

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

**MUNICIPIO DE JUNCOS**  
**AUDITORIA 2000-01**  
**30 DE JUNIO DE 2001**

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DE ASUNTOS MUNICIPALES  
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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF JUNCOS**  
**SINGLE AUDIT REPORT**  
**YEAR ENDED JUNE 30, 2001**

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUNCOS**

**YEAR ENDED JUNE 30, 2001**

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUNCOS**

**YEAR ENDED JUNE 30, 2001**

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Juncos**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in **Note 13**, at June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Post closure Care Costs. The general-purpose financial statements do not include a provision for landfill closure and post closure costs in the general long-term debt account group as required by accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

As described in **Note 8**, the **Municipality of Juncos** did not maintain complete and adequate records of its general fixed assets. The general-purpose financial statements referred to above do not include the general fixed assets account group that should be included in order to conform to accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2001 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Juncos**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 7, 2001

Stamp No. 1785245 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 2001**

|  | GOVERNMENTAL FUND TYPES |                    |                    | ACCOUNT GROUP       | TOTALS<br>(MEMORANDUM ONLY) |
|--|-------------------------|--------------------|--------------------|---------------------|-----------------------------|
|  | General                 | Special<br>Revenue | Debt Service       | Capital<br>Projects |                             |
| <b>ASSETS AND OTHER DEBITS</b>                                 |                         |                    |                    |                     |                             |
| Cash and cash equivalents                                      | \$3,884,529             | \$953,186          |                    | \$311,530           | \$5,149,245                 |
| Cash with fiscal agent   | 4,909                   | 576,135            | \$2,312,110        |                     | 2,893,154                   |
| Intergovernmental receivable                                   |                         | 113,678            |                    | 1,365,000           | 1,478,678                   |
| Federal grants receivable                                      |                         | 306,643            |                    | 242,169             | 548,812                     |
| Due from other funds   | 940,899                 |                    |                    |                     | 940,899                     |
| Landfill users receivable                                      | 177,065                 |                    |                    |                     | 177,065                     |
| Amount available in Debt Service Fund                          |                         |                    |                    | \$2,312,110         | 2,312,110                   |
| Amount to be provided for retirement of general long-term debt |                         |                    |                    | 12,041,803          | 12,041,803                  |
| <b>Total assets and other debits</b>                           | <b>\$5,007,402</b>      | <b>\$1,949,642</b> | <b>\$2,312,110</b> | <b>\$1,918,699</b>  | <b>\$14,353,913</b>         |
| <b>LIABILITIES AND FUND EQUITY</b>                             |                         |                    |                    |                     |                             |
| <b>Liabilities:</b>  |                         |                    |                    |                     |                             |
| Accounts payable and accrued liabilities                       | \$210,391               | \$116,127          |                    | \$239,446           | \$565,964                   |
| Due to other funds   |                         | 518,173            |                    | 422,726             | 940,899                     |
| Due to other governmental entities                             | 311,277                 |                    |                    |                     | 1,528,961                   |
| Deferred municipal license tax revenues                        | 1,714,402               |                    |                    | \$1,217,684         | 1,714,402                   |
| Deferred federal grant revenues                                |                         | 985,184            |                    | 34,261              | 1,019,445                   |
| General obligation bonds                                       |                         |                    |                    | 2,155,349           | 2,155,349                   |
| Notes payable  |                         |                    |                    | 4,378,290           | 4,378,290                   |
| Claims and judgments   |                         |                    |                    | 5,763,780           | 5,763,780                   |
| Accrued compensated absences                                   |                         |                    |                    | 838,810             | 838,810                     |
| <b>Total liabilities</b>                                       | <b>2,236,070</b>        | <b>1,619,484</b>   |                    | <b>14,353,913</b>   | <b>18,905,900</b>           |
| <b>Fund equity:</b>  |                         |                    |                    |                     |                             |
| <b>Fund balances:</b>  |                         |                    |                    |                     |                             |
| Reserved for encumbrances                                      | 112,117                 |                    |                    |                     | 112,117                     |
| Reserved for debt service                                      |                         |                    | 2,312,110          |                     | 2,312,110                   |
| <b>Unreserved:</b>   |                         |                    |                    |                     |                             |
| Designated for specific fund purposes                          |                         | 330,158            |                    | 1,222,266           | 1,552,424                   |
| Undesignated   | 2,659,215               |                    |                    |                     | 2,659,215                   |
| <b>Total fund equity</b>                                       | <b>2,771,332</b>        | <b>330,158</b>     | <b>2,312,110</b>   | <b>1,222,266</b>    | <b>6,635,866</b>            |
| <b>Total liabilities and fund equity</b>                       | <b>\$5,007,402</b>      | <b>\$1,949,642</b> | <b>\$2,312,110</b> | <b>\$1,918,699</b>  | <b>\$14,353,913</b>         |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30,2000**

