

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

**MUNICIPIO DE JUANA DIAZ**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

*Call No 5 - 9842*

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

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2004**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SINGLE AUDIT REPORT

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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 AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juana Díaz, Puerto Rico**, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

Also, the Municipality has not recorded in the statement of net assets an estimated liability of total current cost of the municipal solid waste landfill closure and post closure care, as required by Governmental Accounting Standard Board Statement No. 18.

In our opinion, based on our audit, because of the effects of the matters discussed in the third and fourth paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Juana Díaz, Puerto Rico**, as of June 30, 2004, and the changes in financial position, thereof for the year then ended.

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Juana Díaz, Puerto Rico**, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2004 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 basic financial statements of the **Municipality of Juana Díaz, Puerto Rico** 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 respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 22, 2004

Stamp No. 2019448 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**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2004**

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This discussion and analysis of the Municipality of Juana Díaz (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2004. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2003, first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments."* This MD & A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. asses management's ability to handle budgetary functions.

**FINANCIAL HIGHLIGHTS**

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2004 deserve special mention:

1. Total assets of the Municipality amounted to \$44,699,247 which represents an increase of 35% compared to prior fiscal year.
2. At the end of fiscal year 2004, total liabilities amounted to \$27,466,469. Out of said amount, \$22,926,721 corresponded to long-term liabilities of which \$19,191,834 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$17,232,778 which represents an increase of 33% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$29,709,897, derived from the following sources: \$565,395 charges for services; \$8,622,078 from operating grants and contributions; \$6,537,047 from capital grants and contributions obtained from other sources, and \$13,985,377 from general revenues available.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$25,391,913;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$4,317,984;
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$13,221,937;
8. As the end of the current fiscal year the Municipality's General Fund deficit amounted to (\$1,066,402), compared to a fund deficit of (\$1,161,589) in the prior fiscal year;
9. The actual General Fund budgetary activities resulted in a favorable balance of \$192,641.

**FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2004. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

**FINANCIAL STATEMENTS COMPONENTS**

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of Juana Díaz constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of The Statements of Activities of the Municipality at June 30, 2004, shows total expenses incurred to afford the cost of all functions and programs amounted to \$25,391,913. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$15,724,520 was derived from the following sources: \$565,395 charges for services; \$8,622,078 from operating grants and contributions; and \$6,537,047 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$13,985,377. When such figure is added to the \$15,724,078 previously mentioned, total revenues available for the financing of activities amounted to \$29,709,897. There was an excess of revenues over expenses in the amount of \$4,317,984 which contributed with an increase to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

**INFRASTRUCTURE ASSETS**

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality expects to retroactively report historical costs of infrastructure assets during the fiscal year beginning on July 1, 2006.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

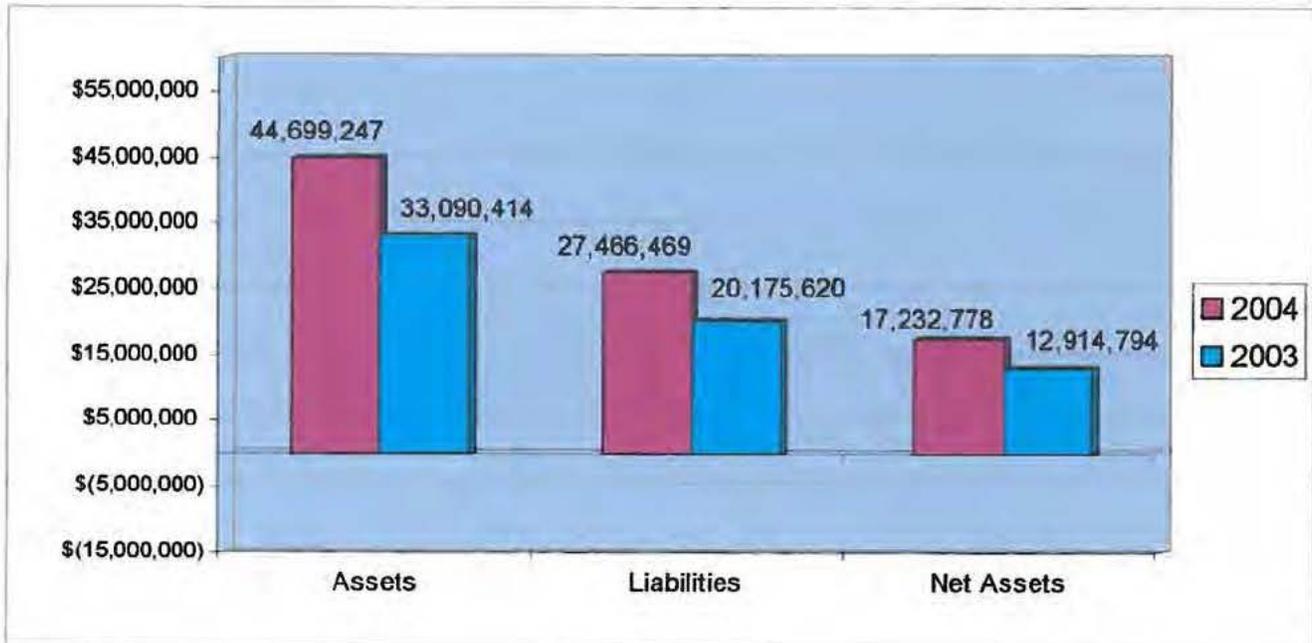
**YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juana Díaz, primary government assets exceeded total liabilities by \$17,232,778 at the end of 2004, compared to \$12,914,794 at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

<b>Condensed Statement of Net Assets</b>	<b>2004</b>	<b>2003</b>	<b>Change</b>	<b>%</b>
Current and other assets	\$ 17,490,944	\$ 10,685,558	\$ 6,805,386	64%
Capital assets	27,208,303	22,404,856	4,803,447	21%
<b>Total assets</b>	<b>44,699,247</b>	<b>33,090,414</b>	<b>11,608,833</b>	<b>35%</b>
Current and other liabilities	4,539,748	3,409,083	1,130,665	33%
Long-term liabilities	22,926,721	16,766,537	6,160,184	37%
<b>Total liabilities</b>	<b>27,466,469</b>	<b>20,175,620</b>	<b>7,290,849</b>	<b>36%</b>
Invested in capital assets, net of related debt	8,016,469	8,856,567	(840,098)	(9%)
Restricted	14,017,598	8,260,662	5,756,936	70%
Unrestricted deficit	(4,801,289)	(4,202,435)	(598,854)	14%
<b>Total net assets</b>	<b>\$ 17,232,778</b>	<b>\$ 12,914,794</b>	<b>\$ 4,317,984</b>	<b>33%</b>



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Statement of Activities reflects that for fiscal year 2004, the net effect of revenues derived from several programs plus current operating revenues compared to the total expenses, amounted to \$4,317,984 increase in the Municipality's net assets. Approximately 26 percent of the Municipality's total revenue came from taxes, while 70 percent resulted from grants and contributions, including federal aid. Charges for Services provided 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, health and welfare services, public works, and community development. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

