. In the twenty-five (25) examined files the eligibility application was not properly completed.</li><li>f. In eleven (11) files the applicant eligibility or non-eligibility determination was not properly documented.</li><li>g. Two (2) files did not include complete evidence of family composition.</li></ul>
<b>Criteria</b>	<p>24 CFR, Section 570.506, states that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed. Also, 24 CFR, Sections 91.220 and 570.301, establishes that all the activities that a grantee undertakes during their CDBG program year must be identified in an action plan or an amended action plan.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-08 (Continued)</b>
<b>Criteria</b>	24 CFR, Section 570.506, states that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed. Also, 24 CFR, Sections 91.220 and 570.301, establishes that all the activities that a grantee undertakes during their CDBG program year must be identified in an action plan or an amended action plan.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal controls procedures in order to assure that the assistance for housing rehabilitations were used for applicable participants and allowed activities
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR, Section 570.506 and 24 CFR Sections 91.220 and 570.301.
<b>Recommendation</b>	We recommend the Program to establish the following procedures: <ul style="list-style-type: none"><li>a. Ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract.</li><li>b. Realize pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected.</li><li>c. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications.</li><li>d. Assure that all participant files include all required documentation.</li><li>e. Ascertain eligibility determination and adequate evidence of family income.</li></ul>
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-09</b>												
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>												
<b>Requirement</b>	<b>Allowable Costs/Cost Principles</b>												
<b>Statement of Condition</b>	The Municipality did not maintain adequate control over the evidence supporting the disbursement process. In our test of compliance and internal control over the disbursement process, The Municipality could not provide us the following disbursement vouchers:												
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Date</u></th> <th style="text-align: center;"><u>Check</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3242</td> <td style="text-align: center;">12/26/00</td> <td style="text-align: center;">\$ 22,544</td> </tr> <tr> <td style="text-align: center;">3273</td> <td style="text-align: center;">03/08/01</td> <td style="text-align: center;">45,106</td> </tr> <tr> <td style="text-align: center;">3288</td> <td style="text-align: center;">03/30/01</td> <td style="text-align: center;">19,962</td> </tr> </tbody> </table>	<u>Date</u>	<u>Check</u>	<u>Amount</u>	3242	12/26/00	\$ 22,544	3273	03/08/01	45,106	3288	03/30/01	19,962
<u>Date</u>	<u>Check</u>	<u>Amount</u>											
3242	12/26/00	\$ 22,544											
3273	03/08/01	45,106											
3288	03/30/01	19,962											
<b>Criteria</b>	OMB Circular A-87 has established that any cost allocable to a particular Federal award must be adequately documented to be allowable. Subpart C, 24 CFR 85.20 (b) (6) has established that transactions posted on accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contracts, sub-grants award documents, and others. Also, Subpart C, 24 CFR 85.20 (b) (3) requires to grantees and sub-grantees to maintain effective control and accountability for all grant and sub-grant cash, real and personal property, and other assets, to assure them to be used solely for authorized purposes.												
<b>Cause of Condition</b>	Lack of adequate controls in the record retention system of the Program.												
<b>Effect of Condition</b>	The Municipality is not in compliance with OMB Circular A-87 and Subpart C, 24 CFR 85.20 (b) (3) and 85.20 (b) (6).												
<b>Recommendation</b>	We recommend that the Municipality should improve its management and documentation procedures in order to comply with state and federal regulation.												
<b>Questioned Costs</b>	<b>\$87,612</b>												
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.												

