

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

MUNICIPIO DE JUANA DIAZ
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2005

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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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, 2005, 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. We did not audit the financial statements of Villas del Parque Housing Project No. 63-033-0690660049, a blended component unit, which statements reflect total assets of \$1,871,705 (net of capital assets accumulated depreciation) as of June 30, 2005, and total revenues of \$444,783 for the year ended. Those statements were audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the Special Revenue Fund and Statement of Net Assets for the Villas del Parque Housing Project, is solely on the report of the other auditor.

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. Those standards 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.

As discussed in Note 12 to the financial statements, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

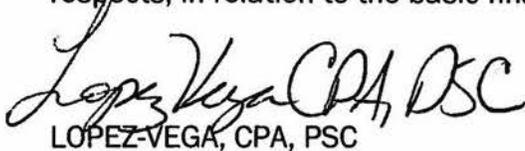
In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Juana Díaz, Puerto Rico**, as of June 30, 2005, and the changes in financial position, thereof for the year then ended.

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, 2005, 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 12 and the Budgetary Comparison Schedule-General Fund on page 45 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 November 15, 2005 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**, 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
November 15, 2005

Stamp No. 2106115 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 DÍAZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

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, 2005. This 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. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2004, second 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. provides for an evaluation of its financial condition as of the end of fiscal year 2004-2005 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess 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 2005 deserve special mention:

1. Total Net Assets of the Municipality as of the end of the indicated fiscal year amounted to \$21,684,500 or forty four percent (44%) of total assets.
2. The Municipality's total Net Assets increased by \$4,400,313, or a thirty (25%) from the prior fiscal year-end balance.
3. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$10,626,773 or \$2,728,596 under the similar figure corresponding to the previous fiscal year 2003-2004, as restated.
4. As the end of the current fiscal year, the deficit of the Municipality's General Fund amounted to (\$1,288,006), or \$355,036 higher than the previous fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL HIGHLIGHTS (continued)

5. The actual General Fund budgetary activities resulted in an unfavorable balance of \$578,258.
6. As reflected in the Statement of Activities, the municipal internally generated revenues contributed to the increase in the Net Assets Figure by \$4,400,313.
7. At the end of fiscal year 2005, total liabilities amounted to \$27,785,986. Out of said amount, \$23,152,631 corresponded to long-term liabilities of which \$18,715,221 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.

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 2005. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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.

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. In the particular case of the Municipality of Juana Díaz, as of June 30, 2005, such figure amounted to \$21,684,500 and represented forty four (44%) of the total 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, 2005, shows total expenses incurred to afford the cost of all functions and programs amounted to \$25,557,655. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$17,232,975 was derived from the following sources: \$593,996 charges for services; \$9,208,441 from operating grants and contributions; and \$7,430,538 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$12,724,993. When such figure is added to the \$17,232,975 previously mentioned, total revenues available for the financing of activities amounted to \$29,957,968. There was an excess of revenues over expenses in the amount of \$4,400,313 which contributed to the figure of net assets attained at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENTS COMPONENTS (continued)

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.

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 partially 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 DÍAZ**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

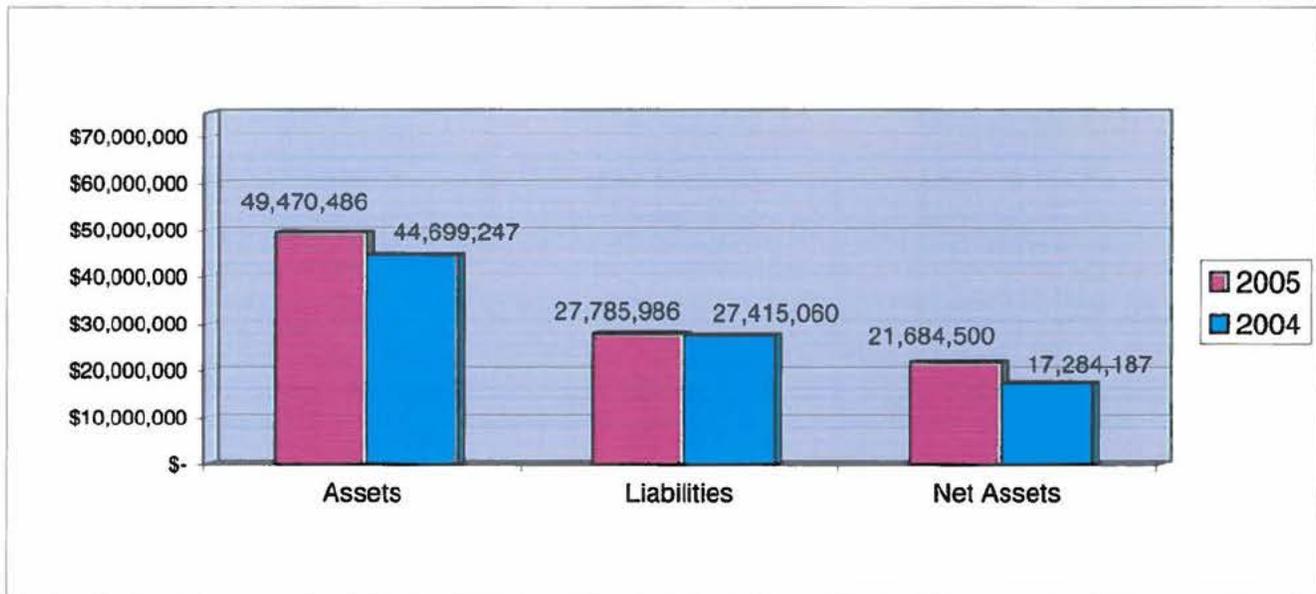
YEAR ENDED JUNE 30, 2005

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 \$21,684,500 at the end of 2005, as compared with \$17,284,187 at the end of the previous year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$4,400,313 increment reflected in the Net Assets figure.

Condensed Statement of Net Assets	2005	2004	Change	%
Current and other assets	\$ 14,859,824	\$ 17,490,944	\$ (2,631,120)	(15%)
Capital assets	34,610,662	27,208,303	7,402,359	27%
Total assets	49,470,486	44,699,247	4,771,239	11%
Current and other liabilities	4,633,355	4,539,748	93,607	2%
Long-term liabilities	23,152,631	22,875,312	277,319	1%
Total liabilities	27,785,986	27,415,060	370,926	1%
Invested in capital assets, net of related debt	15,895,441	8,016,469	7,878,972	98%
Restricted	11,514,475	14,017,598	(2,503,123)	(18%)
Unrestricted deficit	(5,725,416)	(4,749,880)	(975,536)	21%
Total net assets	\$ 21,684,500	\$ 17,284,187	\$ 4,400,313	25%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Assets