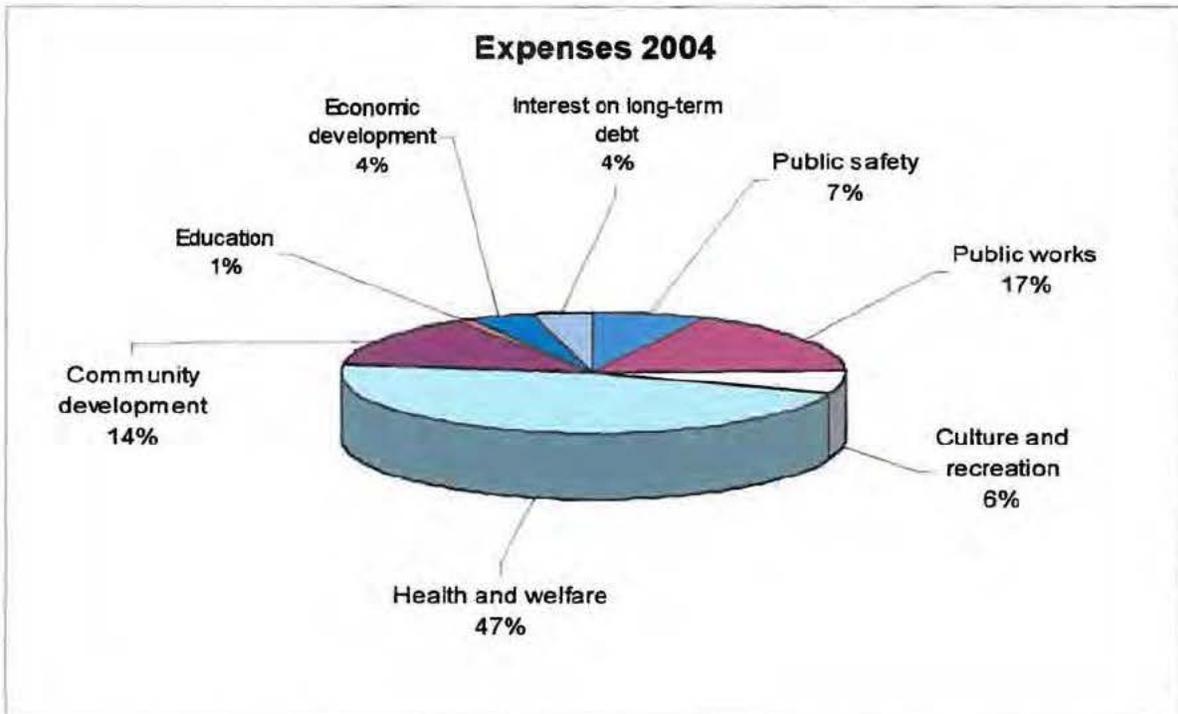
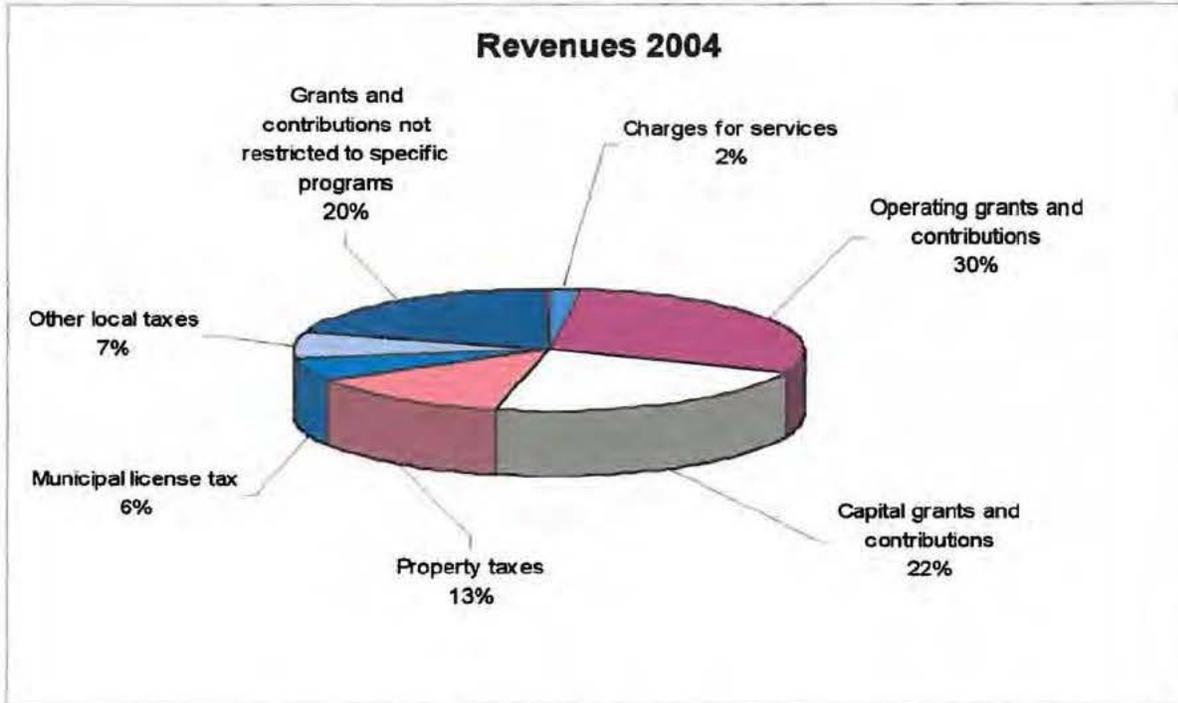
<b>Condensed Statement of Activities</b>	<b>2004</b>	<b>2003</b>	<b>Change</b>	<b>%</b>
<b>Program revenues:</b>				
Charges for services	\$ 565,395	\$ 594,495	\$ (29,100)	(5%)
Operating grants and contributions	8,622,078	10,414,075	(1,791,997)	(17%)
Capital grants and contributions	6,537,047	4,535,397	2,001,650	44%
<b>General revenues:</b>				
Property taxes	3,869,439	4,149,437	(279,998)	(7%)
Municipal license tax	1,755,733	1,679,936	75,797	5%
Other local taxes	2,178,871	973,271	1,205,600	124%
Grants and contributions not restricted to specific programs	5,795,471	4,598,264	1,197,207	26%
Interest and investment earnings	99,883	210,374	(110,491)	(53%)
Miscellaneous	285,980	339,695	(53,715)	(16%)
<b>Total revenues</b>	<b>29,709,897</b>	<b>27,494,944</b>	<b>2,214,953</b>	<b>8%</b>
<b>Expenses:</b>				
General government	5,732,747	5,783,411	(50,664)	(1%)
Public safety	1,446,652	2,022,703	(576,051)	(28%)
Public works	3,359,277	1,878,537	1,480,740	79%
Culture and recreation	1,190,488	1,013,989	176,499	17%
Health and welfare	9,120,626	8,959,408	161,218	2%
Community development	2,816,152	2,205,459	610,693	28%
Education	158,207	125,404	32,803	26%
Economic development	806,909	520,259	286,650	55%
Interest on long-term debt	760,855	701,898	58,957	8%
<b>Total expenses</b>	<b>25,391,913</b>	<b>23,211,068</b>	<b>2,180,845</b>	<b>9%</b>
<b>Change in net assets</b>	<b>4,317,984</b>	<b>4,283,876</b>	<b>34,108</b>	<b>1%</b>
<b>Net assets, beginning of year, as restated</b>	<b>12,914,794</b>	<b>8,630,918</b>	<b>4,283,876</b>	<b>50%</b>
<b>Net assets, end of year</b>	<b>\$ 17,232,778</b>	<b>\$ 12,914,794</b>	<b>\$ 4,317,984</b>	<b>33%</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

**Governmental Funds**

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$13,221,937, an increase of \$5,860,497 in comparison with the prior year. There are reservations of fund balance amounting to \$14,529,048. This is the fund balance that it is not available for new spending because it has already been committed 1) \$240,709 to liquidate contracts and purchase orders of the prior fiscal year, 2) \$2,114,612 to pay debt service, 3) \$10,682,249 to pay for capital projects, and 4) \$1,491,478 for other purposes.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has an undesignated fund deficit of \$1,307,111.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of \$192,641, which is indicative of full compliance with the balanced budget principle applicable to all municipalities of the Commonwealth Government of Puerto Rico as required by the Municipal Autonomous Act enacted in August 1991.

In response to the continued increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2004 which amounted to \$1,434,495.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality has not maintained complete and adequate records related to the Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirement. The Municipal Administration expects to develop a broad and comprehensive identification and assessments project of all fixed assets owned by the local government in order to capitalize them in its Statement of Net Assets, and then, reflects the correct net assets figure of the Municipality as a whole.

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$42,630,730, net of accumulated depreciation of \$15,422,427 (including depreciation charges for the year totaled \$1,455,314), leaving a net book value of \$27,208,303. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$7,895,094 of unexpended proceeds mainly from bond and notes issuances that are committed to future construction activities.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2004-2005.

**FINAL COMMENTS**

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

On September 7, 2004, Public Law 255 was enacted to amend Section 22 of the Public Law 83 of May 2, 1941, as amended, known as the "Puerto Rico Electric Power Authority ("PREPA") Act". Said Law, among other things established a new formula to determine the contribution in lieu of taxes to be distributed by PREPA among all Municipalities of the Commonwealth of Puerto Rico. According to the Law which went into effect since the beginning of fiscal year 2002-2003, PREPA to distribute as contribution in lieu of taxes the greater of the following amounts: (1) twenty percent (20%) of its net revenues, as such term is defined in the Trust Agreement; and after deducting the amount of subsidies granted by PREPA; or an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities; and (3) an average of the contribution in lieu of taxes paid to each Municipality in the past five fiscal years. Since the final liquidation following such formula was not available for fiscal year 2003-2004 financial statements, the PREPA issued a preliminary liquidation, which could be affected by final results of the PREPA financial statements audit.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**FINAL COMMENTS (CONTINUED)**

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2004. It further contemplates to maintain or improve its current levels of Net Assets as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1409, Juana Díaz, PR 00795, or call (787) 837-2185.

Commonwealth of Puerto Rico  
Municipality of Juana Díaz  
Statement of Net Assets  
June 30, 2004

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 10,708,428
Cash with fiscal agent	4,793,959
Accounts receivable:	
Intergovernmental	1,963,185
Others	25,372
Capital assets	
Land, improvements, and construction in progress	12,487,424
Other capital assets, net of depreciation	14,720,879
Total capital assets	<u>27,208,303</u>
<b>Total assets</b>	<u>44,699,247</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,905,378
Due to other governmental entities	386,472
Claims and Judgments	
Deferred revenues:	
Municipal license tax	1,108,127
Federal grant revenues	860,655
Other	8,375
Interest payable	270,741
Noncurrent liabilities:	
Due within one year	1,289,811
Due in more than one year	<u>21,636,910</u>
<b>Total liabilities</b>	<u>27,466,469</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	8,016,469
Restricted for:	
Capital projects	10,682,249
Debt service	1,843,871
Other purposes	1,491,478
Unrestricted (deficit)	<u>(4,801,289)</u>
<b>Total net assets</b>	<u>\$ 17,232,778</u>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico  
Municipality of Juana Díaz  
Statement of Activities  
For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 5,732,747	\$ -	\$ 184,119	\$ -	\$ (5,548,628)
Public safety	1,446,652	8,315	126,253	10,715	(1,301,369)
Public works	3,359,277	481,880		1,707,554	(1,169,843)
Health and welfare	9,120,626		7,757,152	137,034	(1,226,440)
Culture and recreation	1,190,488	75,200	44,268	954,274	(116,746)
Economic development	806,909		510,286		(296,623)
Community development	2,816,152			3,629,627	813,475
Urban development					-
Education	158,207			97,843	(60,364)
Interest on long-term debt	760,855				(760,855)
<b>Total governmental activities</b>	<b>\$ 25,391,913</b>	<b>\$ 565,395</b>	<b>\$ 8,622,078</b>	<b>\$ 6,537,047</b>	<b>(9,667,393)</b>
General revenues:					
Property taxes					3,869,439
Municipal license tax					1,755,733
Other local taxes					2,178,871
Grants and contributions not restricted to specific programs					5,795,471
Interest and investment earnings					99,883
Miscellaneous					285,980
<b>Total general revenues</b>					<b>13,985,377</b>
Change in net assets					4,317,984
Net assets - beginning, as restated					12,914,794
Net assets - ending					<b>\$ 17,232,778</b>

Commonwealth of Puerto Rico  
Municipality of Juana Díaz  
Balance Sheet  
Governmental Funds  
June 30, 2004