|   | GOVERNMENTAL FUND TYPES |                    |                    |                     | TOTALS<br>(MEMORANDUM ONLY) |
|---|-------------------------|--------------------|--------------------|---------------------|-----------------------------|
|   | General                 | Special<br>Revenue | Debt Service       | Capital<br>Projects |                             |
| <b>REVENUES</b>   |                         |                    |                    |                     |                             |
| Property taxes  | \$2,818,583             |                    | \$801,357          |                     | \$3,619,940                 |
| Municipal license taxes   | 2,218,678               |                    |                    |                     | 2,218,678                   |
| Licenses and permits  | 364,725                 |                    |                    |                     | 364,725                     |
| Intergovernmental   | 2,806,598               | \$1,665,036        |                    | \$988,157           | 5,459,791                   |
| Rent of property  | 56,773                  |                    |                    |                     | 56,773                      |
| Fines and penalties   | 11,510                  |                    |                    |                     | 11,510                      |
| Interest  | 270,089                 |                    |                    |                     | 270,089                     |
| Federal grants  |                         | 2,242,163          |                    | 653,220             | 2,895,383                   |
| Users fees on landfill facilities   | 2,515,966               |                    |                    |                     | 2,515,966                   |
| Miscellaneous   | 80,710                  | 43,537             |                    |                     | 124,247                     |
| <b>Total revenues</b>   | <u>11,143,632</u>       | <u>3,950,736</u>   | <u>801,357</u>     | <u>1,641,377</u>    | <u>17,537,102</u>           |
| <b>EXPENDITURES</b>   |                         |                    |                    |                     |                             |
| <b>Current:</b>   |                         |                    |                    |                     |                             |
| Mayor and Municipal Assembly  | 981,591                 |                    |                    |                     | 981,591                     |
| General government  | 4,612,185               | 237,574            |                    |                     | 4,849,759                   |
| Public safety   | 501,659                 | 154,498            |                    |                     | 656,157                     |
| Public works  | 2,046,201               | 2,545,430          |                    | 1,817,248           | 6,408,879                   |
| Public health and sanitation  | 1,308,624               |                    |                    |                     | 1,308,624                   |
| Welfare   |                         | 1,168,422          |                    |                     | 1,168,422                   |
| Economic development  | 51,197                  | 315,803            |                    |                     | 367,000                     |
| Recreation  | 606,675                 | 100                |                    |                     | 606,775                     |
| Human services  | 78,735                  |                    |                    |                     | 78,735                      |
| Principal retirement  | 188,750                 |                    | 319,285            |                     | 508,035                     |
| Interest  | 105,185                 |                    | 108,051            | 46,191              | 259,427                     |
| <b>Capital outlays</b>  | <u>293,307</u>          | <u>624,763</u>     |                    | <u>1,295,904</u>    | <u>2,213,974</u>            |
| <b>Total expenditures</b>   | <u>10,774,109</u>       | <u>5,046,590</u>   | <u>427,336</u>     | <u>3,159,343</u>    | <u>19,407,378</u>           |
| <b>Excess (deficiency) of revenues over (under) expenditures</b>  | 369,523                 | (1,095,854)        | 374,021            | (1,517,966)         | (1,870,276)                 |
| <b>OTHER FINANCING SOURCES (USES):</b>  |                         |                    |                    |                     |                             |
| Proceeds from bond issuance   |                         |                    |                    | 2,465,790           | 2,465,790                   |
| <b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)</b> | 369,523                 | (1,095,854)        | 374,021            | 947,824             | 595,514                     |
| <b>Fund balances beginning</b>  | <u>2,401,809</u>        | <u>1,426,012</u>   | <u>1,938,089</u>   | <u>274,442</u>      | <u>6,040,352</u>            |
| <b>Fund balances, ending</b>  | <u>\$2,771,332</u>      | <u>\$330,158</u>   | <u>\$2,312,110</u> | <u>\$1,222,266</u>  | <u>\$6,635,866</u>          |

See accompanying notes to general purpose financial statements.