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-10</b>
<b>Program</b>	<b>Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through Commonwealth of Puerto Rico - Office of Governor Authorized Representative (GAR)</b>
<b>Requirement</b>	<b>Activities Allowed or Unallowed</b>
<b>Statement of Condition</b>	During our grant disbursement test we noted that for the Project Worksheet (PW) number 1442, the Municipality changed the scope of work as approved by FEMA. No evidence was provided in order to ascertain that FEMA or Office of Governor Authorized Representative (GAR) authorized such change in the scope of work
<b>Criteria</b>	OMB Circular A-87 has established that any cost allocable to a particular Federal award must be authorized. Code of Federal Regulation 44 CFR, Section 206.203 (d) (2) has established that if a sub-grantee determines that the public welfare would not be best served by restoring a damaged public facility or the function of that facility, the grantee may request that the FEMA Regional Director approve an alternate project.
<b>Cause of Condition</b>	The internal control procedures fail to assure compliance with OMB Circular A-87 and 44 CFR, Section 206.203 (d) (2).
<b>Effect of Condition</b>	Municipality's is not in compliance with OMB Circular A-87, 44 CFR, Section 206.203, (d) (2).
<b>Recommendation</b>	We recommend to the Municipality's Management to obtain approval from FEMA Regional Director before any change in the scope of work of any Project Worksheet is made.
<b>Questioned Costs</b>	<b>\$ 27,675</b>
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-11</b>
<b>Program</b>	<b>Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through Commonwealth of Puerto Rico - Office of Governor Authorized Representative (GAR)</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	In the Quarterly Financial and Progress Report for the period ended June 30, 2001, and submitted to pass through grantor on August 29, 2001 the Municipality reported thirteen projects as 100% completed and they were not completed as June 30, 2001..
<b>Criteria</b>	44 CFR Section 206.204 (f) requires States to submit quarterly financial and progress reports to the RD. Also, states that the reports should describe the status of those projects on which a final payment of the Federal share has not been made to the State and outline any problems or circumstances expected to result in compliance with the approved grant conditions.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure the correctness of the information reported in the Quarterly Financial and Progress Report.
<b>Effect of Condition</b>	The Municipality is not in compliance with 44 CFR, Section 206.204 (f).
<b>Recommendation</b>	We recommend to the Municipality implement internal control procedures to assure correctness in the filling of the Quarterly Financial and Progress Report.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-12</b>
<b>Program</b>	<b>Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through Commonwealth of Puerto Rico - Office of Governor Authorized Representative (GAR)</b>
<b>Requirement</b>	<b>Special Tests and Provisions – Project Accounting</b>
<b>Statement of Condition</b>	In our test of ongoing and completed large projects we found the following:  a) The file corresponding to the DSR 1440 did not include the disbursement voucher, invoice and completion certification to document the total cost as allowable cost and the completion of the project.
<b>Criteria</b>	44 CFR Section 206.205 require for large projects that sub-grantee certify and the entity's files documented that reported costs were incurred in performance of eligible work and that the approved work was completed.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal control procedures to assure that the files of large projects document the completion of the projects and the total costs as allowable costs.
<b>Effect of Condition</b>	The Municipality is not in compliance with 44 CFR, Section 206.205.
<b>Recommendation</b>	We recommend that the Municipality should improve its management and documentation procedures in order to comply with the federal regulation
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-13</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families</b>
<b>Requirement</b>	<b>Allowable Cost\Cost Principles Period of Availability of Federal Fund</b>
<b>Statement of Condition</b>	<p>During our disbursement test of Head Start Program we noted the following situations:</p> <ul style="list-style-type: none"><li>a. We noted that the Municipality paid a ten percent retained to a contractor after the period of availability of federal funds. The Municipality did not request an extension of time to liquidate that obligation.</li><li>b. We noted that twenty-four disbursement vouchers were not cancelled or marked as paid along the document.</li></ul>
<b>Criteria</b>	<p>The grant agreement with the Administration for Children and Families states that the Municipality has ninety days for the liquidation of obligations pending to be paid at the year closing. After that date the program is not authorized to perform additional payments with federal funds and the Municipality will be responsible to liquidate the obligations with local funds except a waiver authorization has been obtained from Administration for Children and Families.</p> <p>Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, contracts and grant award documents and other.</p>
<b>Cause of Condition</b>	<p>Municipality did not maintain adequate internal controls and procedures to assure that the disbursement vouchers were made before the period of availability of funds end. Also, the Municipality did not maintain adequate internal controls and procedures in order to assure that after the payment the disbursement vouchers were cancelled or marked as paid along the document.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-13 (Continued)</b>
<b>Effect of Condition</b>	Municipality is not in compliance with the grant agreement with the Administration for Children and Families and with Code of Federal Regulations 45, Subpart C, Section 92.20, (b) (6).
<b>Recommendation</b>	<p>We recommend that the Municipality should strengthen its procedures in order to assure that all its obligations included in its account payable ledger. In the situation that the Municipality cannot pay these obligations during the ninety days period, a extension of time will be requested to the Administration for Children and Families.</p> <p>Also, we recommend that the Municipality should strengthen its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the related payments were made and to assure that after the payment the disbursement vouchers should be cancelled or marked as paid.</p>
<b>Questioned Cost</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-14</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment</b>
<b>Statement of Condition</b>	During our examination of disbursements we noted that the Municipality did not realize procurement by sealed bids (formal advertising) when procuring Educational Equipment who's cost exceeded \$10,000.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, 92.36 (c) (1) states that all procurement transactions would be conducted in a manner providing full and open competition. Also, Chapter VIII, Part III, Section 1 of the Revised Regulations on Basic Standard for the Municipalities of Puerto Rico states that Municipality should realize formal bids for the purchase of goods that exceed \$10,000 and for construction projects that exceed \$40,000.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure an adequate procurement process for such purchase.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 92.36 (c) (1) and with the Chapter VIII, Part III, Section 1, of the Revised Regulations on Basic Standard for the Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend that the Municipality should improve its procedures to assure that at least three (3) quotations are requested for all purchases of goods or services that do not exceed \$10,000 and for construction contracts that do not exceed \$40,000. Also, the Municipality should realize formal bids for purchases these exceed that limits.