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 9,943	\$ 497,300	\$ 471,551	\$ 2,341,067	\$ 5,471,035	\$ -	\$ 1,917,532	\$ 10,708,428
Cash with fiscal agent			370,716	2,424,059		1,999,184		4,793,959
Accounts receivable:								
Municipal license tax	1,934							1,934
Intergovernmental	191,265	30,175	1,008,540	587,026		117,826	28,353	1,963,185
Interest	6,265					1,270		7,535
Landfill users	6,741							6,741
Due from other funds	1,760,793	9,289		953,330			192,148	2,915,560
Others	5,312						3,850	9,162
<b>Total assets</b>	<b>\$ 1,982,253</b>	<b>\$ 536,764</b>	<b>\$ 1,850,807</b>	<b>\$ 6,305,482</b>	<b>\$ 5,471,035</b>	<b>\$ 2,118,280</b>	<b>\$ 2,141,883</b>	<b>\$ 20,406,504</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities :</b>								
Accounts payable and accrued liabilities	\$ 588,590	\$ 88,380	\$ 548,900	\$ 598,071	\$ -	\$ -	\$ 81,437	\$ 1,905,378
Due to other governmental entities	197,171		189,301					386,472
Due to other funds	1,154,767		795,334	496,197		3,668	465,594	2,915,560
Deferred revenues:								
Municipal license tax	1,108,127							1,108,127
Federal grant revenues		448,384	317,272				94,999	860,655
Others							8,375	8,375
<b>Total liabilities</b>	<b>3,048,655</b>	<b>536,764</b>	<b>1,850,807</b>	<b>1,094,268</b>	<b>5,471,035</b>	<b>3,668</b>	<b>650,405</b>	<b>7,184,567</b>
<b>Fund balances:</b>								
<b>Reserved for:</b>								
Encumbrances	240,709							240,709
Capital projects				5,211,214	5,471,035			10,682,249
Debt service fund						2,114,612		2,114,612
<b>Reserved reported in nonmajor funds:</b>								
Other purposes							1,491,478	1,491,478
<b>Unreserved:</b>								
Undesigned (Deficit)	(1,307,111)							(1,307,111)
<b>Total fund balances</b>	<b>(1,066,402)</b>	<b>-</b>	<b>-</b>	<b>5,211,214</b>	<b>5,471,035</b>	<b>2,114,612</b>	<b>1,491,478</b>	<b>13,221,937</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,982,253</b>	<b>\$ 536,764</b>	<b>\$ 1,850,807</b>	<b>\$ 6,305,482</b>	<b>\$ 5,471,035</b>	<b>\$ 2,118,280</b>	<b>\$ 2,141,883</b>	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds								27,208,302
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds								(23,197,461)
<b>Net assets of governmental activities</b>								<b>\$ 17,232,778</b>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico  
Municipality of Juana Díaz  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	Capital Project Fund - State & Local Grants	Capital Project Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Property taxes	\$ 2,786,459	\$ -	\$ -	\$ -	\$ -	\$ 1,082,980	\$ -	\$ 3,869,439
Municipal license taxes	1,755,733							1,755,733
Licenses, permits and other local taxes	2,178,871							2,178,871
Charges for services	484,225							484,225
Intergovernmental	5,979,590			2,877,807			1,169,375	10,026,772
Rent of property							372,793	372,793
Interest	99,883							99,883
Federal grants		6,161,250	3,697,825				586,502	10,445,577
Miscellaneous	261,682			20,067			194,855	476,604
<b>Total revenues</b>	<b>13,546,443</b>	<b>6,161,250</b>	<b>3,697,825</b>	<b>2,897,874</b>	<b>-</b>	<b>1,082,980</b>	<b>2,323,525</b>	<b>29,709,897</b>
<b>Expenditures</b>								
<b>Current:</b>								
General government	5,430,717			39,184			10,844	5,480,745
Public safety	1,261,538		85,970					1,347,508
Public works	2,384,338		729,320	1,618,627			72,619	4,804,904
Health and welfare	983,670	6,161,250	543,439	386,961			949,327	9,024,647
Culture and recreation	1,259,249		43,768	2,426,133			73,351	3,802,501
Economic development	331,939						463,321	795,260
Community development	24,810		2,295,328	929,778			212,938	3,462,854
Education				26,000			168,910	194,910
<b>Debt service:</b>								
Principal						715,591	15,864	731,455
Interest					28,965	627,695	95,821	752,481
<b>Total expenditures</b>	<b>11,676,261</b>	<b>6,161,250</b>	<b>3,697,825</b>	<b>5,426,683</b>	<b>28,965</b>	<b>1,343,286</b>	<b>2,062,995</b>	<b>30,397,265</b>
Excess (deficiency) of revenues over (under) expenditures	1,870,182	-	-	(2,528,809)	(28,965)	(260,306)	260,530	(687,368)
<b>Other financing sources (uses)</b>								
Transfers in				645,988		240,500	888,507	1,774,995
Transfers out	(1,774,995)							(1,774,995)
Long-term debt issued				875,000	5,500,000			6,375,000
<b>Total other financing sources (uses)</b>	<b>(1,774,995)</b>	<b>-</b>	<b>-</b>	<b>1,520,988</b>	<b>5,500,000</b>	<b>240,500</b>	<b>888,507</b>	<b>6,375,000</b>
Net change in fund balances	95,187			(1,007,821)	5,471,035	(19,806)	1,149,037	5,687,632
Fund balance (deficit), beginning as restated	(1,161,589)			6,219,035		2,134,418	342,441	7,534,305
Fund balance (deficit), ending	\$ (1,066,402)	\$ -	\$ -	\$ 5,211,214	\$ 5,471,035	\$ 2,114,612	\$ 1,491,478	\$ 13,221,937

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico**  
**Municipality of Juana Díaz**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2004**

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Net Change in Fund Balances - Total Governmental Funds \$ 5,687,632

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	6,258,761
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(1,455,314)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year.	(8,374)
Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(5,643,545)
Repayment of long term Department of Labor debt is an expenditure in Governmental Funds, but the repayment reduces long -term Department of Labor debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	146,567
Repayment of long term General Services Administration debt is an expenditure in Governmental Funds, but the repayment reduces long -term General Services Administration debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	27,132
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	8,324
Repayment of long term Treasury Department debt is an expenditure in Governmental Funds, but the repayment reduces long -term Treasury Department debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	79,039
Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year.	(202,783)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year.	(579,455)

Change in Net Assets of Governmental Activities \$ 4,317,984

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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

The **Municipality of Juana Díaz** (the Municipality) was founded on the year 1798. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2003. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality has elected to delay the capitalization of infrastructure.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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

The following is a summary of the significant accounting policies of the Municipality:

**A. Component Units**

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, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39. 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 governmental 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 if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

Based on the above criteria, the financial statements of "Villas del Parque" Housing Project no. 63-033-0690660049 were included in the basic 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 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, "Villa Nevárez" Professional Center, Suite 302, San Juan, PR 00927.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

**General Fund-** is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

**Special Revenue Fund – Head Start-** is the accounting entity in which revenues derived from head start and child and adult care food program grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Other Federal Grants-** is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Capital Projects Fund - State & Local Grants** - is the accounting entity in which revenues derived from local funds, and state grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

**Capital Projects Fund - Federal Grants** - is the accounting entity in which revenues derived from federal grants related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Fund** - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

**C. Financial reporting presentation**

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

**Special Revenue Fund - State and Local Grants** - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund - Section 8** - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Special Revenue Fund – Housing Project** - Special Revenue Funds are used to account for revenues derived from the blended component unit activities. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Head Start** - Special Revenue Funds are used to account for revenues derived from head start and child and adult care food program funds. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Other Federal Grants** - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Capital Projects Fund – State and Local Grants** - Capital Projects Fund are used to account for financial resources used for the acquisition or construction of major capital facilities.

**Capital Projects Fund - Federal Grants** - Capital Projects Fund are used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

**D. Measurement focus, basis of accounting and financial presentation**

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**E. Assets, liabilities and net assets**

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on the preliminary liquidation made by the PREPA. Such liquidation is subject to final results of the PREPA financial statements audit. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
  - a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
  - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
  - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
  - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
  - a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
  - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$354,484. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$396,322 for workers compensation insurance covering all municipal employees.

**11. Reconciliation of Government-wide and Fund Financial Statements**

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 27,208,303	
Deduct:		
Bonds Payable	(12,243,409)	
Notes Payable	<u>(6,948,425)</u>	\$ 8,016,469
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		10,682,249
<u>Net assets restricted for debt service</u>		
Debt service fund - fund balances	2,114,612	
Deduct:		
Interest payable	<u>(270,741)</u>	1,843,871
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balances		1,491,478
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance (deficit):	(1,066,402)	
Deduct:		
Department of Labor	(117,593)	
Property Tax Debt	(1,075,127)	
Compensated Absences	(1,700,625)	
Claims and Judgments	(202,783)	
Treasury Department Debt	<u>(638,759)</u>	<u>(4,801,289)</u>
<b>Total net assets - governmental activities</b>		<b><u>\$ 17,232,778</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**2. DEPOSITS**

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$9,943 in the general fund, \$497,300 in the special revenue fund - head start, \$471,551 in the special revenue fund - other federal grants, \$2,341,067 in the capital project fund - state and local grants, and \$5,471,035 in the capital project fund - federal grants were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$1,917,532 that were fully collateralized.

The deposits at GDB of approximately \$370,716 in the special revenue fund-other federal grants, \$2,424,059 in the capital project fund - state and local grants that are restricted for other purposes and capital projects, and the \$1,999,184 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. *Municipal License Tax***- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**3. RECEIVABLES (CONTINUED)**

**B. Intergovernmental Receivables-** Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from property tax collections related to the amnesty granted through the Public Law 74, enacted on March 1, 2004. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 170,647
Puerto Rico Electric Power Authority ("PREPA")	<u>20,618</u>
<b>Total</b>	<b><u>\$ 191,265</u></b>

On September 7, 2004, Act Num. 255 was enacted and a new formula as described in Note 1 (E) (2), was established for the calculation of the contribution in lieu of taxes to be paid to the municipalities by PREPA. Since the final liquidation following such formula was not available for fiscal year 2003-2004, the PREPA issued a preliminary liquidation, which could be affected by final results of the PREPA financial statements audit.