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

|   | <u>GENERAL FUND</u> |                    |   | <u>DEBT SERVICE FUND</u> |                    |   |
|---|---------------------|--------------------|---|--------------------------|--------------------|---|
|   | <u>Budget</u>       | <u>Actual</u>      | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> | <u>Budget</u>            | <u>Actual</u>      | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
| <b>REVENUES</b>   |                     |                    |   |                          |                    |   |
| Property taxes  | \$2,712,019         | \$2,818,582        | \$106,563                                       | \$611,251                | \$801,358          | \$190,107                                       |
| Municipal license taxes   | 2,513,502           | 2,218,678          | (294,824)                                       |                          |                    |   |
| Licenses and permits  | 354,000             | 364,725            | 10,725  |                          |                    |   |
| Intergovernmental   | 2,672,099           | 2,806,598          | 134,499   |                          |                    |   |
| Rent of property  | 36,280              | 56,773             | 20,493  |                          |                    |   |
| Fines and penalties   | 5,000               | 11,510             | 6,510   |                          |                    |   |
| Interest  | 101,000             | 270,089            | 169,089   |                          |                    |   |
| Users fee on landfill facilities  | 2,210,000           | 2,515,966          | 305,966   |                          |                    |   |
| Miscellaneous   | 70,000              | 80,710             | 10,710  |                          |                    |   |
| Total revenues  | <u>10,673,900</u>   | <u>11,143,631</u>  | <u>469,731</u>                                  | <u>611,251</u>           | <u>801,358</u>     | <u>190,107</u>                                  |
| <b>EXPENDITURES AND ENCUMBRANCES:</b>   |                     |                    |   |                          |                    |   |
| <b>Current:</b>   |                     |                    |   |                          |                    |   |
| Mayor and Municipal Assembly  | 1,040,161           | 1,010,012          | 30,149  |                          |                    |   |
| General government  | 4,592,065           | 4,622,041          | (29,976)  |                          |                    |   |
| Public safety   | 503,833             | 502,803            | 1,030   |                          |                    |   |
| Public works  | 1,853,343           | 1,836,766          | 16,577  |                          |                    |   |
| Public health and sanitation  | 1,332,149           | 1,331,542          | 607   |                          |                    |   |
| Economic Development  | 68,669              | 51,197             | 17,472  |                          |                    |   |
| Recreation  | 608,777             | 608,355            | 422   |                          |                    |   |
| Human services  | 82,716              | 82,367             | 349   |                          |                    |   |
| Principal retirement  | 188,750             | 188,750            | -   | 215,000                  | 319,286            | (104,286)                                       |
| Interest  | 105,185             | 105,185            | -   | 396,251                  | 108,051            | 288,200   |
| <b>Capital outlays</b>  | <u>298,252</u>      | <u>293,582</u>     | <u>4,670</u>                                    |                          |                    |   |
| Total expenditures and encumbrances   | <u>10,673,900</u>   | <u>10,632,600</u>  | <u>41,300</u>                                   | <u>611,251</u>           | <u>427,337</u>     | <u>183,914</u>                                  |
| <b>Excess (deficiency) of revenues over<br/>(under) expenditures and encumbrances</b> |                     | <u>511,031</u>     | <u>428,431</u>                                  |                          | <u>374,021</u>     | <u>6,193</u>                                    |
| Adjustment required under Generally Accepted<br>Accounting Principles:                |                     |                    |   |                          |                    |   |
| Net change in encumbrances  |                     | (141,508)          |   |                          |                    |   |
| <b>Fund balances beginning</b>  |                     | <u>2,401,809</u>   |   |                          | <u>1,938,089</u>   |   |
| <b>Fund balance, ending</b>   |                     | <u>\$2,771,332</u> |   |                          | <u>\$2,312,110</u> |   |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

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

The **Municipality of Juncos** (the Municipality) was established in 1797. The Municipality's governmental system consists of an executive and a legislative body. A Mayor and sixteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections govern it.