<b>Questioned Cost</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-15</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management tests, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate cash management procedures in order to request funds to the Administration for Children and Families only for immediate needs.
<b>Effect of Condition</b>	The Municipality request funds in excess of immediate needs and for that reason it's not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
<b>Recommendation</b>	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the Administration for Children and Families and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-16</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families</b>
<b>Requirement</b>	<b>Matching, Level of Effort, Earmarking</b>
<b>Statement of Condition</b>	During our matching requirements examination we noted that the Municipality did not contribute cash or in kind contributions of at least twenty percentage of the Head Start program cost. We noted that for the program fiscal year ended February 28, 2001 the Municipality contributed only 18% of the program expenses through cash or in kind contributions.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 1301.20 and the grant agreement with the Administration for Children and Families states that the Municipality is required to contribute at least twenty percent of the cost of the program through cash or in kind contribution.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate internal controls and procedures to assure that the Municipality complies with matching requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 1301.20 and with the grant agreement.
<b>Recommendation</b>	We recommend management to strength its internal controls and procedures in order to assure that at the final of fiscal year the Municipality is in compliance with the matching requirements.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-17</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	The Fund Liquidation Report, the Trial Balance and the Financial Report for the program year ended February 28, 2001 were submitted to the Commonwealth of Puerto Rico Administration for Children and Families after the deadline.
<b>Criteria</b>	The grant agreement between the Administration for Children and Families states that final year reports should be submitted within the first twenty days after the ending of the program year.
<b>Cause of Condition</b>	No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements.
<b>Effect of Condition</b>	The Municipality did not comply with the grant agreement terms that require the timely submission of reports to the Administration for Children and Families.
<b>Recommendation</b>	We recommend that the Municipality should strength its internal controls and procedures in order to reduce the amount of time required to submit such reports.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-18</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.</b>
<b>Requirement</b>	<b>Special Test-Licensing Requirement</b>
<b>Statement of Condition</b>	In our Special Test-Licenses Verification for ten (10) centers used by Head Start we noted the following exceptions:  a) The Administration for Children and Families license was expired in seven (7) centers.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 1306.30 (c), states that the facilities used by Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and Local requirements concerning licensing.
<b>Cause of Condition</b>	The Municipality did not establish procedures to assure that Head Start centers maintain actualize licenses from the Administration for Children and Families.
<b>Effect of Condition</b>	The Municipality is not in compliance with 45 CFR, Section 1306.30 (c).
<b>Recommendation</b>	The Municipality should establish routine visits to the different centers in order to assure that the centers are in very good conditions necessary to comply with the licensing requirement. We also recommend that the Municipality should review Centers files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-19</b>
<b>Program</b>	<b>Child and Adult Care Food Program (CFDA. No. 10.558); U.S. Department of Agriculture; Pass through State - Commonwealth of Puerto Rico Department of Education</b>
<b>Requirement</b>	<b>Financial Administration - Standards for Financial Management Systems</b>
<b>Statement of Condition</b>	During the fiscal year ended June 30, 2001, the Municipality did not maintain a complete set of accounting records for the Child and Adult Care Food Program financial activities, which adequately identify the source and application of funds provided for financially-assisted activities. Such records did not contain all information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Also, such records were not sufficient to permit accurate, current, and complete disclosure of the financial results of financially assisted activities and to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibition of Child and Adult Care Food Program laws and regulations. The Municipality maintained only a check register.
<b>Criteria</b>	Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, expenditures, and revenue.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls and accounting records to assure the accountability of all transactions in accordance with Federal regulations. That situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 7, Subpart C, Part 3016.20 (b) (2).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-19 (Continued)</b>
<b>Recommendation</b>	We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-20</b>
<b>Program</b>	<b>Child and Adult Care Food Program (CFDA. No. 10.558); U.S. Department of Agriculture; Pass through State - Commonwealth of Puerto Rico Department of Education</b>
<b>Requirement</b>	<b>Allowable Cost - Cost Principles</b>
<b>Statement of Condition</b>	During our disbursements test of the Child and Adult Care Food Program we noted that eight (8) of the disbursements were not marked or cancelled as paid along the document.
<b>Criteria</b>	Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure that disbursements process was properly documented.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20, (b) (6).
<b>Recommendation</b>	We recommend that the Municipality should strengthen its procedures to assure that the disbursement vouchers should be marked or cancelled as paid along the document. Also, the disbursement vouchers should contain all supporting documents and approval signatures before the related payments are made.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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<b>Original Finding Number</b>	<b>CFDA No.</b>	<b>Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)</b>
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No findings were reported in the prior year Single Audit Report.