Intergovernmental receivable in special revenue fund - Head Start represent expenditures incurred not yet reimbursed by the pass-through grantor. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Child and Adult Care Food Program	\$ 30,175
<b>Total</b>	<b><u>\$ 30,175</u></b>

Intergovernmental receivable in special revenue fund - other federal grants represent expenditures incurred not yet reimbursed by the Federal government or the pass-through grantors. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grants - Entitlement Grants	\$ 403,835
Public Assistance Grants	288,556
Child Care and Development Block Grant	126,017
Public Safety Partnerships and Community Policing Grants	75,219
Ryan White	29,949
Community Development Block Grants - State's Program	15,427
Incentive Grant - Traffic Enforcement	22,049
Other programs	<u>47,488</u>
<b>Total</b>	<b><u>\$ 1,008,540</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**3. RECEIVABLES (CONTINUED)**

Intergovernmental receivable in capital project funds – state and local grants represent expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Transportation and Public Works	\$ 562,697
“Corporación de Desarrollo Rural”	<u>24,329</u>
<b>Total</b>	<b><u>\$ 587,026</u></b>

Intergovernmental receivable in the debt service fund represents the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (“CRIM”)	\$ 117,826
<b>Total</b>	<b><u>\$ 117,826</u></b>

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed to the Municipality. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor	\$ 28,353
<b>Total</b>	<b><u>\$ 28,353</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, are summarized as follows:

**a. Due from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Other Federal Grants	Payrolls, accruals, and other expenditures not reimbursed	\$ 795,334
General Fund	Capital Project Fund – Local and State Grants	Reimbursable Expenditures	496,197
General Fund	Debt Service Fund	Interest Revenue	3,668
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	465,594
Special Revenue Fund – Head Start	General Fund	Reimbursable Expenditures	9,289
Other Governmental Funds	General Fund	Cash pool in the same bank account	192,148
Capital Project Fund – Local and State Grants	General Fund	Cash pool in the same bank account	<u>953,330</u>
<b>Total</b>			<b><u>\$2,915,560</u></b>

**b. Transfer in/out to other fund**

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Project Fund – State and Local Grants	Transfer of funds for capital projects	\$ 645,988
General Fund	Debt Service Fund	Debt Retirement	240,500
General Fund	Other Governmental Funds	Transfer of funds for special purposes	<u>888,507</u>
<b>Total</b>			<b><u>\$1,774,995</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**5. CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 1,913,535	\$ 499,500	\$ -	\$ 2,413,035
Land -Housing Project	96,229			96,229
Construction in progress	<u>6,307,123</u>	<u>3,671,037</u>	<u>-</u>	<u>9,978,160</u>
<b>Total capital assets not being depreciated</b>	<u>8,316,887</u>	<u>4,170,537</u>	<u>-</u>	<u>\$ 12,487,424</u>
<b>Capital assets, being depreciated:</b>				
Buildings	14,919,246	1,423,430	-	\$ 16,342,676
Buildings - Housing Project	3,131,461	3,433		3,134,894
Infrastructure	574,931	306,557		881,488
Equipment	4,294,033	228,515		4,522,548
Equipment-Housing Project	236,282	14,489		250,771
Vehicles	<u>4,899,129</u>	<u>111,800</u>	<u>-</u>	<u>5,010,929</u>
<b>Total capital assets being depreciated</b>	<u>28,055,082</u>	<u>2,088,224</u>	<u>-</u>	<u>\$ 30,143,306</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(5,416,393)	(601,060)		\$ (6,017,453)
Infrastructure	(492,951)	(31,155)		(524,106)
Equipment	(3,474,219)	(245,531)		(3,719,750)
Housing Project assets	(1,847,280)	(91,213)		(1,938,493)
Vehicles	<u>(2,736,270)</u>	<u>(486,355)</u>	<u>-</u>	<u>(3,222,625)</u>
<b>Total accumulated depreciation</b>	<u>(13,967,113)</u>	<u>(1,455,314)</u>	<u>-</u>	<u>\$(15,422,427)</u>
<b>Total capital assets being depreciated, net</b>	<u>14,087,969</u>	<u>632,910</u>	<u>-</u>	<u>\$ 14,720,879</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 22,404,856</u>	<u>\$ 4,803,447</u>	<u>\$ -</u>	<u>\$ 27,208,303</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**5. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the Municipality as follows:

**Governmental activities:**

General government	\$ 197,001
Public safety	150,985
Public works	426,072
Culture and recreation	529,580
Health and welfare	133,550
Community development	11,649
Education	<u>6,477</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 1,455,314</u></b>

**6. PROPERTY TAXES**

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

The Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$49,945.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**6. PROPERTY TAXES (CONTINUED)**

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000. As of June 30, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$288,455.

On June 26 1997, Public Law Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable o equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$736,727.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**6. PROPERTY TAXES (CONTINUED)**

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

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

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) - Fiscal Year 2003-2004 Liquidation	\$ 133,431
General Services Administration	33,649
Department of Labor - Unemployment	14,470
Puerto Rico Aqueduct and Sewer Authority	<u>15,621</u>
Total	<u>\$ 197,171</u>

The amounts due to other governmental entities in the special revenue fund - other federal grants consists of the amount due to the Government Development Bank for Puerto Rico (GDB) related to a line of credit requested by the Municipality, as authorized by the Municipal Assembly Resolution number 67, 2003-2004 Series, for approximately \$458,300 to complete a capital project. The line of credit is payable with reimbursements from Public Assistance Grant program sources of revenue authorized for such capital project. The amount due to GDB is as follow:

<u>Governmental Entity</u>	<u>Amount</u>
Government Development Bank - Line of Credit	\$ 189,301
Total	<u>\$ 189,301</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**8. DEFERRED REVENUES**

- A. Municipal License Tax-** The deferred revenues of approximately \$1,108,127 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.
- B. Federal Government-** The deferred revenues presented in special revenue fund – head start represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the pass-through grantor are as follows:

<u>Program Description</u>	<u>Amount</u>
Head Start	\$ 448,384
<b>Total</b>	<b>\$ 448,384</b>

The deferred revenues presented in special revenue fund – other federal grants represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government or the pas-through grantor are as follows:

<u>Program Description</u>	<u>Amount</u>
Public Assistance Grant	\$ 160,416
CDBG – State's Program	81,279
Other programs	<u>75,577</u>
<b>Total</b>	<b>\$ 317,272</b>

The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	\$ 94,999
<b>Total</b>	<b>\$ 94,999</b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**9. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2004, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 12,014,000	\$ 875,000	\$ 645,591	\$ 12,243,409	\$ 711,000
Notes Payable	1,534,289	5,500,000	85,864	6,948,425	55,072
Department of Labor General Services	264,160		146,567	117,593	117,593
Administration	27,132		27,132		
Property Tax Debt	1,083,451		8,324	1,075,127	8,324
Treasury Department-Claims	717,798		79,039	638,759	95,039
Claims and Judgments		202,783		202,783	202,783
Compensated Absences	<u>1,121,170</u>	<u>681,776</u>	<u>102,321</u>	<u>1,700,625</u>	<u>100,000</u>
<b>Total</b>	<b><u>\$ 16,762,000</u></b>	<b><u>\$ 7,259,559</u></b>	<b><u>\$ 1,094,838</u></b>	<b><u>\$ 22,926,721</u></b>	<b><u>\$ 1,289,811</u></b>

**1. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

**2. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$875,000. Bonds payable outstanding at June 30, 2004 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2004</u>
1983 Series	1-1-07	\$ 200,000	5.00%	\$ 51,409
1986 Series	7-1-06	2,000,000	5.88% to 8.50%	125,000
1992 Series	1-1-16	1,758,000	5.63%	1,254,000
1995 Series	7-1-18	615,000	6.11% to 8.21%	500,000
1995 Series	1-1-19	835,000	4.50%	628,000
1995 Series	7-1-08	1,680,000	4.70% to 6.88%	875,000
1997 Series	7-1-16	1,180,000	4.70% to 6.63%	950,000
1998 Series	7-1-19	2,270,000	4.87% to 6.51%	2,005,000
2000 Series	7-1-14	1,025,000	6.13% to 7.81%	850,000
2001 Series	7-1-26	900,000	5.00% to 7.00%	870,000
2001 Series	7-1-26	215,000	5.00% to 7.00%	205,000
2002 Series	7-1-27	1,510,000	5.00% to 6.50%	1,485,000
2002 Series	7-1-27	785,000	5.00% to 6.50%	770,000
2002 Series	7-1-09	1,050,000	5.00% to 6.50%	800,000
2003 Series	7-1-28	875,000	6.00%	<u>875,000</u>
<b>Total general obligation bonds</b>				<b><u>\$ 12,243,409</u></b>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

**9. LONG-TERM LIABILITIES (CONTINUED)**

These bonds, except the 1986 Series \$2,000,000 bond and the 2002 Series \$1,050,000 bond, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 1986 Series \$2,000,000 bond and the 2002 Series \$1,050,000 bond are payable with General Fund resources.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 711,000	\$ 692,757
2006	774,000	670,982
2007	769,409	624,355
2008	807,000	579,553
2009	859,000	531,617
2010-2014	2,900,000	2,120,753
2015-2019	2,868,000	1,343,993
2020-2024	1,360,000	559,930
2025-2029	<u>1,195,000</u>	<u>158,372</u>
<b>Total</b>	<b><u>\$ 12,243,409</u></b>	<b><u>\$ 7,282,312</u></b>

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2004</u>
2000 Series	7-1-04	\$ 160,000	4.86% - 6.71%	\$ 35,000
Section 108 Note - Series 2004-A	8-1-24	5,500,000	Variable	5,500,000
Section 515	12-1-31	Not available	7.00% - 9.00%	<u>1,413,425</u>
<b>Total notes payable</b>				<b><u>\$ 6,948,425</u></b>

Except for the section 108 Note - Series 2004-A, which is payable with Community Development Block Grant - Entitlement program and General Fund sources of revenues, and the Section 115 Note, which is payable with the blended component unit source of revenues, the notes are payable from the ad valorem property tax of 1.5% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 55,072	\$ 183,292
2006	21,553	311,890
2007	23,144	311,890
2008	74,853	310,985
2009	76,689	309,080
Thereafter	<u>6,697,114</u>	<u>3,407,950</u>
Total	<u>\$ 6,948,425</u>	<u>\$ 4,835,087</u>

4. **Department of Labor Debt-** This amount represents the balance owned on a long-term basis to the Commonwealth of Puerto Rico Department of Labor at June 30, 2004 for unemployment benefits paid to unemployed former municipal employees. The Municipality reached agreement with the Department of Labor for the payment of debt on a long-term basis.
5. **Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2004, as described in Note 6, from property tax advances in excess of actual collections.
6. **Treasury Department Debt-** These amounts represent the balance owned to the Treasury Department at June 30, 2004, related to payment of claims and judgments against the Municipality issued by the Treasury Department with its sources, after the Municipality reached agreement with the Treasury Department for payment of debt to it on a long-term basis.
7. **Compensated absences-** The government-wide statement of net assets includes approximately \$863,447 of accrued sick leave benefits, and approximately \$837,178 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
8. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. The Municipality owns and has rented the operations of its solid waste landfill to a private contractor. At June 30, 2004, the Municipality has not adopted the Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs" because the Municipality has not recorded in the government-wide financial statements an estimate of total current cost of the municipal solid waste landfill closure and post closure care.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**10. PENSION PLAN**

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2004 amounted to approximately \$299,044 and \$335,182, respectively.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**10. PENSION PLAN (CONTINUED)**

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940.