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

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

**A. Financial reporting entity:**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**B. Basis of presentation:**

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

**Governmental fund types:**

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

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

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

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

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

**Account groups:**

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

**General Fixed Assets** - is used to account for all fixed assets of the Municipality see Note 8)

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**C. Basis of accounting:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**D. Reservations of fund balance:**

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

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

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

**E. Budgetary data:**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

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

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

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

**F. Inventories:**

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

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant. As indicated in Note 8, the information to account for these general fixed assets is not available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**H. Cash and cash equivalents:**

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

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

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**J. Compensated absences:**

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

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

**K. Insurance:**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

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

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

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

**N. Claims and judgments:**

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

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

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

|  |                   |
|--|-------------------|
| Puerto Rico Electric Power Authority     | \$ 155,124        |
| Retirement System Administration         | 57,461            |
| Puerto Rico Aqueduct and Sewer Authority | 64,351            |
| General Services Administration          | 8,985             |
| Department of Treasury                   | <u>25,356</u>     |
| Total                                    | <u>\$ 311,277</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

|  |                     |
|--|---------------------|
| Department of Treasury (Property tax advances) | \$ 612,729          |
| Puerto Rico Electric Power Authority           | 415,339             |
| Department of Labor                            | 41,227              |
| Municipal Revenue Collection Center            | <u>148,389</u>      |
| Total  | <u>\$ 1,217,684</u> |

**3. PROPERTY TAXES:**

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

Tax rates are 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.25% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were in excess of actual advances by \$870,656 according to CRIM preliminary liquidation. Such amount was not included as intergovernmental receivable in the General Fund.

**4. MUNICIPAL LICENSE TAXES:**

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

|                                |       |
|--------------------------------|-------|
| Financial institutions         | 1.50% |
| Savings and loans associations | 1.25% |
| Other organizations            | 0.45% |

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

**5. INTERGOVERNMENTAL:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**5. INTERGOVERNMENTAL (CONTINUED):**

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

**6. CASH AND CASH EQUIVALENTS:**

|   |                         |
|---|-------------------------|
| Cash in bank accounts                     | \$ 1,571,993            |
| Certificates of deposit (90 days or less) | <u>3,577,252</u>        |
| <br>Total cash and cash equivalents       | <br><u>\$ 5,149,245</u> |

**7. DEBT SERVICE FUND:**

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

**8. GENERAL FIXED ASSETS:**

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS:**

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

|                                      |                     |
|--------------------------------------|---------------------|
| Balance at July 1, 2000              | \$ 2,474,634        |
| Debt issued                          | -                   |
| Principal retirements                | (319,285)           |
| Adjustments and/or Reclassifications | _____               |
| Balance at June 30, 2001             | <u>\$ 2,155,349</u> |

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

| Type of bonds                  | Maturity date                            | Original Amount | Range of Interest Rates | Balance at June 30, 2001 |
|--------------------------------|--|-----------------|-------------------------|--------------------------|
| 1979 Series                    | 1-1-02                                   | \$ 177,000      | 5.00%                   | \$ 2,502                 |
| 1984 Series                    | 1-1-08                                   | 700,000         | 5.00%                   | 294,000                  |
| 1993 Series                    | 1-1-17                                   | 264,000         | 4.50%                   | 215,000                  |
| 1994 Series                    | 1-1-18                                   | 650,000         | 5.25%                   | 586,000                  |
| 1996 Series                    | 1-1-21                                   | 525,000         | 4.50%                   | 496,213                  |
| 1996 Series                    | 1-1-21                                   | 551,000         | 4.50%                   | 535,000                  |
| 1996 Series                    | Bond proceeds in process of disbursement | 520,000         | 4.50%                   | _____ 26,634             |
| Total general obligation bonds |  |                 |                         | <u>\$ 2,155,349</u>      |