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUANA DIAZ

YEAR ENDED JUNE 30, 2001

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Certified Public Accountants / Management Advisors

**López-Vega, CPA, PSC**

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and  
the Municipal Assembly  
Municipality of Juana Díaz  
Juana Díaz, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the Municipality of Juana Díaz, as of and for the year ended June 30, 2001, 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. We did not audit the financial statements of Villas del Parque Housing Project no. 63-033-0690660049, a blended component unit, which statements reflect total assets of \$2,134,345 (net of fixed assets accumulated depreciation) as of June 30, 2001, and total revenues of \$391,290 for the year ended. Those statements were audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the Special Revenue Fund, General Fixed Assets and General Long-Term Debt Account Groups for the Villas del Parque Housing Project, is based solely on the report of the other auditor.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 of Juana Díaz General Fixed Assets Account Group per General Ledger do not reconcile with the fixed assets subsidiary records by \$3,977,053. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

The Municipality of Juana Díaz has not updated the estimated liability for compensated absences recorded in the general long term debt account group. Therefore, we do not express an opinion on such amounts included in the general long term debt account group.

INDEPENDENT AUDITORS' REPORT (Continued)

As indicated in Note 13, at June 30, 2001, the Municipality had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Post closure Care Costs.

In our opinion, based on our audit and the report of other auditor, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the estimated liability for compensated absences, and the transactions disclosed in the preceding paragraph related to landfill closure and post-closure costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Juana Díaz as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