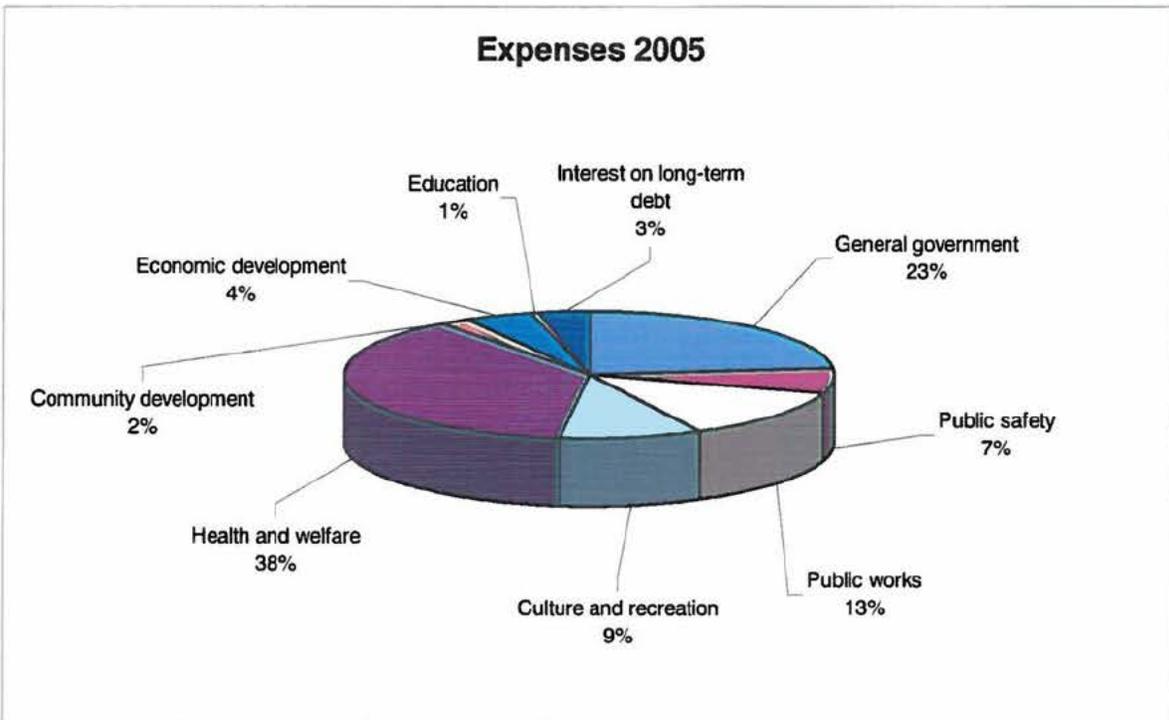
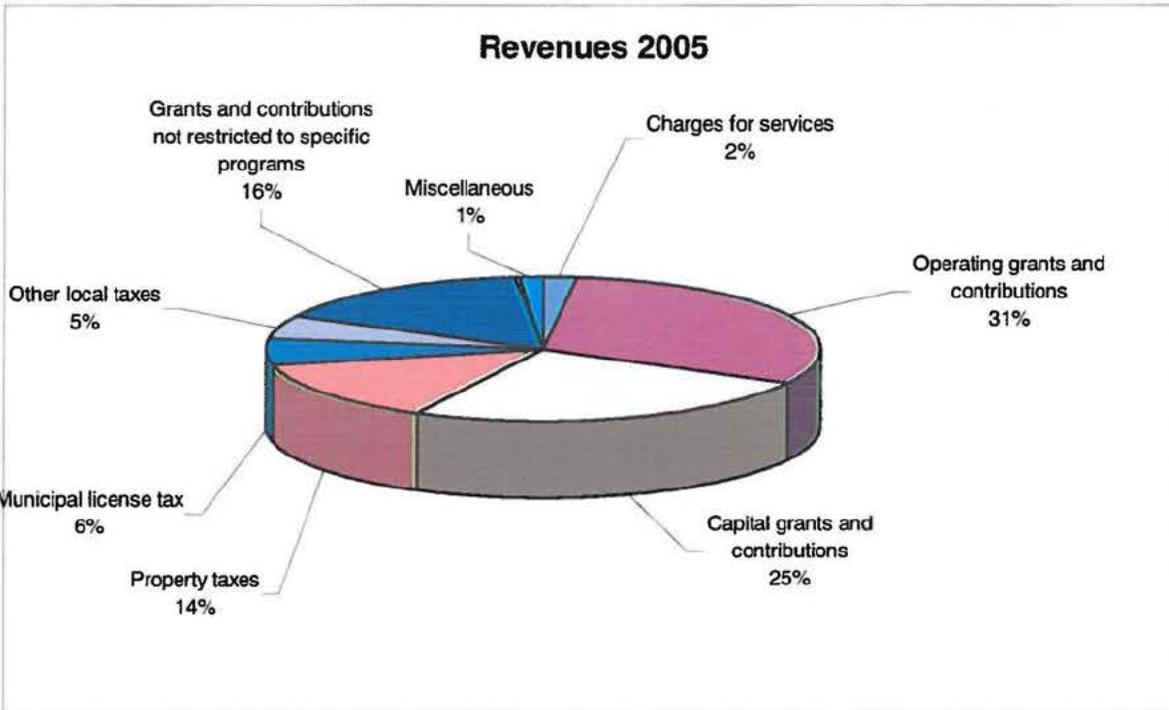
The Statement of Activities reflects that for fiscal year 2005, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$4,400,313. As previously stated, such amount constituted a positive factor to the Municipality's net assets. Approximately twenty five percent (25%) of the Municipality's total revenue came from taxes, while seventy three percent (73%) resulted from grants and contributions, including federal aid. Charges for Services provided two percent (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2005 and 2004. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2005	2004	Change	%
Program revenues:				
Charges for services	\$ 593,996	\$ 565,395	\$ 28,601	5%
Operating grants and contributions	9,208,441	8,622,078	586,363	7%
Capital grants and contributions	7,430,538	6,537,047	893,491	14%
General revenues:				
Property taxes	4,179,364	3,869,439	309,925	8%
Municipal license tax	1,727,042	1,755,733	(28,691)	(2%)
Other local taxes	1,592,674	2,178,871	(586,197)	(27%)
Grants and contributions not restricted to specific programs	4,730,672	5,795,471	(1,064,799)	(18%)
Interest and investment earnings	113,136	99,883	13,253	13%
Miscellaneous	382,105	285,980	96,125	34%
Total revenues	29,957,968	29,709,897	248,071	1%
Expenses:				
General government	5,951,032	5,732,747	218,285	4%
Public safety	1,674,975	1,446,652	228,323	16%
Public works	3,235,915	3,359,277	(123,362)	(4%)
Culture and recreation	2,408,575	1,190,488	1,218,087	102%
Health and welfare	9,665,989	9,120,626	545,363	6%
Community development	488,350	2,816,152	(2,327,802)	(83%)
Economic development	1,118,859	806,909	311,950	39%
Education	160,441	158,207	2,234	1%
Interest on long-term debt	853,519	760,855	92,664	12%
Total expenses	25,557,655	25,391,913	165,742	1%
Change in net assets	4,400,313	4,317,984	82,329	2%
Net assets, beginning of year, as restated	17,284,187	12,966,203	4,317,984	33%
Net assets, end of year	\$ 21,684,500	\$ 17,284,187	\$ 4,400,313	25%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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 amounting to \$10,626,773, which represents a decrease of \$2,728,596 when compared with the prior year, as restated. Out of the indicated balance, \$10,626,773 were reserved or committed for the following purposes: (1) to liquidate contracts and purchase orders corresponding to prior fiscal year (\$227,649); 2) for debt service payments (\$2,133,394); 3) to pay for capital projects (\$9,128,365); 4) for other purposes (\$653,020) and 5) for long-term advances .(\$597,810).

As of June 30, 2005, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of \$2,113,465.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2004-2005, the Municipal Legislature approved revisions to the operational budget to transfer unencumbered balances between budgeted expenditures accounts which represented necessary transactions during the normal course of business.

At the end of the fiscal year 2004-2005, the actual General Fund budgetary activities resulted in an unfavorable balance of \$578,258 principally because the actual construction excise taxes revenues were not collected as expected due to the fact that some constructions projects were delayed or started after June 30, 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality has not maintained complete and adequate records related to Capital Assets acquired and constructed in the past years, but the Municipality expects to compile documents and other information in the next fiscal year in order to attain complete and accurate records of its Capital Assets, and then, comply with such requirements. The Municipal Administration expects to develop a broad and comprehensive identification and assessments projects 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets as of June 30, 2005, amounted to \$51,891,135, which upon deduction of accumulated depreciation in the amount of \$17,280,473, produced a net book value attributable to capital assets of \$34,610,662. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately twenty seven percent (27%) of net book value. Depreciation charges for the year totaled \$1,858,046.

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, 2005, the Municipality has \$1,457,081 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" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the 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.

The Municipality is required under prevailing applicable law to levy a 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. In the particular case of the Municipality of Juana Díaz, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DÍAZ

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2005-2006.

FINAL COMMENTS

The Municipality of Juana Díaz 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.

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 2005. It further contemplates to 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 00769, or call (787) 837-2185.

Commonwealth of Puerto Rico
Municipality of Juana Díaz
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,214,632
Cash with fiscal agent	3,562,594
Accounts receivable:	
Intergovernmental	2,786,251
Others	296,347
Capital assets	
Land, improvements, and construction in progress	10,358,768
Other capital assets, net of depreciation	24,251,894
Total capital assets	34,610,662
 Total assets	 49,470,486
 Liabilities	
Accounts payable and accrued liabilities	2,302,106
Due to other governmental entities	167,125
Deferred revenues:	
Municipal license tax	1,182,925
Federal grant revenues	572,476
Other	8,419
Interest payable	400,304
Noncurrent liabilities:	
Due within one year	1,220,918
Due in more than one year	21,931,713
Total liabilities	27,785,986
 Net Assets	
Invested in capital assets, net of related debt	15,895,441
Restricted for:	
Capital projects	9,128,365
Debt service	1,733,090
Other purposes	653,020
Unrestricted (deficit)	(5,725,416)
 Total net assets	 \$ 21,684,500

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, 2005**

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	\$ 5,951,032	\$ -	\$ 184,223	\$ -	\$ (5,766,809)
Public safety	1,674,975	44,090	87,535	9,188	(1,534,162)
Public works	3,235,915	456,809		1,653,505	(1,125,601)
Health and welfare	9,665,989	2,786	8,185,759		(1,477,444)
Culture and recreation	2,408,575	90,311	81,300	122,682	(2,114,282)
Economic development	1,118,859		592,094	202,057	(324,708)
Community development	488,350		77,530	5,273,106	4,862,286
Education	160,441			170,000	9,559
Interest on long-term debt	853,519				(853,519)
Total governmental activities	\$ 25,557,655	\$ 593,996	\$ 9,208,441	\$ 7,430,538	(8,324,680)
General revenues:					
Property taxes					4,179,364
Municipal license tax					1,727,042
Other local taxes					1,592,674
Grants and contributions not restricted to specific programs					4,730,672
Interest and investment earnings					113,136
Miscellaneous					382,105
Total general revenues					12,724,993
Change in net assets					4,400,313
Net assets - beginning, as restated					17,284,187
Net assets - ending					\$ 21,684,500