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

| Year ended<br>June 30 | Total               |
|-----------------------|---------------------|
| 2002                  | \$ 104,715          |
| 2003                  | 108,000             |
| 2004                  | 112,000             |
| 2005                  | 117,000             |
| 2006                  | 122,000             |
| Thereafter            | _____ 1,591,634     |
| Total                 | <u>\$ 2,155,349</u> |

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**10. NOTES PAYABLE:**

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

|                                  |                     |
|----------------------------------|---------------------|
| Balance at July 1, 2000          | \$ 2,146,250        |
| Debt issued                      | 2,465,790           |
| Payments during the current year | (188,750)           |
| Adjustments\Reclassifications    | <u>(45,000)</u>     |
| Balance at June 30, 2001         | <u>\$ 4,378,290</u> |

Notes payable at June 30, 2001 is as follows:

| Description                | Maturity Date                            | Original Amount | Range of Interest rates | Balance June 30, 2001      |
|----------------------------|--|-----------------|-------------------------|----------------------------|
| 1993 Series                | 4-1-13                                   | \$ 1,680,000    | 4.37% - 8.00%           | \$ 1,242,500               |
| 2001 Series                | 7-1-05                                   | 1,365,000       | 6.13% - 8.00%           | 1,365,000                  |
| Section 108 Loan           | Note proceeds in process of disbursement | 4,220,000       | 6.24% - 6.49%           | <u>1,770,790</u>           |
| <b>Total notes payable</b> |  |                 |                         | <u><b>\$ 4,378,290</b></u> |

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

| Year ended<br>June 30 | Total               |
|-----------------------|---------------------|
| 2002                  | \$ 313,750          |
| 2003                  | 341,250             |
| 2004                  | 355,175             |
| 2005                  | 373,725             |
| 2006                  | 386,875             |
| Thereafter            | <u>2,607,515</u>    |
| Total                 | <u>\$ 4,378,290</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED)**

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

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

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

**Defined Contribution Plan**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 284,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

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

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

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

**12. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

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

**13. LANDFILL OBLIGATIONS:**

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. At June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure care costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**14. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

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

**B. Claims and lawsuits:**

The Municipality is a defendant in several 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 \$152,000 in the general long-term debt account group according to an Consent Agreement entered into the Municipality of Juncos and the Federal Environmental Protection Agency (EPA) resulting from an administrative complaint filed against the Municipality by failure to follow applicable regulations for the handling and disposal of waste oil. The amount presented in the general long-term debt account group is the estimated cost to remove, test, and properly dispose of impacted soil, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant. In addition the Municipality has reported liabilities of \$111,780 in the general long-term debt account group for final unfavorable judgments.

Also, the Municipality and other responsible parties are defendants in a lawsuit presented by the Federal Environmental Protection Agency (EPA) in order to recover EPA's past cost plus interest, associated with the overseeing procedures applied by EPA on Juncos Landfill Superfund Site. EPA estimates the amount of these cost plus interest at approximately \$5,500,000 that is included in the general long-term debt account group. EPA also has stated that it intends to seek monetary penalties against the responsible parties for failure to timely comply with EPA's remedial orders. The responsible parties, including the Municipality of Juncos, have informed EPA of their willingness to enter into negotiations regarding EPA's claims for past costs and penalties.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**15. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances for General, Special Revenue, Capital Projects and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