*López-Vega, CPA, PSC*

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 7, 2001

Stamp No. 1700907 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*  
Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUANA DIAZ**  
**COMBINED BALANCE SHEET**  
**ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents	\$183,239	\$1,252,899		\$1,440,964			\$2,877,102
Cash with fiscal agent		702,206	\$1,781,849	2,069,003			4,553,058
Intergovernmental receivables	385,827	71,124					456,951
Municipal license taxes receivable	763						763
Federal grants receivable		70,878					70,878
Due from other funds	369,515						369,515
Other receivables	62,654	4,562					67,216
Property and equipment					\$30,337,541		30,337,541
Amount available in Debt Service Fund						\$1,781,849	1,781,849
Amount to be provided for retirement of general long-term debt						10,077,802	10,077,802
<b>Total assets and other debits</b>	<b>\$1,001,998</b>	<b>\$2,101,669</b>	<b>\$1,781,849</b>	<b>\$3,509,967</b>	<b>\$30,337,541</b>	<b>\$11,859,651</b>	<b>\$50,592,675</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$526,238	\$124,820		\$25,335			\$676,393
Due to other funds		310,150		59,365			369,515
Due to other governmental entities	677,164					149,575	826,739
Deferred municipal license tax revenues	1,119,704						1,119,704
Deferred - other	100,000	12,778					112,778
Deferred federal grant revenues		1,088,561					1,088,561
Claims and judgments						358,613	358,613
General obligation bonds						8,543,000	8,543,000
Notes payable						1,927,408	1,927,408
Advance property tax debt						288,455	288,455
Accrued compensated absences						592,600	592,600
<b>Total liabilities</b>	<b>2,423,106</b>	<b>1,536,309</b>		<b>84,700</b>		<b>11,859,651</b>	<b>15,903,766</b>
<b>Fund equity:</b>							
Investment in general fixed assets					30,337,541		30,337,541
<b>Fund balances:</b>							
Reserved for encumbrances	156,158						156,158
Reserved for debt service			1,781,849				1,781,849
<b>Unreserved:</b>							
Designated for specific fund purposes		565,360		3,425,267			3,990,627
Undesignated	(1,577,266)						(1,577,266)
<b>Total fund equity</b>	<b>(1,421,108)</b>	<b>565,360</b>	<b>1,781,849</b>	<b>3,425,267</b>	<b>30,337,541</b>		<b>34,688,909</b>
<b>Total liabilities and fund equity</b>	<b>\$1,001,998</b>	<b>\$2,101,669</b>	<b>\$1,781,849</b>	<b>\$3,509,967</b>	<b>\$30,337,541</b>	<b>\$11,859,651</b>	<b>\$50,592,675</b>

See accompanying notes to general purpose financial statements.

**MUNICIPALITY OF JUANA DIAZ  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ON
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$2,829,796		\$820,338		\$3,650
Municipal license taxes	1,392,600				1,392
Licenses and permits	264,935				264
Intergovernmental	3,965,433	\$889,777		\$751,073	5,606
Rent of property	144,951	366,644			511
Fines and penalties	7,290				7
Interest	343,034	24,646			367
Federal grants		8,012,596			8,012
Miscellaneous	763,509	91,128			854
<b>Total revenues</b>	<u>9,711,548</u>	<u>9,384,791</u>	<u>820,338</u>	<u>751,073</u>	<u>20,667</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	1,029,393	1,374,955			2,404
General government	5,117,217				5,117
Public safety	779,570	169,716			949
Public works	1,011,570	1,143,211			2,154
Public health and sanitation	1,358,150	27,863			1,386
Welfare		5,814,872			5,814
Economic development	369,324				369
Recreation	436,455	14,522			450
Human services	306,996				306
Principal retirement	45,000	12,440	502,000		559
Interest	23,991	99,245	545,377		668
Capital outlays	25,087	995,762		2,626,895	3,647
<b>Total expenditures</b>	<u>10,502,753</u>	<u>9,652,586</u>	<u>1,047,377</u>	<u>2,626,895</u>	<u>23,829</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(791,205)	(267,795)	(227,039)	(1,875,822)	(3,161)
<b>Fund balances (deficit) beginning, as restated</b>	(629,903)	833,155	2,008,888	5,301,089	7,513
<b>Fund balances (deficit), ending</b>	<u>(\$1,421,108)</u>	<u>\$565,360</u>	<u>\$1,781,849</u>	<u>\$3,425,267</u>	<u>\$4,351</u>

See accompanying notes to general purpose financial statements.

**MUNICIPALITY OF JUANA DIAZ**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL AND DEBT SERVICE FUNDS**  
**YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$2,851,010	\$2,851,010		\$841,389	\$820,338	(\$21,05)
Municipal license taxes	1,420,000	1,392,600	(\$27,400)			
Licenses and permits	240,000	264,935	24,935			
Intergovernmental	3,705,330	3,965,433	260,103			
Rent of property	150,061	144,951	(5,110)			
Fines and penalties	2,000	7,290	5,290			
Interest	408,588	343,034	(65,554)			
Miscellaneous	1,384,088	763,509	(620,579)			
Total revenues	<u>10,161,077</u>	<u>9,732,762</u>	<u>(428,315)</u>	<u>841,389</u>	<u>820,338</u>	<u>(21,05)</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
Current:						
Mayor and Municipal Assembly	1,036,409	1,034,424	1,985			
General government	4,715,375	5,135,297	(419,922)			
Public safety	769,063	781,209	(12,146)			
Public works	1,027,006	1,099,595	(72,589)			
Public health and sanitation	1,365,121	1,360,369	4,752			
Economic development	374,737	372,472	2,265			
Recreation	451,715	446,573	5,142			
Human services	321,725	319,874	1,851			
Capital outlays	26,876	29,036	(2,160)			
Debt service:						
Principal retirement	45,000	45,000		532,000	502,000	30,000
Interest	28,050	23,991	4,059	537,153	545,377	(8,224)
Total expenditures and encumbrances	<u>10,161,077</u>	<u>10,647,840</u>	<u>(486,763)</u>	<u>1,069,153</u>	<u>1,047,377</u>	<u>21,776</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		(915,078)	(915,078)		(227,039)	72,737
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Net change in encumbrances		145,087				
GAAP adjustments to revenues		(21,214)				
Fund balances (deficit) beginning, as restated		(629,903)			2,008,888	
Fund balances (deficit), ending		<u>(\$1,421,108)</u>			<u>\$1,781,849</u>	