**Commonwealth of Puerto Rico
Municipality of Juana Díaz
Balance Sheet
Governmental Funds
June 30, 2005**

	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
Assets								
Cash and cash equivalents	\$ 9,411	\$ 20,637	\$ 434,677	\$ 2,104,524	\$ 5,234,019	\$ -	\$ 411,364	\$ 8,214,632
Cash with fiscal agent			319,634	1,457,081		1,785,879		3,562,594
Accounts receivable:								
Municipal license tax	9,047							9,047
Intergovernmental	123,766	167,803	733,640	984,340		353,803	422,899	2,786,251
Interest	7,384					3,422		10,806
Landfill operations	40,087							40,087
Advances from other funds	597,810							597,810
Due from other funds	1,448,087		27,305	773,665			599,241	2,848,298
Others	232,768						3,639	236,407
Total assets	\$ 2,468,360	\$ 188,440	\$ 1,515,256	\$ 5,319,610	\$ 5,234,019	\$ 2,143,104	\$ 1,437,143	\$ 18,305,932
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities	\$ 1,006,106	\$ 188,440	\$ 312,576	\$ 661,265	\$ -	\$ -	\$ 133,719	\$ 2,302,106
Due to other governmental entities	167,125							167,125
Advances to other funds			360,338	70,795			\$ 166,677	597,810
Due to other funds	1,400,210		367,840	693,204		9,710	377,334	2,848,298
Deferred revenues:								
Municipal license tax	1,182,925							1,182,925
Federal grant revenues			474,502				97,974	572,476
Others							8,419	8,419
Total liabilities	3,756,366	188,440	1,515,256	1,425,264	-	9,710	784,123	7,679,159
Fund balances:								
Reserved for:								
Encumbrances	227,649							227,649
Capital projects				3,894,346	5,234,019			9,128,365
Debt service fund						2,133,394		2,133,394
Reserve for long-term advances	597,810							597,810
Reserved reported in nonmajor funds:								
Other purposes							653,020	653,020
Unreserved:								
Undesignated (Deficit)	(2,113,465)							(2,113,465)
Total fund balances	(1,288,006)	-	-	3,894,346	5,234,019	2,133,394	653,020	10,626,773
Total liabilities and fund balances	\$ 2,468,360	\$ 188,440	\$ 1,515,256	\$ 5,319,610	\$ 5,234,019	\$ 2,143,104	\$ 1,437,143	
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								34,610,662
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds								(23,552,935)
Net assets of governmental activities								\$ 21,684,500

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, 2005

	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
Revenues								
Property taxes	\$ 3,045,135	\$ -	\$ -	\$ -	\$ -	\$ 1,134,229	\$ -	\$ 4,179,364
Municipal license taxes	1,727,042							1,727,042
Licenses, permits and other local taxes	1,592,674							1,592,674
Charges for services	495,670							495,670
Intergovernmental	4,914,896		\$ 63,932	3,800,597			1,041,681	9,821,106
Rent of property							372,816	372,816
Interest	113,136							113,136
Federal grants		6,556,499	3,998,641				620,590	11,175,730
Miscellaneous	278,935			505	\$ 1,601		101,063	382,104
Total revenues	12,167,488	6,556,499	4,062,573	3,801,102	1,601	1,134,229	2,136,150	29,957,968
Expenditures								
Current:								
General government	5,783,733			4,794				5,788,527
Public safety	1,458,964		90,722					1,549,686
Public works	2,378,573		465,246	1,621,702			512,926	4,978,447
Health and welfare	1,062,125	6,556,499	570,254	119,816			1,059,540	9,368,234
Culture and recreation	1,312,121			1,858,902			352,318	3,523,341
Economic development	275,040			6,871			800,412	1,082,323
Community development	5,718		2,936,351	1,830,885	\$ 238,617		77,530	5,089,101
Education							157,745	157,745
Debt service:								
Principal						733,000	17,204	750,204
Interest						628,697	95,259	723,956
Total expenditures	12,276,274	6,556,499	4,062,573	5,442,970	238,617	1,361,697	3,072,934	33,011,564
Excess (deficiency) of revenues over (under) expenditures	(108,786)	-	-	(1,641,868)	(237,016)	(227,468)	(838,458)	(3,053,596)
Other financing sources (uses)								
Transfers in						246,250	-	246,250
Transfers out	(246,250)							(246,250)
Long-term debt issued				325,000				325,000
Total other financing sources (uses)	(246,250)	-	-	325,000	-	246,250	-	325,000
Net change in fund balances	(355,036)	-	-	(1,316,868)	(237,016)	18,782	(838,458)	(2,728,596)
Fund balance (deficit), beginning as restated	(932,970)			5,211,214	5,471,035	2,114,612	1,491,478	13,355,369
Fund balance (deficit), ending	\$ (1,288,006)	\$ -	\$ -	\$ 3,894,346	\$ 5,234,019	\$ 2,133,394	\$ 653,020	\$ 10,626,773

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, 2005**

Net Change in Fund Balances - Total Governmental Funds **\$ (2,728,596)**

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. 9,260,405

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. (1,858,046)

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. (129,563)

Bonds and notes proceeds provide 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. 425,204

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. 117,593

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. 95,039

Long-term claims and judgments 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 represents the change in long-term claims and judgments from prior year. (183,340)

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 represents the change in long-term compensated absences from prior year. (606,707)

Change in Net Assets of Governmental Activities **\$ 4,400,313**

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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, 2005

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, 2005

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, 2005

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, 2005

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 Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Capital Projects Fund - Federal Grants – Capital Project 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, 2005

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, 2005

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 receivable in the General Fund represents property taxes owed by the Municipal Revenue Collection Center ("CRIM"). 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, 2005

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, 2005

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, 2005

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 Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2005 amounted to approximately \$373,857. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$439,284 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</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 34,610,662	
Deduct:		
Bonds Payable	(11,494,000)	
Notes Payable	<u>(7,221,221)</u>	\$ 15,895,441
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		9,128,365
<u>Net assets restricted for debt service</u>		
Debt service fund - fund balances	2,133,394	
Deduct:		
Interest payable	<u>(400,304)</u>	1,733,090
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balances		653,020
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	(1,288,006)	
Deduct:		
Property Tax Debt	(1,200,235)	
Compensated Absences	(2,307,332)	
Claims and Judgments	(386,123)	
Treasury Department Debt - Claims and Judgments	<u>(543,720)</u>	<u>(5,725,416)</u>
Total net assets - governmental activities		<u>\$ 21,684,500</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 \$9,411 in the general fund, \$20,637 in the special revenue fund - head start, \$434,677 in the special revenue fund - other federal grants, \$2,104,524 in the capital projects fund - state and local grants, and \$5,234,019 in the capital projects fund - federal grants were fully collateralized at June 30, 2005. In the other governmental funds there were deposits with commercial banks of approximately \$411,364 that were fully collateralized.

The deposits at GDB of approximately \$319,634 in the special revenue fund-other federal grants, \$1,457,081 in the capital project fund - state and local grants that are restricted for other purposes and capital projects, and the \$1,785,879 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, 2005, 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, 2005, 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, 2005

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables- Intergovernmental receivables in the general fund principally consist of the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances as determined in the CRIM preliminary liquidation for the fiscal year ended on June 30, 2005. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$ 123,766</u>

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>
Head Start Program	\$ 139,387
Child and Adult Care Food Program	<u>28,416</u>
Total	<u>\$ 167,803</u>

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	\$ 305,846
Child Care and Development Block Grant	231,475
Public Safety Partnerships and Community Policing Grants	75,219
Ryan White	25,541
Incentive Grant – Traffic Enforcement	51,921
Other programs	<u>43,638</u>
Total	<u>\$ 733,640</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in capital project funds – state and local grants represent expenditures incurred not yet reimbursed by other governmental entities. In the particular case of the Government Development Bank for Puerto Rico (“GDB”), the amount represent the note proceed not yet received at June 30, 2005 from a note issuance authorized by GDB on June 2005. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Transportation and Public Works	\$ 176,622
Government Development Bank for Puerto Rico	325,000
Rural Development Corporation	458,389
Puerto Rico Housing Administration	<u>24,329</u>
Total	<u>\$ 984,340</u>