**11. RISK MANAGEMENT**

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**12. CAPITAL ASSETS REPORTED VALUE:**

The Municipality has not maintained complete and adequate records related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Municipality expects to compile documents and other information in the next fiscal years in order to attain complete and accurate records of its Capital Assets.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2004**

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**13. CONTINGENCIES**

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other 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 approximately \$202,783 for awarded unfavorable judgment. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

**14. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$172,865 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to Final Liquidation for the fiscal year 2002-2003.

The beginning Governmental Activities Net Assets has been restated by approximately \$198,122 to properly present the previously reported net assets at June 30, 2003. The restatement is mainly due to fund balances restatement described above, the recognition of bond and notes accrued interest as of the beginning of the current fiscal year, and adjustment to beginning long-term debt balances.

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

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND  
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

**YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note 1)	Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 2,615,812	\$ 2,615,812	\$ 2,660,163	\$ 44,351
Municipal license tax	1,706,423	1,706,423	1,761,768	55,345
Licenses, permits and other local taxes	2,347,588	2,347,588	2,394,031	46,443
Charges for service	434,000	434,000	506,570	72,570
Intergovernmental	4,865,920	6,300,415	6,187,943	(112,472)
Interest	101,000	101,000	108,255	7,255
Miscellaneous	<u>280,080</u>	<u>280,080</u>	<u>260,966</u>	<u>(19,114)</u>
<b>Total revenues</b>	<u>12,350,823</u>	<u>13,785,318</u>	<u>13,879,696</u>	<u>94,378</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	\$ 5,378,366	\$ 5,621,920	\$ 5,537,468	\$ 84,452
Public safety	1,398,528	1,281,940	1,272,622	9,318
Public works	2,479,898	2,445,202	2,450,931	(5,729)
Health and welfare	1,010,190	1,002,261	1,002,468	(207)
Culture and recreation	1,300,113	1,293,518	1,289,198	4,320
Economic development	432,022	335,383	334,563	820
Community development	90,956	29,995	24,810	5,185
Operating transfer to other fund	<u>260,750</u>	<u>1,775,099</u>	<u>1,774,995</u>	<u>104</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>12,350,823</u>	<u>13,785,318</u>	<u>13,687,055</u>	<u>98,263</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>192,641</u>	<u>192,641</u>

**Explanation of Differences:**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 13,879,696
Differences-budget to GAAP:	
GAAP adjustment to revenues	<u>(333,253)</u>
<b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances</b>	<u>13,546,443</u>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 13,687,055
Differences-budget to GAAP:	
GAAP adjustment to expenditures	(191,148)
Prior year encumbrances recorded as current year expenditures for GAAP basis	196,058
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(240,709)</u>

<b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances</b>	<u>\$ 13,451,256</u>
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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2004

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

B. Excess Expenditures, Encumbrances and Other Financial Sources Over Budget

The Municipality's General Fund had excess of expenditures, encumbrances and other financial uses over appropriations at the legal level of budgetary control in the following functions\programs:

<u>Expenditures, Encumbrances and Other Financing Uses:</u>	<u>Appropriations</u>	<u>Actual Amounts</u>	<u>Excess</u>
Public works	2,445,202	2,450,931	(5,729)
Health and welfare	1,002,261	1,002,468	(207)

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2004**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<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	<u>\$ 427,853</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>427,853</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		28,965
Direct Program: Community Development Block Grants - Entitlement Grants	14.218		2,125,232
Direct Program: Emergency Shelter Grants Program	14.231		62,215
Direct Program: Section 8 Housing Choice Voucher	14.871		586,502
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants - State's Program	14.228	Not Available	<u>107,881</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>Total U.S. Department of Housing and Urban Development</b>			<u>2,910,795</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law and Enforcement Block Grants	16.592	Not Available	<u>10,715</u>
<b>Total U.S. Department of Justice</b>			<u>10,715</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.601	Not Available	<u>62,451</u>
<b>Total U.S. Department of Transportation</b>			<u>62,451</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	1,000

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

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

**YEAR ENDED JUNE 30, 2004**

<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>
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	237,245
Head Start Program	93.600	Not Available	5,733,397
Pass-through the Commonwealth of Puerto Rico - Municipality of Ponce:			
HIV Emergency Relief Project Grant	93.914	Not Available	<u>348,962</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>6,320,604</b></u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1247-DRPR	656,388
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	<u>12,804</u>
<b>Total U.S. Department of Homeland Security</b>			<u><b>669,192</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$10,401,610</b></u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2003**

**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 fund 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 – Head Start Program, Special Revenue Fund – Other Federal Grants, Capital Project Fund – Federal Grants and Other Governmental Funds on the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	Capital Project Fund Federal Grants	Other Governmental Funds	Total
Expenditures of Federal Awards per Fund	\$ 6,161,250	\$ 3,624,893	28,965	\$ 586,502	\$10,401,610
Non federal expenditures per Fund		72,932		1,476,493	1,549,425
Total expenditures per Fund	\$ 6,161,250	\$ 3,697,825	\$ 28,965	\$ 2,062,995	\$11,951,035



**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 Legislature  
Municipality of Juana Díaz  
Juana Díaz, Puerto Rico**

We have audited the basic financial statements of the **Municipality of Juana Díaz** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 22, 2004, which was unqualified at the fund financial statements level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities, and because the Municipality has not recorded in the statement of net assets an estimated liability of total current cost of the municipal solid waste landfill closure and post closure care, 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** basic 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 basic 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*.

**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)**

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 basic 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 basic financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs items **04-01** through **04-04**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 **04-01** and **04-02** 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 December 22, 2004.

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  
December 22, 2004

Stamp No. 2019449 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

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• American Institute of  
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**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 Legislature  
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, 2004. 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.

The **Municipality of Juana Díaz's** basic financial statements include the operations of the Villas del Parque Housing Project no. 63-033-0690660049, a blended component unit, which received \$1,762,415 in federal awards which is not included in the schedule during the year ended June 30, 2004. Our audit, described below, did not include the operations of Villas del Parque Housing Project no. 63-033-0690660049 because the Housing Project have a separate audit in accordance with *U.S. Office of Management and Budget (OMB) Circular A-133*.

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.

**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, 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, 2004. 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 **04-05** through **04-21**.

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 **04-05** through **04-21**.



**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)**

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 **04-06, 04-08, 04-11** through **04-16, 04-18** and **04-21** 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 23, 2005.

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 23, 2005

Stamp No. 2019450 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**

**YEAR ENDED JUNE 30, 2004**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Unqualified, except for adverse for government-wide financial statements

Internal control over financial reporting:

Material weakness identified? Yes  No

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

Noncompliance material to financial statements noted? Yes No

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes  No

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

Type of auditors’ report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant – Entitlement Program
14.871	Section 8 Housing Choice Voucher
83.544	Public Assistance Grant
93.600	Head Start Program
93.924	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs  
Auditee qualified as low-risk auditee?

\$ 300,000  
Yes No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section II - Financial Statements Findings

**Finding Reference**      **04-01**

**Requirement**            **Fixed \ Capital Assets and Expenditures - Subsidiary Ledger**

**Statement of Condition**    The Municipality has not maintained complete and adequate records in order to obtain sufficient evidential matter with respect to the Capital Assets reported in governmental activities and accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.

**Criteria**                    Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.

**Cause of Condition**        Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.

**Effect of Condition**        The Municipality's Government Wide Financial Statements do not present fairly the financial position of the governmental activities and the change in financial position of the Municipality.

**Recommendation**         We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.

**Questioned Costs**         None

**Management Response and Corrective Action**    The Municipality Management will continue with the compilation of evidence to support the cost assigned to all of capital assets recorded in the fixed asset subsidiary ledger.

Implementation Date: June 2005

Responsible Person: Mr. Francisco Torres  
Finance Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>04-02</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	The Municipality did not include in its government-wide financial statements an estimate of the obligation for landfill closure and post closure cost.
<b>Criteria</b>	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure costs 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 costs of its landfill facilities.
<b>Effect of Condition</b>	The 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 government-wide financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality Management will estimate the closure and post closure cost of its landfill facilities in order to include that liability in the fiscal year 2004-05 government-wide financial statements.