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Municipality of Juana Díaz (the Municipality) was established in 1787. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. 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 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 the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the financial statements of Villas del Parque Housing Project no. 63-033-0690660049 were included in the general-purpose financial statements as a blended component unit.

**Blended Component Unit:** Villas del Parque Housing Project is a housing development consisting of eighty-four dwelling units located in Juana Díaz. The Project is owned by the Municipality, but the activities on it are carried-on by a management agent unrelated to the Municipality. The housing development is designated to assist various segments of the general public in obtaining adequate and reasonable priced rental housing. The Project operates under financing from US Department of Agriculture Section 515 Rural

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

A. Financial reporting entity (continued):

Rental Housing Loans Program, and with a Section 8 New Construction and Substantial Rehabilitation Program housing assistance grant agreement with US Housing and Urban Development. For financial reporting purposes, the Housing Project is reported as if it were part of the Municipality's operations because its purpose is to provide low-income housing to citizens of the Municipality. The Financial Statements of the blended component unit can be obtained directly from the management agent office, P.O. Box 7759, Ponce, PR 00732-7759.

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

**Governmental fund types:**

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

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

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

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

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

B. Basis of presentation (continued):

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt - is used to account for all long-term debt obligations of the Municipality.

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter 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 corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

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 essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

D. 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:

Encumbrances - 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.

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**E. Budgetary data (continued):**

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

**F. Inventories:**

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

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**H. Cash and cash equivalents:**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

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.
4. 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. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**L. Total columns (memorandum only):**

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

**M. Use of estimates in the preparation of general purpose financial statements:**

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**N. 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.

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

The amounts due to other governmental entities in the General Fund include the following:

Internal Revenue Services (FICA tax)	\$ 412,715
Retirement System	140,757
Puerto Rico Aqueduct and Sewer Authority	96,580
General Services Administration	2,795
Department of Labor	<u>24,317</u>
Total	<u>\$ 677,164</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Department of Labor	<u>\$ 149,575</u>
Total	<u>\$ 149,575</u>

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.38% for real property and 6.38% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.55% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the actual collections were more than advances by \$340,794. Such amount was included as an intergovernmental receivable in the General Fund. Also, the Municipality has a \$288,455 property tax advance debt balance from prior years; such balance was included as a long-term debt in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2001.

4. MUNICIPAL LICENSE TAXES:

The municipal license 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 Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**5. INTERGOVERNMENTAL (CONTINUED):**

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

**6. CASH AND CASH EQUIVALENTS:**

Cash in bank accounts	\$ 1,877,102
Certificates of deposit (90 days or less)	<u>1,000,000</u>
 Total cash and cash equivalents	 <u>\$ 2,877,102</u>

**7. DEBT SERVICE FUND:**

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

**8. GENERAL FIXED ASSETS:**

A summary of changes in the General Fixed Assets Account Group is as follows:

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$ -	\$ 3,320,627	\$ -	\$ 3,320,627
Buildings and Improvements	15,619,281	3,293,426	5,245,982	13,666,725
Machinery and Equipment	<u>5,870,915</u>	<u>7,479,274</u>	<u>-</u>	<u>13,350,189</u>
 Total	 <u>\$ 21,490,196</u>	 <u>\$14,093,327</u>	 <u>\$ 5,245,982</u>	 <u>\$ 30,337,541</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$8,355,000
Debt issued	-
Principal retirements	(382,000)
Adjustments and/or Reclassifications	<u>570,000</u>
Balance at June 30, 2001	<u>\$ 8,543,000</u>