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”)	<u>\$ 353,803</u>

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 and Human Resources	\$ 143,312
Department of Agriculture	202,057
Municipal Affairs Commissioner Office	<u>77,530</u>
Total	<u>\$ 422,899</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2005, and interfund transfers during the fiscal year ended at June 30, 2005, 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	\$ 728,178
General Fund	Capital Projects Fund – Local and State Grants	Reimbursable Expenditures	763,999
General Fund	Debt Service Fund	Interest Revenue	9,710
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	544,011
Special Revenue Fund Other Federal Grants	General Fund	Reimbursable Expenditures	27,305
Other Governmental Funds	General Fund	Cash pool in the same bank account	599,240
Capital Project Fund – Local and State Grants	General Fund	Cash pool in the same bank account	<u>773,665</u>
Total			<u>\$3,446,108</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt Retirement	<u>\$ 246,250</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 2005, 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</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital asset, not being depreciated:				
Land	\$ 2,413,035	\$ -	\$ -	\$ 2,413,035
Land -Housing Project	96,229			96,229
Construction in progress	<u>9,978,160</u>	<u>7,849,504</u>	<u>(9,978,160)</u>	<u>7,849,504</u>
Total capital assets not being depreciated	<u>\$ 12,487,424</u>	<u>7,849,504</u>	<u>(9,978,160)</u>	<u>\$ 10,358,768</u>
Capital assets, being depreciated:				
Buildings	\$ 16,342,676	\$ -	\$ 6,264,269	\$ 22,606,945
Buildings - Housing Project	3,134,894	195,375		3,330,269
Infrastructure	881,488		3,713,891	4,595,379
Equipment	4,522,548	197,397		4,719,945
Equipment-Housing Project	250,771	3,551		254,322
Vehicles	<u>5,010,929</u>	<u>1,014,578</u>	<u>-</u>	<u>6,025,507</u>
Total capital assets being depreciated	<u>\$ 30,143,306</u>	<u>\$ 1,410,901</u>	<u>\$ 9,978,160</u>	<u>\$ 41,532,367</u>
Less accumulated depreciation for:				
Buildings	\$ (6,017,453)	\$ (915,500)		\$ (6,932,953)
Infrastructure	(524,106)	(119,114)		(643,220)
Equipment	(3,719,750)	(219,634)		(3,939,384)
Housing Project assets	(1,938,493)	(97,730)		(2,036,223)
Vehicles	<u>(3,222,625)</u>	<u>(506,069)</u>	<u>-</u>	<u>(3,728,694)</u>
Total accumulated depreciation	<u>\$(15,422,427)</u>	<u>\$ (1,858,046)</u>	<u>\$ -</u>	<u>\$(17,280,473)</u>
Total capital assets being depreciated, net	<u>\$ 14,720,879</u>	<u>\$ (447,145)</u>	<u>\$ 9,978,160</u>	<u>\$ 24,251,894</u>
Governmental activities capital assets, net	<u>\$ 27,208,303</u>	<u>\$ 7,402,359</u>	<u>\$ -</u>	<u>\$ 34,610,662</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 191,785
Public safety	146,297
Public works	557,292
Culture and recreation	744,136
Health and welfare	135,947
Community development	36,486
Economic development	43,407
Education	<u>2,696</u>

Total depreciation expense-governmental activities \$ 1,858,046

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 long-term liability to the CRIM is reported in the government-wide financial statements at June 30. During the fiscal year 2003-2004, the CRIM advanced to the Municipality of Juana Diaz the amount of \$133,432 in excess the amount actually collected by the CRIM which will be payable during the fiscal year 2005-2006.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

6. PROPERTY TAXES (CONTINUED)

The Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$41,621.

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, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$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, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$736,727.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 8.83% for real property and 6.83% 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) 2.00% 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>
General Services Administration	\$ 137,342
Department of Labor - Unemployment	16,824
Puerto Rico Aqueduct and Sewer Authority	<u>12,959</u>
Total	<u>\$ 167,125</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$1,182,925 in the general fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

B. Federal Government- 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 pass-through grantor are as follows:

<u>Program Description</u>	<u>Amount</u>
Public Assistance Grant	\$ 271,857
CDBG – State's Program	81,320
Other programs	<u>121,325</u>
Total	<u>\$ 474,502</u>

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	<u>\$ 97,974</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, 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	\$ 12,192,000	\$ -	\$ 698,000	\$ 11,494,000	\$ 760,000
Notes Payable	6,948,425	325,000	52,204	7,221,221	21,426
Department of Labor	117,593	-	117,593	-	-
Property Tax Debt	1,208,559	-	8,324	1,200,235	141,756
Treasury Department-Claims	638,759	-	95,039	543,720	119,039
Claims and Judgments	202,783	183,340	-	386,123	33,989
Compensated Absences	<u>1,700,625</u>	<u>739,690</u>	<u>132,983</u>	<u>2,307,332</u>	<u>144,708</u>
Total	<u>\$ 23,008,744</u>	<u>\$ 1,248,030</u>	<u>\$ 1,104,143</u>	<u>\$ 23,152,631</u>	<u>\$ 1,220,918</u>

- 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. Bonds payable outstanding at June 30, 2005 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, 2005</u>
1986 Series	7-1-06	2,000,000	5.88% to 8.50%	\$ 65,000
1992 Series	1-1-16	1,758,000	5.63%	1,180,000
1995 Series	7-1-18	615,000	6.11% to 8.21%	480,000
1995 Series	1-1-19	835,000	4.50%	599,000
1995 Series	7-1-08	1,680,000	4.70% to 6.88%	730,000
1997 Series	7-1-16	1,180,000	4.70% to 6.63%	905,000
1998 Series	7-1-19	2,270,000	4.87% to 6.51%	1,940,000
2000 Series	7-1-14	1,025,000	6.13% to 7.81%	800,000
2001 Series	7-1-26	900,000	5.00% to 7.00%	855,000
2001 Series	7-1-26	215,000	5.00% to 7.00%	200,000
2002 Series	7-1-27	1,510,000	5.00% to 6.50%	1,460,000
2002 Series	7-1-27	785,000	5.00% to 6.50%	755,000
2002 Series	7-1-09	1,050,000	5.00% to 6.50%	660,000
2003 Series	7-1-28	875,000	6.00%	<u>865,000</u>
Total general obligation bonds				<u>\$ 11,494,000</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 2.00% 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</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 760,000	\$ 619,667
2007	745,000	595,481
2008	807,000	584,753
2009	859,000	542,992
2010	501,000	486,940
2011-2015	3,335,000	2,079,338
2016-2020	2,347,000	1,019,221
2021-2025	1,220,000	480,618
2026-2030	<u>920,000</u>	<u>91,050</u>
Total	<u>\$ 11,494,000</u>	<u>\$ 6,500,060</u>

- 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</u> <u>Date</u>	<u>Original</u> <u>Amount</u>	<u>Range of</u> <u>Interest rates</u>	<u>Balance at</u> <u>June 30, 2005</u>
2005 Series	7-1-08	\$ 325,000	5.00% - 6.00%	\$ 325,000
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>1,396,221</u>
Total notes payable				<u>\$ 7,221,221</u>

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 2.00% 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, 2005

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 21,717	\$ 396,736
2007	123,084	411,869
2008	184,537	403,212
2009	191,082	393,012
2010	77,724	385,840
2011-2015	717,098	1,840,550
2016-2020	2,026,739	1,485,498
2011-2025	3,307,668	671,849
2026-2030	417,483	115,334
2031-2035	<u>154,089</u>	<u>7,654</u>
Total	<u>\$ 7,221,221</u>	<u>\$ 6,111,554</u>

4. **Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2005, as described in Note 6, from property tax advances in excess of actual collections.
5. **Treasury Department Debt-** These amounts represent the balance owned to the Treasury Department at June 30, 2005, 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.
6. **Compensated absences-** The government-wide statement of net assets includes approximately \$1,018,454 of accrued sick leave benefits, and approximately \$1,288,878 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005 amounted to approximately \$311,140 and \$348,741, respectively.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005, 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, 2005

13. CONTINGENCIES

A. Claims and Judgments

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 \$386,123 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.

B. Federal Grants

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.

C. Landfill Closure and Postclosure Care Costs Obligations

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 a solid waste landfill ("MSWLF") and has a contract with a private company to operate its MSWLF for a period of twenty (20) year started on June 1, 2004. As part of its contract to operate the MSWLF, the private company agrees to provide closure and postclosure care subject to the following conditions: a) the private company will be operating the MSWLF up to the termination of the air space of the MSWLF; b) the MSWLF will not be ordered to stop accepting waste in the first ten (10) years of contract term; c) if during the contract period is ordered to close the MSWLF and to development any other alternate facility for waste disposition, the private contractor will have preference status to operate it.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

13. CONTINGENCIES (CONTINUED)

However, because the Municipality may be contingently liable under applicable federal, state, or local law and regulations for the noncompliance of the private company, the Municipality, as part of the evaluation of the proposals submitted by private companies interested to operate the MSWLF, considers the financial capability and stability of all of interested private companies to meet closure and postclosure care obligations when they are due. It's the Municipality's conclusion, that the private company selected and actually operating the MSWLF will be able to meet its contractual obligations about the closure and postclosure care costs, subject to the conditions listed above. As a result, the accompanying basic financial statements do not include adjustments, if any, which could result from the noncompliance of the private company.

14. SUBSEQUENT EVENTS

On August 9, 2005, the Municipality of Juana Díaz approved the Ordinance #6, 2005-2006 in order to impose and collect excise taxes within the territorial limits of the Municipality. This ordinance supersedes Ordinance number 37, of fiscal year 2000-2001.

This ordinance establishes that the construction projects with a cost below \$5,000 will have an exemption of excise tax, projects with a cost exceeding \$5,000, must pay \$40 and 1% of the excess, projects exceeding \$75,000 must pay \$740 and 2.5% of the excess and projects exceeding \$250,000 must pay 5%. Also, this ordinance requires a guarantee of 5% of the total cost of the work, in cases of pipeline installation, and utilities installation as cables and TV cable through excavations or air lines. An exemption is stated for the payment of excise taxes to churches and other non for profit organizations, residences reconstructed with FEMA, State or Federal Government funds.

On March 17, 2005 the Sport and Recreation Department of the Government of Puerto Rico notified the Municipality that a total of \$10,000,000 corresponding to the Legislative Body Resolution 1506 approved on September 6, 2004 were transferred to the Government Development Bank to be administered and reimbursed to the Municipality after receiving adequate evidence of the contract invoices, for the Construction of the Municipal Coliseum. On June 16, 2005, the Municipality signed a contract with a supplier for the construction of the mentioned project for the amount of \$15,248,000 starting in July 5, 2005 through July, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

15. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for the General Fund has been restated by approximately \$133,432 to properly presents the previously reported fund balances at June 30, 2004. The restatement is mainly due to the recognition as a long term debt the amount due to the Municipal Revenue Collection Center ("CRIM") related to Final Liquidation for the fiscal year 2003-2004.