Implementation Date: December 2005

Responsible Person: Mr. Francisco Torres  
Finance Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>04-03</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records</b>
<b>Statement of Condition</b>	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds.
<b>Criteria</b>	Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
<b>Effect of Condition</b>	The Municipality's accounting system did not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Finance Department personnel were instructed to strengthen control and procedures to assure that the accounting system will provide information regarding authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Implementation Date: June 2005

Responsible Person: Mr. Francisco Torres  
Finance Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Section II - Financial Statements Findings**

**Finding Reference**      **04-04**

**Requirement**            **Expenditures for Goods and Services and Account Payables - Receiving**

**Statement of Condition** During our examination of the Municipality's disbursement procedures related to the expenditures for goods and services and account payables process, we noted the following situations:

- a. Nine (9) disbursement vouchers were not available for our examination.
- b. Fifty five (55) disbursement vouchers did not have all supporting documents stamped as paid.
- c. In two (2) disbursement vouchers, the purchase orders were not available for our examination.
- d. In one (1) disbursement voucher, the purchase order was not signed by the Finance Director.
- e. In fifty (50) disbursement vouchers, the purchase requisitions were not dated.
- f. In two (2) disbursement vouchers, the purchase requisitions were not available for our examination.
- g. In Six (6) disbursement vouchers, the original invoices were not available for our examination.
- h. One hundred fifty six (156) disbursement vouchers were not included the certification of the Municipality's employee who had knowledge of the receiving of the goods or services.
- i. In twenty one (21) disbursement vouchers, the purchase orders were issued after the receiving of goods of services.
- j. Six (6) cancelled checks were not available for our examination.
- k. In seven (7) disbursement vouchers, the invoices did not detail the prescription drugs for which the Municipality paid.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Section II – Financial Statements Findings**

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

**Criteria**                      The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (4) that the Finance Director will be responsible to account and to prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.

**Cause of Condition**        The Municipality's internal control procedures failed to assure that all disbursement transactions include all the required documentation.

**Effect of Condition**        The Municipality is not in compliance with Chapter Four (4) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

**Recommendation**         We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before the payment is made.

**Questioned Cost**            None

**Management Response and Corrective Action**    The Municipality's Management instructed Finance Department personnel in order to strengthen control and procedures to assure that conditions as observed by the auditors does not occur again.

Implementation Date: April 2005

Responsible Person: Mr. Francisco Torres  
Finance Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-05</b>
<b>Program</b>	<b>Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized the Cash Management Tests and after our procedures were performed we found the following exceptions:  a. The Municipality requested funds that were not disbursed on a reasonable lapse of time.  b. The programs maintained a monthly average cash balance of \$110,417 in books.
<b>Criteria</b>	OMB Common Rules, Subpart C, Section 85.20 (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 internal control procedures failed to assure compliance with cash management requirement.
<b>Effect of Condition</b>	The Municipality is not in compliance with the OMB Common Rules, Subpart C, Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend the management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Section II - Financial Statements Findings**

**Finding Reference**      **04-05 (continued)**

**Management Response  
and Corrective Action**

The Municipality's Management instructed Program accounting staff in order to strengthen control and procedures to assure that all required documentation for disbursements (as vouchers, purchase orders, purchase requisitions, invoices, receiving reports, etc.), are properly documented before any fund petition.

Implementation Date: April 2005

Responsible Person: Mrs. Ramonita Rentas  
Federal Programs Department Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**            **04-06**

**Program**                        **Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development**

**Requirement**                **Reporting**

**Statement of Condition**    **During our reporting test, we identified the following conditions:**

- a. The Federal Cash Transaction Report (SF-272) for the period ended 09/30/03 was not available for our examination.
- b. For the periods ended 12/31/03 and 3/31/04, we could not obtain evidence to assure us that the Federal Cash Transaction Reports (SF-272) were timely submitted to HUD.
- c. The Federal Cash Transaction Reports (SF-272) for the period ended 6/30/04 was not timely submitted to HUD.
- d. For the periods ended 12/31/03, 3/31/04 and 6/30/04, cash outlays per check register pertaining to CDBG program disagrees with cash outlays reported in the Federal Cash Transaction Reports (SF-272) as follows:

Period ended on	Cash outlays per check register	Cash outlays per quarterly report
12/31/03	\$593,043	\$559,827
3/31/04	348,613	370,331
6/30/04	521,361	400,740

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference      04-06 (Continued)**

- e. For the period ended 6/30/04, adjusted cash balance per CDBG bank account reconciliation disagree with adjusted cash balance reported in the Federal Cash Transaction Reports (SF-272) as follows:

Period ended on	Adjusted cash balance per bank conciliation	Adjusted cash balance per quarterly report
6/30/04	\$190,903	\$263,452

- f. Interests earned for the amount of forty seven dollars (\$47) were not included in the Federal Cash Transaction Reports (SF-272) for the periods ended 12/1/03, 3/31/04 and 6/30/04.

**Criteria**

OMB Common Rules, Subpart C, Section 85.42 (b) (1), states that except as otherwise provided, records must be retained for three years. Also, OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

**Cause of Condition**

The Municipality's record retention control and procedures failed to assure that those reports and its submitted evidence were maintained safeguarded and available for examination by us during the application of planned audit procedures. Also, accounting control and procedures failed to assure that those reports are prepared according Program's accounting records.

**Effect of Condition**

The Municipality is not in compliance with the OMB Common Rules, Subpart C, Sections 85.42 (b) (1) and 85.20 (b) (1).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      **04-06 (Continued)**

**Recommendation**      We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic records, supporting documents, statistical records, and other records be adequately safeguarded. Also, we recommend that the Municipality's Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

**Questioned Costs**      None

**Management Response and Corrective Action**      The Municipality Management gave instructions to search and find the reports not available for audit purposes and to establish adequate record retention procedures that permit the prompt availability of documents. Also, instructions were given to Program accounting staff to examine and post any adjusting journal entry necessary to correct real account balances.

Implementation Date: April 2005

Responsible Person: Mrs. Ramonita Rentas  
Federal Programs Department Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**        **04-07**

**Program**                    **Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development**

**Requirement**            **Special Test – Housing Rehabilitation**

**Statement of Condition**    During our examination of twenty five (25) files maintained by the Municipality related to assistance for housing rehabilitation we noted that the written policies and procedures adopted by the Municipality for Housing Rehabilitation Activities were not followed by the Program Staff as established in the Manual.

**Criteria**                    Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program, i.e., benefit low- and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency. Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG- Entitlement Grant funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of "substandard", must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure.

**Cause of Condition**        The Municipality's internal controls procedures failed to assure that inspections to monitor the rehabilitation activities were conducted, as established in the contracts with the participants, by the program staff.

**Effect of Condition**        The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and 570.506 (b) (9).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference** 04-07 (Continued)

**Recommendation** We recommend the Program to establish the following procedures:

- a. Ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract.
- b. Realize pre-rehabilitation inspections describing the participant housing unit deficiencies to be corrected.
- c. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications.
- d. Assure that all participant files include all required documentation.
- e. Ascertain eligibility determination and adequate evidence of family income.

**Questioned Costs** None

**Management Response and Corrective Action** The Municipality Management concurs with the finding. Specific instructions will be given to program staff in order to assure that the procedures and forms adopted through approved manual be followed as part of the housing rehabilitation activities.

Implementation Date: April 2005

Responsible Person: Mrs. Ramonita Rentas  
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-08</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Financial Administration - Standard for Financial Management System</b>
<b>Statement of Condition</b>	During our audit, we noted that during the fiscal year ended June 30, 2004 the Municipality did not maintain for the Section 8 Housing Choice Vouchers Program an adequate set of accounting records that present the financial position and operating results of the program.
<b>Criteria</b>	<p>OMB Common Rules, Subpart C, Part 85.20 (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, outlays or expenditures, and income.</p> <p>The Housing Assistance Payments Program Accounting Handbook states the minimum HUD accounting requirements with respect to Housing Assistance Payments Program Projects under annual contribution contracts.</p>
<b>Cause of Condition</b>	The Municipality maintained a general ledger for the Program in the computerized accounting system, but that general ledger did not report correct and accurate balances for real and nominal accounts.
<b>Effect of Condition</b>	The Municipality is not in compliance with OMB Common Rules, Subpart C, Part 85.20 (b) (2) and with the Housing Assistance Payments Program Accounting Handbook.
<b>Recommendation</b>	We recommend that the Municipality should actualize the Program general ledger maintained in the computerized accounting system in order to assure the accountability of all financial transactions as required by the federal regulations.
<b>Questioned Cost</b>	None.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      04-08 (continued)

**Management Response  
and Corrective Action**    The Municipality Management gave instructions to Program staff to examine and post any adjusting journal entry necessary to correct real account balances. Also, manual accounting records will be implemented during fiscal year 2004-2005.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**        **04-09**

**Program**                    **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**            **Eligibility of Individuals**

**Statement of Condition** We performed an eligibility test of fifteen (15) participant files and found the following exceptions:

- a. In three (3) cases, new participants were admitted to the Program and we did not observe evidence in the file about the application form completed by each participant prior to the admission to the Program.
- b. In one (1) case, the Release of Information\Privacy Act Notice form observed in the file was not signed by the participant.
- c. In one (1) case, the Release of Information\Privacy Act Notice form was not signed by other members of the family with eighteen years or older.
- d. In one (1) case, we did not observe evidence in the file about the Welfare Assistance Certification issued by the Family Department.
- e. In two (2) cases, a photo of the family was not observed in the file.
- f. In two (2) cases, the photo observed in the file did not include all of family members.
- g. In one (1) case, we did not observe evidence in the file about the certificate of birth and the social security card of the participant.
- h. In one (1) case, the family annual income included in the family income and composition examination report disagree with the supporting documents found in the file.
- i. In eleven (11) cases, we observe that the PHA was using \$0 as the minimum total tenant payment during the fiscal year.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      04-09 (continued)

**Criteria**

Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation, the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a federally prescribed general release form for employment information and a Privacy Act Notice. Also, the Code of Federal Regulations 24, Section 982.505 establishes the procedures to be followed to calculate the Housing Assistance Payment.

The PHA administrative plan states that the minimum rent established by the PHA will be \$25.00.

**Cause of Condition**

The Municipality controls and procedures failed to assure that all HAPs payments are duly computed by the program staff, and that the participant's files contained all of documents required. Also, controls and procedures failed to assure that the Total Tenant Payment (TTP) used by the PHA was in accordance with the administrative plan.

**Effect of Condition**

The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.230, 5.212, 982.516, 982.505 and with the PHA administrative plan.