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1983 Series	1-1-07	\$ 200,000	5.00%	\$ 75,000
1986 Series	7-1-06	1,200,000	5.88% to 8.50%	285,000
1992 Series	1-1-16	1,758,000	5.63%	1,452,000
1995 Series	7-1-18	615,000	6.11% to 8.21%	545,000
1995 Series	1-1-19	835,000	4.50%	707,000
1995 Series	7-1-08	1,680,000	4.70% to 6.88%	1,250,000
1997 Series	7-1-16	1,180,000	4.70% to 6.63%	1,065,000
1998 Series	1-1-02	86,000	5.00%	4,000
1998 Series	7-1-19	2,270,000	4.87% to 6.51%	2,175,000
2000 Series	7-1-14	1,025,000	6.13% to 7.81%	<u>985,000</u>
Total general obligation bonds				<u>\$ 8,543,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 411,000
2003	438,000
2004	465,000
2005	501,000
2006	544,000
Thereafter	<u>6,184,000</u>
Total	<u>\$ 8,543,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9, GENERAL OBLIGATION BONDS (CONTINUED):**

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

**10. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 2,269,848
Debt issued	-
Payments during the current year	(177,440)
Adjustments\Reclassifications	<u>(165,000)</u>
Balance at June 30, 2001	<u>\$ 1,927,408</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1998 Series	7-1-02	530,000	4.86% - 6.71%	\$ 240,000
1999 Series	7-1-03	155,000	4.86% - 6.71%	100,000
2000 Series	7-1-04	160,000	4.86% - 6.71%	130,000
Section 515 - USDA	12-1-31	Not available	7.00% - 9.00%	<u>1,457,408</u>
Total notes payable				<u>\$ 1,927,408</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 191,118
2003	207,306
2004	88,582
2005	54,954
2006	21,426
Thereafter	<u>1,364,022</u>
Total	<u>\$ 1,927,408</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED)**

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year-credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 290,721. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- \* The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- \* Future pension payments reflect an assumption of 5% salary increase.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. 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 ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

13. LANDFILL OBLIGATIONS:

The Municipality of Juana Díaz owns and operates a solid waste landfill. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2001, the Municipality has not prepared the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not prepared the estimated obligation for landfill closure and post closure costs.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**14. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$358,613 in the general long-term debt account group for a final unfavorable judgment. The amount presented in the general long-term debt group of account represents the amount of determined as liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**15. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances for General, Special Revenue and Capital Projects Funds, and the beginning Net Assets for the Enterprise Fund have been restated by accounting and financial statements presentation errors detected during the fiscal year that affect the Fund Equity and Net Assets section of those Governmental and Proprietary Funds, as follows:

Description	General	Special Revenue	Capital Projects	Enterprise Fund
Beginning Fund Balances at July 1, 2000	\$ 592,156	\$ -	\$ 5,193,096	\$ 661,026
Capital Project cash reported in the General Fund instead of Capital Project Fund, and cash balances not supported by accounting records	(571,327)		572,075	
Special Revenue cash reported in the Capital Project Fund instead of Special Revenue Fund		541,603	(541,628)	
Increase in property tax receivable due to difference between CRIM fiscal year 1999-2000 preliminary and final liquidation	13,808			
General Fund accounts receivable not recorded	49,163			
General Fund account receivable from contractor recorded in the General Fund as due from US-FEMA; such receivable did not comply with the revenue recognition concept per modified accrual basis of accounting	(414,499)			
Accounts receivable not supported by documentation	(107,801)			
Interfund accounts receivable\payable not supported by accounting records	(191,403)	16,766	107,251	
Accounts Payable not recorded			(29,705)	
To record Housing Project as a Special Revenue Fund Blended Component Unit instead of Enterprise Fund (including conversion from accrual to modified accrual basis of accounting)		274,786		(661,026)
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	\$ (629,903)	\$ 833,155	\$ 5,301,089	\$ -

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**16. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:**

On June 22, 2001, the Municipal Assembly approved an increase of property tax rates from 8.38% for real property and 6.38% for personal property to 8.58% and 6.58%, respectively. Amended property tax rates will be effective on July 1, 2002.

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUANA DIAZ**

**REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

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