The beginning Net Assets balance has been restated by approximately \$51,409 to properly present the previously reported balances at June 30, 2004. The restatement is mainly due to adjust the long term debt balance to agree with the balance confirmed by the Government Development Bank for Puerto Rico

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

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

YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 2,915,244	\$ 2,982,444	\$ 3,092,016	\$ 109,572
Municipal license tax	1,748,578	1,748,578	1,719,929	(28,649)
Licenses, permits and other local taxes	2,333,086	2,333,086	1,359,906	(973,180)
Charges for service	443,000	443,000	467,636	24,636
Intergovernmental	4,842,066	4,842,066	4,914,896	72,830
Interest	156,500	156,500	107,923	(48,577)
Miscellaneous	<u>410,000</u>	<u>410,000</u>	<u>270,948</u>	<u>(139,052)</u>
Total revenues and other financing sources	<u>12,848,474</u>	<u>12,915,674</u>	<u>11,933,254</u>	<u>(982,420)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$ 5,541,225	\$ 5,805,834	\$ 5,705,304	\$ 100,530
Public safety	1,499,228	1,579,579	1,468,311	111,268
Public works	2,384,729	2,424,779	2,414,304	10,475
Health and welfare	1,099,322	1,078,667	1,066,274	12,393
Culture and recreation	1,453,452	1,380,733	1,327,970	52,763
Economic development	360,466	305,145	277,381	27,764
Community development	247,427	11,112	5,718	5,394
Operating transfer to other fund	<u>262,625</u>	<u>329,825</u>	<u>246,250</u>	<u>83,575</u>
Total expenditures, encumbrances and other financing uses	<u>12,848,474</u>	<u>12,915,674</u>	<u>12,511,512</u>	<u>404,162</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(578,258)</u>	<u>(578,258)</u>

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 11,933,254
Differences-budget to GAAP:	
GAAP adjustment to revenues	<u>234,234</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>12,167,488</u></u>

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 12,511,512
Differences-budget to GAAP:	
GAAP adjustment to expenditures	545
Prior year encumbrances recorded as current year expenditures for GAAP basis	108,213
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(97,746)</u>

Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances

\$ 12,522,524

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2005

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.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	<u>\$ 473,163</u>
Total U.S. Department of Agriculture			<u>473,163</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		238,617
Direct Program: Community Development Block Grants - Entitlement Grants	14.218		2,284,615
Direct Program: Emergency Shelter Grants Program	14.231		53,514
Direct Program: Section 8 Housing Choice Voucher	14.871		620,590
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>598,222</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Total U.S. Department of Housing and Urban Development			<u>3,795,558</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law and Enforcement Block Grants	16.592	Not Available	<u>3,188</u>
Total U.S. Department of Justice			<u>3,188</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission: Incentive Grants	20.601	Not Available	<u>78,789</u>
Total U.S. Department of Transportation			<u>78,789</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	183,647
Head Start Program	93.600	Not Available	6,083,336
Pass-through the Commonwealth of Puerto Rico - Municipality of Ponce: HIV Emergency Relief Project Grant	93.914	Not Available	<u>386,607</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Total U.S. Department of Health and Human Services			<u>6,653,590</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DRPR 1552-DRPR	401,314
Pass-through the Commonwealth of Puerto Rico – Emergency Management Agency: Emergency Management Performance Grant	83.552	Not Available	<u>8,745</u>
Total U.S. Department of Homeland Security			<u>410,059</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$11,414,347</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, 2005

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	\$ 6,556,499	\$ 3,998,641	\$ 238,617	\$ 620,590	\$ 11,414,347
Non federal expenditures per Fund		63,932		2,452,344	2,516,276
Total expenditures per Fund	\$ 6,556,499	\$ 4,062,573	\$ 238,617	\$ 3,072,934	\$ 13,930,623



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 2005, and have issued our report thereon dated November 15, 2005, 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. 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*.

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 **05-01** through **05-02**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 item **05-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is 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 November 15, 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
November 15, 2005

Stamp No. 2106116 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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• Puerto Rico Society of
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**INDEPENDENT AUDITOR'S 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, 2005. The **Municipality of Juana Díaz's** major federal programs are identified in the summary of auditor's 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 \$444,783 in federal awards which is not included in the schedule during the year ended June 30, 2005. 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 AUDITOR'S 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, 2005. 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 **05-03** through **05-18**.

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 **05-03** through **05-18**.



**INDEPENDENT AUDITOR'S 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 **05-03, 05-06, 05-07, 05-09, 05-11** through **05-13, 05-15** and **05-16** 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 17, 2006.

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 17, 2006

Stamp No. 2106117 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, 2005

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified, except for adverse for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s 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 X	No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs	\$ 342,430
Auditee qualified as low-risk auditee?	Yes <u> </u> No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section II – Financial Statements Findings

Finding Reference	05-01
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	Actually, the Municipality's Finance Department staffs are updating the capital assets subsidiary ledger with the support of our financial consultants in order to comply with the GASB No. 34 capital assets requirements for the fiscal year ended on June 30, 2006.

Implementation Date: June 30, 2006

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, 2005

Section II – Financial Statements Findings

Finding Reference	05-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	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.
Criteria	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.
Cause of Condition	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.
Effect of Condition	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.
Recommendation	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.
Questioned Costs	None
Management Response and Corrective Action	The Municipality maintains two set of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section II - Financial Statements Findings

Finding Reference 05-02 (Continued)

Some of the manual accounting records maintained by the Municipality consist of the following records, which provide information based on cash and budgetary basis:

- a. Cash Receipt Books - To record all receipts issued by the Official and Auxiliary Cash Collectors; each receipt is posted under each account of fund column title, and at the end of the month each column total is posted to the General Ledger.
- b. Cash Disbursement Book - To record all cash disbursements made by the Official Payer; each cash disbursement is charged to an account or to a fund, and at the end of the month each account or fund total is posted to the General Ledger.
- c. General Ledger - To summarize monthly cash receipt and cash disbursement transactions charged to each account or fund.
- d. Purchase Orders and Contracts Register - To record purchase orders and contracts issued against the budgeted amounts for each account or fund.

The computerized accounting records consist of the following modules; (a) Budget module, (b) Disbursements module, (c) General accounting module, (d) Volume of business tax module, (e) Accounts Receivable module, (f) Cash receipts module, and (g) Payroll module. All of these modules are in full operation, but as described in the first paragraph, the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

But, the Office of the Commissioner of Municipal Affairs is considering alternatives to improve our accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: June 30, 2007

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, 2005

Section III - Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	05-03
Program	Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Activities-Housekeeper Activities
Statement of Condition	<p>We performed a housekeeper activities test of five (5) participant's files and found the following exceptions:</p> <ul style="list-style-type: none">a) In five (5) participant's files, there was no evidence of the approval form (OCAM-AH-004A);b) In two (2) participant's files, there was no evidence of the family income, of the family composition nor of the health certificate;c) In five (5) participant's files, we did not find evidence that demonstrate if the program staff visited at least two times per month the participant housing unit to ensure the quality of services. In one (1) of these cases, only three (3) visits were found for a period of one year;d) In five (5) participant's files, there was no evidence of the participation contract (OCAM-AH-005);
Criteria	<p>Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide that includes all procedures and program's requirements for housekeeper activities.</p>
Cause of Condition	<p>The Municipality's controls and procedures failed to assure that the participant's files included all the required documents to comply with the program requirements.</p>
Effect of Condition	<p>The Municipality is not in noncompliance with Code of Federal Regulations 24, Section 570.484 and with the operational guide.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **05-03 (Continued)**

Recommendation We recommended management to follow the procedures established in the operational guide title “Manual Operacional Programa Auxiliares del Hogar”, including the use of the forms included on it.

Questioned Costs None

**Management Response
and Corrective Action** To remedy the transactions reported in the external auditors’ condition, we are going to assign Program staff to review the participants’ files to correct, if possible, any condition observed in each file to assure compliance the Program regulations.

Also, as a prospective measure, we are going to give specific instructions to our Program staff and to monitor your performance closely in order to assure adherence to the procedures adopted by us in the procedures guide titled in Spanish as “Manual Operacional Programa Auxiliares del Hogar”.

Implementation Date: June 30, 2006

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, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-04
Program	Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Activities- Housing Rehabilitation Activities
Statement of Condition	<p>We performed a housing rehabilitation activities test of fifteen (15) participant's files and found the following exceptions:</p> <ul style="list-style-type: none">a. In one (1) participant's file, we did not find evidence that demonstrated if all the materials given to the participant were used in the rehabilitation of the house;b. In two (2) participant's files, we did not observe evidence of the program's inspector visits to follow up the rehabilitation works;c. In one (1) participant's file, we observed that the program's inspector visits to follow up the rehabilitation works were performed approximately eight (8) months after the formalization of contract;
Criteria	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-04 (Continued)

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

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

Recommendation We recommend to the Municipality to follow its controls and procedures in order to assure that the program staff inspects the rehabilitation's works to assure that is carried out in accordance with contracts specifications.