**Recommendation**

The Municipality must give instructions to the program staff to assure that the participant files includes all documentation required by Federal regulations. Also, we recommend the Program to establish monitoring procedures to assure that the participant's files include support documentation about any inconsistency in the Total Tenant Payment (TTP) used.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      04-09 (continued)

**Questioned Costs**      None

**Management Response  
and Corrective Action**

The Municipality Management will give instructions to the Program staff to include in the participant files the required documentation and to change or include in the Privacy Act Notice the signatures required of the participants with eighteen years or older. Also, \$25 will be used as TTP until Management review the Administrative Plan.

Implementation Date: March 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**      **04-10**

**Program**                      **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**                **Reporting- Special Reporting**

**Statement of Condition**    We performed a special reporting test over fifteen (15) participant files and found the following exceptions:

- a. In one (1) case, we did not observe evidence in the file about the Form HUD-50058, Family Report (OMB No. 2577-0083) required to be completed for the family income and composition reexamination and applicable for the fiscal year audited.
- b. In one (1) case, we did not observe evidence in the file about the Form HUD-50058, Family Report (OMB No. 2577-0083), required to be completed as part of a family end participation in the Program.

**Criteria**                        Code of Federal Regulations 24, part 908 and section 982.158 states that the PHA is required to submit HUD-50058, Family Report (OMB No. 2577-0083) form electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

**Cause of Condition**        The Municipality controls and procedures failed in provide evidence of the submissions of the HUD-50058, Family Report.

**Effect of Condition**        The Municipality is not in compliance with Code of Federal Regulations 24, part 908 and section 982.158.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      **04-10 (continued)**

**Recommendation**      We recommend the Municipality strengthen it's procedures in order to assure that the evidence of the submissions of the HUD-50058, Family Report are included in the participant's files.

**Questioned Costs**      None

**Management Response  
and Corrective Action**      The Municipality Management will give instructions to the Program staff to include in the participant files the evidence of the HUD-50058, Family Report submission.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

<b>Finding Reference</b>	<b>04-11</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Selection from the Section 8 Waiting List</b>
<b>Statement of Condition</b>	During our Waiting List test, we noted the following exceptions:  a. In six (6) instances we could not determine if the participant was selected from the waiting list.  b. The waiting list maintained by the Municipality did not contain all of the required information to assure that the selection of new tenants admitted to the program were in accordance with the PHA tenant selection polices.
<b>Criteria</b>	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family, whose names reaches the top of the waiting list, to come in to verify eligibility for admission.
<b>Cause of Condition</b>	The Municipality internal control procedures failed to assure that the waiting list include all information required by Federal Regulation and that the participants were selected from the top of the waiting list.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, sections 982.54 (d) and 982.201 through 982.207.
<b>Recommendation</b>	We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend management to establish control procedures to maintain a waiting list with all information required by the Federal Regulation (applicant name, family unit size, date and time of application, qualification for any local preference and ethnic designation of the head of household). This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      **04-11 (continued)**

**Questioned Costs**      None

**Management Response  
and Corrective Action**

During fiscal year 2004-2005, the Municipality gave a public notice to close the existing waiting list and to open a new waiting list (in a manual register), in order to improve applicant selection procedures, thus complying with Program requirements.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

<b>Finding Reference</b>	<b>04-12</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Reasonable Rent</b>
<b>Statement of Condition</b>	<p>The determination of reasonable rent (reasonable rent certification) was not duly documented. We examined a sample of fifteen (15) participant's files and found the following situations:</p> <ul style="list-style-type: none"><li>a. On six (6) new participant's files, the certification of reasonable rent did not include the comparable rent with other similar units.</li><li>b. On one (1) participant's file, the determination of reasonable rent did not include comparable unassisted units for an increase of the rent to owner during fiscal year ended June 30, 2004.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Subpart K, Sections 982.507 and 982.158 (f) (7) states that the PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent. The PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary. Also, the PHA must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.</p>
<b>Cause of Condition</b>	<p>The PHA controls and procedures failed to assure that a reasonable rent determination was performed as required by the regulations.</p>
<b>Effect of Condition</b>	<p>The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Sections 982.507 and 982.158 (f) (7).</p>
<b>Recommendation</b>	<p>We recommend management to strengthen controls procedures to assure that the rent paid to the owners is reasonable and that appropriate documentation about the determination of reasonable rent has been maintained in the applicable participant's files.</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      04-12 (continued)

**Questioned Costs**      None.

**Management Response  
and Corrective Action**

During fiscal year 2004-2005, the Program Director will realize a reasonable rent study to be used in the reasonable rent determination, when applicable, as required by program regulations.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-13</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2004. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
<b>Cause of Condition</b>	The PHA did not follow the procedures established to review utility rate date each year.
<b>Effect of Condition</b>	The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Section 982.517.
<b>Recommendation</b>	The PHA should evaluate utility allowance rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None.
<b>Management Response and Corrective Action</b>	The Municipality Management concurs with the finding. During the fiscal year 2004-2005, the Program staff conducted a utility survey in order to perform (if necessary) a review of its utility rates.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-14</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Quality Standards Inspections</b>
<b>Statement of Condition</b>	During our test we obtained a list of quality control re-inspections; however, the program did not submit documentary evidence that the form HUD-52580 was completed as part of re-inspection procedures.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart I, Section 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct supervisory quality control re-inspections to determine if the work documented in the files conform to program requirements.  Code of Federal Regulations 24, Subpart A, 985.2 and the Housing Choice Voucher Guidebook, number 7420.10G, Chapter Ten (10), include a guide to determine the minimum size of the PHA's quality control sample.
<b>Cause of Condition</b>	The PHA controls and procedures failed to assure that the form HUD-52580 was completed as part of re-inspection procedures.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sections 982.405 (b) and 985.2, and with the Housing Choice Voucher Guidebook, number 7420.10G, Chapter Ten (10).
<b>Recommendation</b>	We recommended that inspection form HUD-52580 will be completed by the PHA during the quality control re-inspections process.
<b>Questioned Costs</b>	None.
<b>Management Response and Corrective Action</b>	The Municipality Management concurs with the finding. Inspection form will be completed by the PHA for the next quality control re-inspections.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-15</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Assistance Payment (HAP)</b>
<b>Statement of Condition</b>	The Housing Assistance Payment Register for the fiscal year ended June 30, 2004 was not actualized.
<b>Criteria</b>	Code of Federal Regulations 24, section 982.158 states that the PHA's are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly HAP's. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any.
<b>Cause of Condition</b>	The PHA controls and procedures failed to assure that all HAP transactions will be recorded promptly in the HAP Register.
<b>Effect of Condition</b>	The PHA is not in compliance with Code of Federal Regulations 24, section 982.158.
<b>Recommendation</b>	We recommend to the Municipality management to strength controls procedures to assure that all HAP transactions will be recorded promptly in the HAP Register. Also, the Municipality could consider the use of computer software to maintain a HAP Register, instead of a manual basis Register.
<b>Questioned Costs</b>	None.
<b>Management Response and Corrective Action</b>	The Municipality management assigned a staff to the Program accountant in order to maintain updated records, including HAP Register.  Implementation Date: March 2005  Responsible Person: Mrs. Magda Boglio Section 8 Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**      **04-16**

**Program**                      **Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development**

**Requirement**                **Reporting - Financial Reporting**

**Statement of Condition**   **During our reporting test, we identified the following conditions:**

- a. For the fiscal year ended June 30, 2004, we could not obtain evidence to assure us that the Financial Report (HUD-52681) was submitted timely to HUD.
- b. Expenditures recorded in the Section 8 Housing Choice Vouchers program accounting records disagree with the Housing Assistant Payments and administrative expenditures reported in the Financial Report (HUD-52681) as follows:

Description	Expenditures per Accounting Records	Expenditures per Financial Report
HAP Expenditures	\$ 496,074	\$ 546,408
Administrative Expenditures	47,422	40,520
<b>Total</b>	<b>\$ 543,496</b>	<b>\$ 586,928</b>

**Criteria**

Code of Federal Regulations 24, Subpart C, Part 85.20 (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, outlays or expenditures, and income. Also, Code of Federal Regulations 24, section 982.158 (a) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference** 04-16 (continued)

**Cause of Condition** The Municipality maintained a general ledger for the Program in the computerized accounting system, but that general ledger did not report correct and accurate balances for real accounts (assets, liabilities and fund balances accounts).

**Effect of Condition** The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (2) and section 982.158 (a).

**Recommendation** We recommend that the Municipality should actualize the Program general ledger maintained in the computerized accounting system in order to assure the accountability of all financial transactions as required by the federal regulations.

**Questioned Costs** None.

**Management Response and Corrective Action** The Municipality Management gave instructions to Program staff to examine and post any adjusting journal entry necessary to correct real account balances. Also, manual accounting records will be implemented during fiscal year 2004-2005.

Implementation Date: April 2005

Responsible Person: Mrs. Magda Boglio  
Section 8 Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

<b>Finding Reference</b>	<b>04-17</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>	Three (3) Quarterly Reports - Percentage of Completion Reports were not available for our examination.
<b>Criteria</b>	Code of Federal Regulation 44 Section 206.204 (f) requires States to submit quarterly financial and progress reports to the RD. The Governor Authorized Representative requires Municipalities to submit quarterly reports - percentage of completion reports not more than 15 calendar days after each quarter closeout. Code of Federal Regulation 49, Section 19.42 (e), states that except as otherwise provided, records must be retained for three years.
<b>Cause of Condition</b>	The Municipality's record retention control and procedures failed to assure that those reports were maintained safeguarded and available to be examined by us during the application of audit procedures.
<b>Effect of Condition</b>	The Municipality is not in compliance with the record retention and access requirement established through the Code of Federal Regulation 49, Section 19.42 (e).
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic records, supporting documents, statistical records, and other records be adequately safeguarded.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

Finding Reference      **04-17 (continued)**

**Management Response  
and Corrective Action**

The Municipality Management gave instructions to search and find the reports not available for audit purposes. Also, instructions were given to establish adequate record retention and procedures that permit the prompt availability of documents for audit and other authorized purposes.