Questioned Costs None

Management Response and Corrective Action To remedy the transactions reported in the external auditors' condition, we are going to assign Program staff to review the participants' files to correct, if possible, any condition observed in each file to assure compliance the Program regulations.

Also, as a prospective measure, we are going to give specific instructions to our Program staff and to monitor your performance closely in order to assure adherence to the procedures adopted by us in the procedures guide titled in Spanish as "Guía Operacional para el Programa de Rehabilitación de Viviendas".

Implementation Date: June 30, 2006

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, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-05
Program	Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	<p>During our Cash Management test, we noted that for the Community Development Block Grant–Entitlement Grant, the Municipality requested funds that were not disbursed on a reasonable lapse of time. In a sample of ten (10) requisitions of funds (a total of \$1,538,160), we noted the following situation:</p> <ul style="list-style-type: none">➤ In four (4) requisitions of funds (a total of \$259,579), we observed that the Municipality made the disbursements between six (6) and thirty nine (39) days after the deposits. <p>Also, the Municipality requested funds that were not disbursed on a reasonable lapse of time, for the Community Development Block Grant–State Program. In a sample of seven (7) requisitions of funds (a total of \$424,967), we noted the following situation:</p> <ul style="list-style-type: none">➤ In six (6) requisitions of funds (a total of \$381,568), we observed that the Municipality made the disbursements between seven (7) and forty one (41) days after the deposits. <p>Also, the Community Development Block Grant–State Program cash account maintained a monthly average cash balance of \$55,456 in books.</p>
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-05 (Continued)
Cause of Condition	The Municipality's disbursements procedures failed to assure that funds requested and received from the agency and from the pass-through grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the agency or the Pass-through Grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response and Corrective Action	<p>To correct the condition reported by the external auditors for CDBG Entitlement Grant program we are going to start the disbursement process prior to request funds through the <i>Integrated Disbursement and Information System (IDIS)</i> in order to assure that when the funds were transferred by the US Treasury Department to our Program cash bank account we will disburse its immediately.</p> <p>To correct the condition reported by the external auditors for CDBG State's program we are going to start the disbursement process when the requisitions of funds were submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds were transferred by the Pass-through Grantor we will disburse its immediately.</p> <p>Implementation Date: April 30, 2006</p> <p>Responsible Person: Mrs. Ramonita Rentas Federal Programs Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-06
Program	Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 05-01

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-07**

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

Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)

Requirement **Reporting**

Statement of Condition **During our reporting test for the Community Development Block Grant–Entitlement Grant, we identified the following conditions:**

- For the periods ended 9/30/04, 12/31/04 and 3/31/05, we could not obtain evidence to assure us that the Federal Cash Transaction Reports (SF-272) were timely submitted to HUD.
- The cash outlays per program’s check register 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
9/30/04	\$ 839,258	\$ 776,998
12/31/04	807,097	1,133,047
3/31/05	417,904	391,537
6/30/05	333,345	381,850

Also, our examination of the reporting requirements for the Community Development Block Grant – State’s Program revealed the following:

- The Financial Quarterly Report for the period ended 6/30/05 was not submitted in the stipulated time to the Office of Commissioner of Municipal Affairs.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-07 (Continued)

- We verified the Financial Quarterly Report ended on June 30, 2005. The following summarize the differences between the amounts presented in the Financial Quarterly Report and the amounts presented in the program's General Ledger:

Total Assigned

Accounting Number	Amount per Quarterly Report	Amount per General Ledger	Difference
93-AF-34-001	\$ 80,455	\$ 80,485	\$ (30)
93-AF-34-004	62,350	62,508	(158)
93-AF-34-007	647,048	651,549	(4,501)
94-AF-34-007	5,000	6,000	(1,000)
94-FD-34-003	97,187	97,813	(626)
94-FD-34-013	26,106	26,465	(359)

Accumulated Expenses

Accounting Number	Amount per Quarterly Report	Amount per General Ledger	Difference
93-AF-34-009	\$ 229,949	\$ 242,220	\$ (12,271)
94-FD-ADM (702)	5,010	5,851	(841)
95-FD-34-011	42,796	43,296	(500)
96-FD-ADM (702)	20,150	21,079	(929)
98-FD-ADM (702)	31,818	31,883	(65)

Criteria

Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-07 (Continued)**

Cause of Condition The Municipality financial management system failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities and failed to assure that the submitted evidence of the required reports were maintained safeguarded and available for examination by us during the application of planned audit procedures.

Effect of Condition The Municipality is not in compliance with the Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1).

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** To remedy the condition reported by the external auditors for CDBG Entitlement Grant program, we are going to instruct the Program accountant to reconcile the differences identified by them.

Also, as a prospective measure, we are going to give specific instructions to our Program Accountant to reconcile each quarterly report draft to the accounting records prior to submission of final report to the Grantor in order to assure that transactions and amounts reported to the Grantor were fully supported and agree with the accounting records; and to submit quarterly reports in time and maintain in file reasonable evidence of each report submission.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-07 (Continued)**

To remedy the condition reported by the external auditors for CDBG State's program, we are going to instruct the Program accountant to reconcile the differences identified by them.

Also, as a prospective measure, we are going to give specific instructions to our Program Accountant to reconcile each quarterly report draft to the accounting records prior to submission of final report to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that transactions and amounts reported to the Pass-through Grantor were fully supported and agree with the accounting records; and to submit quarterly reports in time and maintain in file reasonable evidence of each report submission.

Implementation Date: May 30, 2006

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, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-08
Program	Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development Community Development Block Grants – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test for the Community Development Block Grant-Entitlement Grant, we noted that for the construction project CDBG-04-004, related to streets improvement activities, the Municipality did not perform procedures in order to determine if the contractors complied with the dispositions established in the Davis Bacon Act; contractor's laborers interviews were not made and contractor's weekly payrolls were not requested during construction period.</p> <p>Also, during our Davis-Bacon Act test for the Community Development Block Grant-State’s Program, we verified the construction projects 93-AF-34-009, 97-FD-34-012 and 98-FD-34-016. The following summarizes the situations found:</p> <ul style="list-style-type: none">➤ For the construction project 97-FD-34-012, related to streets improvement activities, the Municipality did not perform procedures in order to determine if the contractors complied with the dispositions established in the Davis Bacon Act; contractor's laborers interviews were not made and contractor's weekly payrolls were not requested during construction period;➤ For the construction project 98-FD-34-016, the Municipality did not perform the required visits for monitoring the classifications of the workers and the wage rates paid.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-08 (Continued)

Cause of Condition The Municipality's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.

Effect of Condition The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview 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 extent of violations, if any, and then, communicate contractors, promptly, about any failure in the payroll process.

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality of Juana Díaz was developing multiple community development projects during the fiscal year ended on June 30, 2005, including road pavement improvement projects, which were projects realized in a short term period, situation that affect the application of our Davis-Bacon Act monitoring procedures.

But, to correct the condition reported by the external auditors we are going to instruct our Program labor standards officer to take particular attention to these projects to apply effectively the procedures adopted by us in order to assure compliance with the Davis-Bacon Act requirements.

Implementation Date: June 30, 2006

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, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-09
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized a Cash Management Test and after our procedures, we found that the Municipality maintained during the current fiscal year, an average cash balance in books of approximately \$107,084. At June 30, 2005, the cash balance in books was \$128,436. Of these funds, \$31,037 was from operating reserve, as determined in the preliminary year-end settlement and the remaining \$97,399 was not identified by us with respects to its origin. Also, an underpayment of approximately \$57,526 was determined in the preliminary year-end settlement.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend to the Municipality's management to instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years in order to identify the cash balance respects to its origin, and later, to make any necessary adjusting journal entries to correct accounting records.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-09 (Continued)**

Questioned Costs None

Management Response

and Corrective Action To correct the condition reported by the external auditors, we gave instructions to Program's accountant to revise past cash transactions and, to post in the books any accounting adjustment necessary to properly present the financial position and the results of operations of the Program. This revision must include evaluation of the following transactions: (a) the portability move-in transactions; (b) interest income transactions; (c) cancelled checks and; (d) recoveries from tenants and owners. At moment, we identified approximately \$24,000 that is related to the portability move-in administrative fees.

Implementation Date: April 30, 2006

Responsible Person: Mrs. Magda Boglio
Section 8 Program Coordination

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-10**

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:

- In nine (9) cases, we noted that the PHA used a Minimum Rent of \$0 instead of \$25, as stated by PHA Administrative Plan. As result, in six (6) of these cases, an incorrect monthly HAP was calculated. The following summarize the differences between the monthly HAP calculated by the PHA and the monthly HAP calculated by us:

<u>Case Number</u>	<u>Monthly HAP calculate by PHA</u>	<u>Monthly HAP calculated by Auditor</u>
1	\$ 469	\$ 448
2	470	452
3	339	314
4	461	460
5	480	455
6	466	441

- In one (1) case, the PHA did not consider the family annual income for the HAP calculation. As result, the program calculated an incorrect monthly HAP of \$485 instead of \$353.

Criteria Code of Federal Regulations 24, Subpart K, Section 982.505 establishes the procedures to be followed to calculate the Housing Assistance Payment. Also, 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. Also, controls and procedures failed to assure that the Total Tenant Payment (TTP) used by the PHA was in accordance with the administrative plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUANA DIAZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-10 (Continued)**

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Subpart K, Section 982.505 and with the PHA administrative plan.

Recommendation We recommend the PHA to strengthen its monitoring procedures to assure that the HAPs are duly computed as required by the Federal Regulations.

Questioned Costs None

**Management Response
and Corrective Action**

These situations were corrected. During the final months of the fiscal year ended June 30, 2005 (audit period), we gave instructions to the program staff to make sure to use \$25 as TTP, in accordance with the administrative plan. Also, in the other case, we realize an interim change to include the family annual income in the HAP calculation.

Implementation Date: Corrected during the fiscal year 2004-2005

Responsible Person: Mrs. Magda Boglio
Section 8 Program Coordinator

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-11
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	<p>During our Waiting List test, we noted the following situations:</p> <ul style="list-style-type: none">➤ In a sample of ten (10) applicants included in the Waiting List, we observe that the PHA did not maintain the required information to assure that the selection of new tenants admitted to the program were in accordance with the administrative plan;➤ In a sample of four (4) new participants selected by the program during the fiscal year, we could not determine if two (2) of these were selected from the Waiting List.
Criteria	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. Also, the PHA's administrative plan states that except for special admissions, participants must be selected from the PHA Waiting List (the PHA must select participants from the Waiting List on a first-come, first-served basis, in accordance with this same plan, which includes Equal Opportunity).
Cause of Condition	The PHA's internal control procedures failed to assure that the participants were selected from the top of the waiting list, in accordance with the administrative plan.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, sections 982.54 (d), 982.201 through 982.207 and with the administrative plan.
Recommendation	We recommended the PHA to strengthen its monitoring procedures in order to assure that all participants in the program are selected from the Waiting List, in accordance with the administrative plan.

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

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-11 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

These situations were corrected. During the fiscal year ended June 30, 2005, we 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 the applicant selection procedures.

Implementation Date: Corrected during the fiscal year 2004-2005

Responsible Person: Mrs. Magda Boglio
Section 8 Program Coordinator

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

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-12
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	<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">➤ On three (3) new participant's files, we did not observe the certification of reasonable rent.➤ On one (1) participant's file, we did not observe the certification of reasonable rent in a change of unit during the fiscal year.
Criteria	<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>
Cause of Condition	<p>The PHA controls and procedures failed to assure that a reasonable rent determination was performed as required by the regulations.</p>
Effect of Condition	<p>The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Sections 982.507 and 982.158 (f) (7).</p>
Recommendation	<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>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-12 (Continued)**

Questioned Costs None.

**Management Response
and Corrective Action**

These situations were corrected. For the new participants selected during the fiscal year 2005-2006 and for any change of rent to owners, we'll make the required studies of comparable rents in order to determine if the rent paid to the owners is reasonable.

Implementation Date: Corrected during the fiscal year 2005-2006

Responsible Person: Mrs. Magda Boglio
Section 8 Program Coordinator

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

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-13
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2005. 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.
Criteria	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.
Cause of Condition	The PHA did not follow the procedures established to review utility rate date each year.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Section 982.517.
Recommendation	The PHA should evaluate utility allowance rate each year as established in the federal regulations and must adjust its allowance schedule if there has been a rate change of ten percent (10%) or more for a utility category.
Questioned Costs	None.
Management Response and Corrective Action	This situation was corrected. The utility allowance schedule was update during the fiscal year 2005-2006. Implementation Date: Corrected during the fiscal year 2005-2006 Responsible Person: Mrs. Magda Boglio Section 8 Program Coordinator

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

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-14
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Quality Standards Inspections
Statement of Condition	During our test, we obtained a list of quality control re-inspections; however, we noted that these re-inspections were not performed in accordance with the procedures established in the Federal Regulation (Form HUD-52580 was not completed as part of the quality control re-inspection procedures).
Criteria	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. Also, the Housing Choice Voucher Guidebook, number 7420.10G, Chapter Ten (10) states that a PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of the re-inspection.
Cause of Condition	The PHA controls and procedures failed to assure that the quality control re-inspections were performed in accordance with the Federal Regulation.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.405 (b), and with the Housing Choice Voucher Guidebook, number 7420.10G, Chapter Ten (10).
Recommendation	We recommended that inspection form HUD-52580 will completed by the PHA during the quality control re-inspections process.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-14 (Continued)**

Questioned Costs None.

**Management Response
and Corrective Action** To correct the condition reported by the external auditors, we will complete the inspection form for the next quality control re-inspections.

Implementation Date: April 30, 2006

Responsible Person: Mrs. Magda Boglio
Section 8 Program Coordinator

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-15
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico-Administration for Care and Integral Development of Childhood (ACUDEN)
Requirement	Cash Management
Statement of Condition	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 \$173,943 was maintained during the fiscal year ended on June 30, 2005.
Criteria	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.
Cause of Condition	The cash advance procedures established by the Commonwealth of Puerto Rico ACUDEN through grant agreement provide for only an advance per month.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
Recommendation	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 ACUDEN and the disbursements made by the Municipality.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-15 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The requisition of funds system established by the Commonwealth of Puerto Rico Child Care and Development Administration (ACUDEN) has been designed to request funds monthly. Therefore, each month, we complete and submit the request of funds form provided by ACUDEN requesting funds based on cash received to date, cash outlay obligations a forecast of expenditures for the next month (payroll, fringe benefits, contractual services, etc.).

The funds requested and received from ACUDEN each month are disbursed during each month period principally to pay the payroll and fringe benefits or to reimburse it to the General Fund, to pay the monthly portion of contractual services, and to pay for other expenditures related to the Program administrative and programmatic activities.

Therefore, is our opinion that the requisition of funds system established by the Pass-through Grantor, that should exercise sound cash management in funds transfers to sub grantees, has been followed by us in compliance with the grant agreement clauses.

Implementation Date: Pending to pass-through grantor comment

Responsible Person: Mrs. Eva Cintrón
Head Start Program Director

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

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-16
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico-Administration for Care and Integral Development of Childhood (ACUDEN)
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test, we noted that for the construction projects maintained by the program during the fiscal year ended on June 30, 2005, the Municipality did not perform procedures in order to determine, if the contractors complied with the dispositions established in the Davis Bacon Act; contractor's laborers interviews were not made and contractor's weekly payrolls were not requested during construction period.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7)
Cause of Condition	The Program did not have internal controls and procedures to monitor contractor and sub-contractors compliance with Davis Bacon Act.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	We recommended the Municipality's management must designate personnel to realize monitoring procedures to in order to monitor contractor and sub-contractors compliance with Davis Bacon Act.
Questioned Costs	None
Management Response and Corrective Action	<p>The objectives of our Head Start program is to provide comprehensive health, educational, nutritional, social, and other developmental services primarily to economically disadvantaged preschool children (ages 3 to 5) so that the children will attain school readiness.</p> <p>Some times, our Head Start program requested and received funds to be used for capital expenditures such as construction of new facilities and major renovations on existing facilities used for programs conducted at the Head Start facilities.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-16 (Continued)

Because the objectives of the Head Start program are principally to provide services to children, and because constructions and renovation projects has not been developed continuously by us, we failed to comply with this requirement because we did not have a permanent labor standard officer.

But, to correct the condition reported by the external auditors we are going to provide training and to assign to one of our Program staff the duties of a labor standards officer to monitor contractors and sub-contractors compliance with Davis-Bacon Act requirements when needed.

Implementation Date: May 30, 2006

Responsible Person: Mrs. Eva Cintrón
Head Start Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-17
Program	HIV Emergency Relief Project Grants - CFDA (93.914) U.S. Department of Health and Human Services; Pass through – Municipality of Ponce
Requirement	Reporting
Statement of Condition	The Municipality did not maintain evidence of the Quarterly Financial Reports emitted to pass-through grantor during the fiscal year ended June 30, 2005.
Criteria	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. Also, the program grant agreement states that the Municipality will emit to the pass-through grantor (the Municipality of Ponce) a Quarterly Financial Reports.
Cause of Condition	The Municipality send the Quarterly Financial Reports to the pass-through grantor and does not maintain these, as part of its records.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Part 85.20 (b) (2) and with the program grant agreement.
Recommendation	We recommended to the Municipality that maintains as part of its records, the Quarterly Financial Reports emitted to the pass-through grantor.
Questioned Cost	None.
Management Response	To correct the condition reported by the external auditors we are going to instruct the Program Director to prepare and maintain for subsequent audits evidence (remittal sheet) of reports submission to the Pass-through Grantor.

Implementation Date: March 31, 2006

Responsible Person: Mr. Carlos A. Ortiz
Federal Programs Department Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-18
Program	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)
Requirement	Reporting
Statement of Condition	Two (2) Quarterly Reports – Percentage of Completion Reports were not available for our examination.
Criteria	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. Also, Code of Federal Regulation 49, Section 19.42 (e), states that except as otherwise provided, records must be retained for three years.
Cause of Condition	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.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 44 Section 206.204 (f) and with Code of Federal Regulation 49, Section 19.42 (e).
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.
Questioned Costs	None

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-18 (Continued)**

**Management Response
and Corrective Action**

To correct the condition reported by the external auditors we are going to instruct the Program Director to prepare and maintain for subsequent audits evidence (remittal sheet) of reports submission to the Pass-through Grantor.