Implementation Date: April 2005

Responsible Person: Mrs. Ramonita Rentas  
Federal Programs Department Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

<b>Finding Reference</b>	<b>04-18</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 - ACUDEN (Family Department)</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$148,312 was maintained during the fiscal year ended June 30, 2004.
<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 cash advance procedures established by the Commonwealth of Puerto Rico Administration for Children and Families through grant agreement provide for only an advance per month.
<b>Effect of Condition</b>	The Municipality requested funds in excess of immediate needs and for that reason is 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 Commonwealth of Puerto Rico Administration for Children and Families and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      **04-18 (continued)**

**Management Response  
and Corrective Action**

The Municipality Management will give instructions to the program staff in order to strengthen cash management procedures to minimize the time elapsed between the transfer of funds from the Commonwealth of Puerto Rico Administration for Children and Families and the disbursements made by the Municipality. But, the Municipality Management believes that the cash advance procedures as per grant agreement provisions put obstacles to comply with cash management requirement.

Implementation Date: March 2005

Responsible Person: Mrs. Eva Cintrón  
Head Start Program Director

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

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

**YEAR ENDED JUNE 30, 2004**

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

**Finding Reference**      **04-19**

**Program**                      **Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico – ACUDEN (Family Department)**

**Requirement**              **Procurement and Suspension and Debarment**

**Statement of Condition**    **During our contract provisions test, we identified the following conditions:**

- a.    One (1) contract did not include provisions for granting access to GAO or other federally agency, to books and other documents, etc.
- b.    Five (5) contracts did not include provisions for compliance with executive order 11246 “Equal Employment Opportunity”.
- c.    One (1) contract did not include provisions for retention of all required records for a three year period.
- d.    Two (2) contracts did not include provisions for legal remedies when contractor violates contract terms and to provide for such sanctions and penalties.
- e.    Two (2) contracts did not include provisions for termination grantee for default.

**Criteria**                      **Code of Federal Regulations 45, Subpart C, Section 92.36 (l) (1-13), states that sub-grantee's contract must contain provisions described in paragraph (l) of this section.**

**Cause of Condition**        **The Municipality did not maintain appropriate procurement standard procedures in order to assure that a contractor complies with some requirements.**

**Effect of Condition**        **The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Section 92.36, (l) (1-13).**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      **04-19 (Continued)**

**Recommendation**      We recommend management to prepare a sample contract model, which include all contract provisions required by Federal statutes, Executive Orders, and implementing regulations.

**Questioned Costs**      None

**Management Response  
and Corrective Action**      The Municipality Management will give instructions to prepare a contract model including all contract provisions required by the Federal and State laws and regulations.

Implementation Date: June 2005

Responsible Person: Mrs. Eva Cintrón  
Head Start Program Director



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

**Finding Reference**      04-20 (Continued)

**Questioned Costs**      27,920.09

**Management Response  
And Corrective Action**

The Municipality Management gave instructions to search and find the disbursement vouchers not available for audit purposes and to establish adequate record retention procedures that permit the prompt availability of documents.

Implementation Date:

Responsible Person: Mrs. Eva Cintrón  
Head Start Program Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>04-21</b>
<b>Program</b>	<b>HIV Emergency Relief Project Grants - CFDA (93.914) U.S. Department of Health and Human Services; Pass through - Municipality of Ponce</b>
<b>Requirement</b>	<b>Financial Administration - Standard for Financial Management System</b>
<b>Statement of Condition</b>	During our audit, we noted that during the fiscal year ended June 30, 2004 the Municipality did not maintain adequate budgetary control procedures for the HIV Emergency Relief Project Grants. The purchase orders were been issued after the invoice date.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Part 85.20 (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, outlays or expenditures, and income.
<b>Cause of Condition</b>	The Municipality maintained a budgetary control record for the Program in a manual basis, but the purchase orders were issued and recorded after the invoice date.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Part 85.20 (b) (2).
<b>Recommendation</b>	We recommend that the Municipality should prepare a purchase order and obligate such order against the budgetary account balance before any purchase of goods and services are made.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management will give instructions to the Program staff to prepare a purchase order before any acquisition of goods and services.

Implementation Date: April 2005

Responsible Person: Mr. Carlos Ortíz  
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUANA DIAZ

SUMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-07	14.218	<p><u>The Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, the Program maintained a monthly average cash balance of \$55,832 in books.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-05.</p>
03-08	14.218	<p><u>The Municipality did not apply during the year 2002-2003 the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees; contractor's and subcontractor's laborers interviews were not made periodically and contractor's weekly payrolls were not requested promptly during activity of construction project to be reviewed by the Municipal Employee responsible of applying monitoring procedures.</u></p> <p>Full corrective action was taken.</p>
03-09	14.218	<p><u>The Municipality did not maintain appropriate procurement standard procedures in order to assure that all contracts executed comply with the contract provisions requirements.</u></p> <p>Full corrective action was taken.</p>
03-10	14.218	<p><u>The Federal Cash Transaction Report (SF-272) for the periods ended 09/30/02, 12/31/02, 3/31/03 and 6/30/03 were not available for our examination.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-06.</p>
03-11	14.218	<p><u>The Municipality's internal controls procedures fail to assure that the assistance to participants for housing rehabilitations were properly documented.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-07.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-12	14.871	<p><u>The Municipality did not maintain for the Section 8 Housing Choice Vouchers Program an adequate set of accounting records that present the financial position of the program.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-08.</p>
03-13	14.871	<p><u>The Municipality internal control procedures failed to assure that third party verification from Family Department was included in the participant file and the program staff did not require to complete the Privacy Act Notice to participant with eighteen years or older. Also, the PHA controls and procedures failed to assure that all HAPs payments are duly computed by the program staff, and that the participant's files contained all of documents required.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-09.</p>
03-14	14.871	<p><u>The Municipality internal control procedures failed to assure that the waiting list includes all information required by Federal Regulation and that the participants were selected from the top of the waiting list.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-011.</p>
03-15	14.871	<p><u>The PHA did not have a reasonable rent study. In seven (7) cases we did not observe evidence about the determination of reasonable rent for a new leased unit.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-12.</p>
03-16	14.871	<p><u>The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-13.</p>

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**SUMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2004**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-17	14.871	<p><u>The PHA did not perform quality control re-inspections during the fiscal year 2002-2003.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-14.</p>
03-18	93.600	<p><u>The Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$243,992 was maintained during the fiscal year ended June 30, 2003.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-18.</p>
03-19	93.600	<p><u>The Municipality did not maintain appropriate procurement standard procedures in order to assure that all contracts executed comply with the contract provisions requirements.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-19.</p>
03-20	93.600	<p><u>The Program did not apply during the contracts period (two construction contracts) monitoring procedures to assure contractors compliance with payment of prevailing wages rates to employees, as required in the Davis Bacon Act.</u></p> <p>Full corrective action was taken.</p>
03-21	93.600	<p><u>During the program year ended on February 28, 2003 the Municipality did not comply with the 20% of matching share contribution required by the Code of Federal Regulations. As result, we identify a deficiency of matching share contribution for the amount \$500,861. Also, In Local In-Kind contribution we noted that the Municipality duplicated the expenses of electricity by the amount \$29,742 and the telephone expenses by the amount \$5,095, and between the telephone expenses amounts registered in the general ledger and supporting documents by the amount of \$1,487.</u></p> <p>No corrective action was taken. Finding pending for pass-through grantor final resolution.</p>

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**SUMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2004**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-22	93.600	<p><u>The Municipality did not comply with enrollment levels established by Head Start program. The participants enrolled with income above the official Federal Poverty Guidelines was approximately 14.6% of total enrollees for the programmatic year 2002-2003.</u></p> <p>Full corrective action was taken.</p>
03-23	93.600	<p><u>The Municipality did not conduct procurement process related to the acquisition of electrical and refrigeration services in a manner providing a full open competition.</u></p> <p>Full corrective action was taken.</p>
02-07	14.218	<p><u>The Municipality should follow monitoring system procedures developed, 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.</u></p> <p>Full corrective action was taken.</p>
02-08	14.218	<p><u>The Municipality should provide training to employees that prepare contracts in order to assure that contracts to be executed includes all clauses required by the Federal, State and Local Regulations</u></p> <p>Full corrective action was taken.</p>
02-09	14.218	<p><u>The Program should establish the following procedures: ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract, realize pre-rehabilitation inspections describing the participant housing unit deficiencies to be corrected, assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications, assure that all participant files include all required documentation, ascertain eligibility determination and adequate evidence of family income.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-07.</p>

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**SUMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2004**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-10	83.544	<p><u>The Municipality should establish internal control and procedures to maintain a copy of quarterly progress reports (P-4) in its files.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-17.</p>
02-11	83.544	<p><u>The Municipality's Management should obtain approval from FEMA Regional Director before any change in the scope of work of any Project Worksheet is made.</u></p> <p>No corrective action was taken. Finding pending for pass-through grantor final resolution.</p>
02-12	93.600	<p><u>The Municipality should continue to 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.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-18.</p>
02-13	93.600	<p><u>The Municipality should prepare a sample contract model, which include all contract provisions required by Federal statutes, Executive Orders, and implementing regulations.</u></p> <p>No corrective action was taken. See corrective action planned on Finding 04-19.</p>
02-14	93.600	<p><u>The Municipality should improve its procedures to assure that all procurement transactions were conducted in a manner providing full and open competition.</u></p> <p>Full corrective action was taken.</p>
01-06	14.218	<p><u>Failures in the Davis-Bacon Act monitoring system</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2004**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-07	14.218	<u>Contract without clauses required</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-08	14.218	<u>No appropriate documentation on housing rehabilitation participant's files</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-09	14.218	<u>The Municipality did not maintain adequate control over the evidence supporting the disbursement process</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-10	83.544	<u>Activities Allowed or Unallowed - Change in the scope of work without authorization</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-11	83.544	<u>Reporting</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-12	83.544	<u>Special Tests and Provisions - Project Accounting</u>  The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2004**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-13	93.600	<p><u>Allowable Cost\Cost Principles - Period of Availability of Federal Fund</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse..</p>
01-14	93.600	<p><u>The Municipality did not realize procurement by sealed bids (formal advertising) when procuring Educational Equipment who's cost exceeded \$10,000.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-15	93.600	<p><u>The Municipality did not maintain adequate cash management procedures.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-20	10.558	<p><u>The disbursements were not marked or cancelled as paid along the document.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>