Implementation Date: March 31, 2006

Responsible Person: Mrs. Ramonita Rentas
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-05	14.218	<p><u>The Municipality requested funds that were not disbursed on a reasonable lapse of time. The programs maintained a monthly average cash balance of \$110,417 in books.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-05.</p>
04-06	14.218	<p><u>During the reporting test, the auditors identified the following conditions: (a) The Federal Cash Transaction Report (SF-272) for the period ended 09/30/03 was not available for examination; (b) For the periods ended 12/31/03 and 3/31/04, the auditors did not identify evidence to assure 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); (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) and; (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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-07.</p>
04-07	14.218	<p><u>During the examination of twenty five (25) files maintained by the Municipality related to assistance for housing rehabilitation, the auditors 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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-04.</p>
04-08	14.871	<p><u>The auditors 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.</u></p>

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Full corrective action was taken.
04-09	14.871	<p><u>The auditors 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 there was no 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, there was no 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, there was no 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 and; (i) In eleven (11) cases, the PHA was using \$0 as the minimum total tenant payment during the fiscal year.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-10.</p>
04-10	14.871	<p><u>The auditors performed a special reporting test over fifteen (15) participant files and found the following exceptions: (a) In one (1) case, there was no 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 and; (b) In one (1) case, there was no 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.</u></p> <p>Full corrective action was taken.</p>
04-11	14.871	<p><u>During the Waiting List test, the auditors noted the following exceptions: (a) In six (6) instances the auditors could not determine if the participant was selected from the waiting list and; (b) The waiting list maintained by the Municipality did not contain all of the required information to assure that</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>the selection of new tenants admitted to the program were in accordance with the PHA tenant selection polices.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-11.</p>
04-12	14.871	<p><u>The determination of reasonable rent (reasonable rent certification) was not duly documented. The auditors examined a sample of fifteen (15) participant's files and found the following situations: (a) On six (6) new participant's files, the certification of reasonable rent did not include the comparable rent with other similar units and; (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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-12.</p>
04-13	14.871	<p><u>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.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-13.</p>
04-14	14.871	<p><u>The auditors obtained a list of quality control re-inspections; however, the program did not submit documental evidence that the form HUD-52580 was completed as part of re-inspection procedures.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-14.</p>
04-15	14.871	<p><u>The Housing Assistance Payment Register for the fiscal year ended June 30, 2004 was not actualized.</u></p> <p>Full corrective action was taken.</p>
04-16	14.871	<p>During the reporting test, the auditors identified the following conditions: (a) For the fiscal year ended June 30, 2004, the auditors could not obtain</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		evidence to assure that the Financial Report (HUD-52681) was submitted timely to HUD and; (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). Full corrective action was taken.
04-17	83.544	Three (3) Quarterly Reports – Percentage of Completion Reports were not available for the examination. No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-18.
04-18	93.600	<u>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.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-15.
04-19	93.600	<u>During the contract provisions test, the auditors 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 and; (e) Two (2) contracts did not include provisions for termination grantee for default.</u> Full corrective action was taken.
04-20	93.600	<u>In the test of compliance and internal control, the Municipality did not provide three disbursement vouchers for a total amount of \$27,920.</u> Full corrective action was taken.
04-21	93.914	<u>During the intervention, the auditors noted that during the fiscal year</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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.</u></p> <p>Full corrective action was taken.</p>
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 has been taken. The auditors reissued the finding for the current year. Finding Reference 05-05.</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 examination.</u></p> <p>Full corrective action was taken.</p>
03-11	14.218	<p><u>During the examination of fifteen (15) Housing Rehabilitation Participant's files, the auditors noted the following: (a) In eleven (11) instances no evidence was found regarding the pre-rehabilitation inspection conducted which listed the deficiencies to be corrected; (b) In eleven (11) instances, the deficiencies to be corrected were not incorporated into the Rehabilitation Contract Form; (c) In two (2) instances, the files did not contain evidence about the participant's housing unit ownership or authorization for rehabilitation work and; (d) In ten (10) instances the file did not contain accurate and complete evidence of inspections realized in order to verify if the rehabilitation work was carried out in accordance with the Contract.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-04.</p>
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>Full corrective action was taken.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-13	14.871	<p><u>The auditors performed an eligibility test of fifteen (15) participant files and found the following exceptions: (a) In two (2) cases the most recent Release of Information\Privacy Act Notice form observed in the file was signed by the participant on 2001; therefore, such form was expired; (b) In three (3) cases the Release of Information\Privacy Act Notice form was not provided by signature of other members of the family with eighteen years or older; (c) In two (2) cases new participants were admitted to the Program, but the auditors did not observe evidence in the file about the application form completed prior to the admission to the Program; (d) In one (1) case a photo of the family was not observed in the file; (e) In one (1) case the auditors did not observe the HAP Contract for the period beginning on January 16, 2003 to December 2003; the auditors observe a HAP Contract with a lease term beginning on December 16, 2003 and ending on December 15, 2004; (f) Although the Administrative Plan approved by HUD for the fiscal year 2002-2003 had established a minimum total tenant payment of \$25, the auditors observe that the PHA was using \$0 as the minimum total tenant payment during the fiscal year.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-10.</p>
03-14	14.871	<p>During the Waiting List Test, the auditors noted the following exceptions: (a) In five (5) instances the auditors did not determine if the participant was selected from the waiting list and; (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.</p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-11.</p>
03-15	14.871	<p><u>The PHA did not have a reasonable rent study. In seven (7) cases, the auditors did not find evidence about the determination of reasonable rent for a new leased unit.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 05-12.</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</u></p>

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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 has been taken. The auditors reissued the finding for the current year. Finding Reference 05-13.</p>
03-17	14.871	<p><u>The PHA did not perform quality control re-inspections during the fiscal year 2002-2003.</u></p> <p>Full corrective action was taken.</p>
03-18	93.600	<p><u>During the Cash Management test, the auditors noted that 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 has been taken. The auditors reissued the finding for the current year. Finding Reference 05-15.</p>
03-19	93.600	<p><u>During the contract provisions test, the auditors identified the following conditions: (a) Five (5) contracts 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 retention of all required records for three years; (c) Two (2) contracts did not include provisions for Davis Bacon Act (d) Two (2) contracts did not include provisions for sections 103 and 107 of the contract Work House & Safety Standards Act; (e) One (1) contract did not include provisions for Clean Air and Water Act (f) Two (2) contracts did not include provisions for Energy Policy and Conservation Act and; (g) Two (2) contracts did not include provisions for Copeland 'Anti-kickback'.</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, the auditors identify a deficiency of matching share contribution for the amount \$500,861. Also, in Local In-Kind contribution, the auditors 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</u></p>

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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>
02-09	14.218	<p><u>During the examination of twenty-five (25) Housing Rehabilitation Participant's files, the auditors noted the following: (a) In ten (10) instances no evidence was found regarding the pre-rehabilitation inspection conducted which listed the deficiencies to be corrected; (b) In ten (10) instances the Pre-rehabilitation Inspection Visit Form, the Follow-up Inspection Visit Form, and the Closing Inspection Visit Form was dated the same day; (c) In one (1) instance the Pre-rehabilitation Inspection Visit Form was not duly completed, it did not described the deficiencies to be corrected or the time estimate to conduct the rehabilitation work; (d) In fourteen (14) instances the Rehabilitation Contract Form did not specify the date when the agreement was signed; (e) In one (1) instance the Rehabilitation Contract Form and the Closing Inspection Visit Form was signed by the participant the same day (f) In one (1) instance the deficiencies to be corrected were not incorporated into the Rehabilitation Contract Form (g) In twelve (12) instances the file did not contain accurate and complete evidence of inspections realized in order to verify if the rehabilitation work was carried out in accordance with the Contract;</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>
02-10	83.544	<p><u>The Municipality did not provide three (3) of the quarterly progress reports (P-4) required by the Governor's Authorized Representative (GAR) during the fiscal year 2001-2002.</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>
02-11	83.544	<p><u>During the examination of nine (9) small and large projects files, the auditors noted the following situations: (a) The Municipality did not maintain a well organized file for each project as required by the Office of Governor Authorized Representative (GAR), to support that costs incurred</u></p>

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>were in performance of eligible works, that approved works were completed, that the projects were in compliance with the provisions of the FEMA-State Agreement and that payments charged to projects were made in accordance with OMB A-102 Common Rule, and; (b) In the Project Worksheets (PW) number 1480 and 10226, the auditors observed that the Municipality changed the scope of work as approved by FEMA. No evidence was provided to the auditors in order to ascertain that FEMA or Office of Governor Authorized Representative (GAR) authorized such changes in the scope of work.</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>
02-12	93.600	<p><u>During the Cash Management test, the auditors noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$265,394 was maintained during the fiscal year ended June 30, 2002.</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>
02-13	93.600	<p><u>During the contract provisions test, the auditors identified the following conditions: (a) Two (2) contracts did not include a provision for contractual remedies when contractor violates contract term, or providing for sanctions and penalties as appropriate; (b) Four (4) contracts did not include provisions for granting access to GAO or other federally agency, to books and other documents, etc; (c) Three (3) contracts did not include provisions for retention of all required records for three years and; (d) Five (5) contracts did not include provisions for contractor's debarment and suspension certification.</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>