| Description  | General             | Special<br>Revenue  | Capital<br>Projects |
|--|---------------------|---------------------|---------------------|
| Beginning Fund Balances at July 1, 2000  | \$ 2,543,322        | \$ 1,434,199        | \$ 264,315          |
| Accounting errors in beginning cash balances   | (282,192)           | (8,187)             | 10,127              |
| General Fund interfund receivable from Special Revenue Fund not recorded                 | 121,171             |                     |                     |
| Adjustment of General Fund Account Payable with the Puerto Rico Electric Power Authority | 19,508              |                     |                     |
| Beginning Fund Balances at July 1, 2000, as restated                                     | <u>\$ 2,401,809</u> | <u>\$ 1,426,012</u> | <u>\$ 274,442</u>   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2001**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u>                | <u>Expenditures</u>   |
|---|------------------------------------|--|-----------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE:</b>  |                                    |  |                       |
| Direct Program:<br>Nutrition Program for the Elderly  | 10.570                             |  | \$ 13,623             |
| Direct Program:<br>Water and Waste Disposal Loans and<br>Grants   | 10.770                             |  | 653,220               |
| Pass-through the Commonwealth of Puerto<br>Rico Department of Education:<br>Child and Adult Care Food Program   | 10.558                             | Not Available  | <u>26,740</u>         |
| <b>Total U.S. Department of Agriculture</b>   |                                    |  | <u><b>693,583</b></u> |
| <b>U.S. DEPARTMENT OF HOUSING AND<br/>URBAN DEVELOPMENT</b>   |                                    |  |                       |
| Direct Program:<br>Community Development Block Grants-<br>Section 108 Loan Guarantees   | 14.248                             |  | 1,210,218             |
| Direct Program:<br>Section 8 Rental Voucher Program   | 14.855                             |  | 292,860               |
| Pass-through the Commonwealth of Puerto<br>Rico Office of the Commissioner of<br>Municipal Affairs:<br>Community Development Block Grants-<br>State's Program | 14.228                             | 95-FD-35<br>96-FD-35<br>97-FD-35<br>98-FD-35<br>99-FD-35<br>00-FD-35 | 820,539               |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u>     |
|--|------------------------------------|---|-------------------------|
| Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan:<br>Housing Opportunities for Persons with Aids              | 14.241                             | Not Available   | <u>81,210</u>           |
| <b>Total U.S. Department of Housing and Urban Development:</b>   |                                    |   | <u><b>2,404,827</b></u> |
| <b>U.S. DEPARTMENT OF JUSTICE:</b>   |                                    |   |                         |
| Direct Program:  |                                    |   |                         |
| Public Safety Partnership and Community Policing Grants  | 16.710                             |   | 33,759                  |
| Pass-through the Commonwealth of Puerto Rico – Governor’s Office (Youth Office)<br>Juvenile Justice and Delinquency Prevention       | 16.540                             | 00-JP-FX-0072   | 8,683                   |
| Pass-through the Commonwealth of Puerto Rico – Local Department of Justice<br>Local Law and Enforcement Block Grants                 | 16.592                             | 2000-LB-VX-1085                                       | <u>85,950</u>           |
| <b>Total U.S. Department of Justice</b>  |                                    |   | <u><b>128,392</b></u>   |
| <b>U.S. DEPARTMENT OF TRANSPORTATION:</b>  |                                    |   |                         |
| Pass-through the Commonwealth of Puerto Rico – Highway and Transportation Authority:<br>Federal Transit – Capital Improvement Grants | 20.500                             | Not Available   | 63,797                  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u>   |
|--|------------------------------------|---|-----------------------|
| Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:<br>Incentive Grants  | 20.601                             | 99-06-2   | <u>21,449</u>         |
| <b>Total U.S. Department of Transportation</b>   |                                    |   | <u><b>85,246</b></u>  |
| <b>U.S. FEDERAL EMERGENCY<br/>MANAGEMENT AGENCY:</b>   |                                    |   |                       |
| Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency<br>Emergency Management - State and<br>Local Assistance   | 83.534                             | Not Available   | 4,658                 |
| Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR):<br>Public Assistance Grants   | 83.544                             | 1136-DRPR   | <u>233,381</u>        |
| <b>Total U.S. Federal Emergency<br/>Management Agency</b>  |                                    |   | <u><b>238,039</b></u> |
| <b>U.S. DEPARTMENT OF HEALTH AND<br/>HUMAN SERVICES:</b>   |                                    |   |                       |
| Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office):<br>Special Program for Aging - Title III,<br>Part B - Grants for Supportive Services<br>and Senior Centers | 93.044                             | Not Available   | 53,498                |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

| <u>Federal Grantor/Pass-through<br/>Grantor/Program or Cluster Title</u>                 | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u>        |
|--|------------------------------------|---|----------------------------|
| Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: |                                    |   |                            |
| Community Service Block Grant  | 93.569                             | Not Available   | 34,846                     |
| Child Care and Development Block Grant   | 93.575                             | Not Available   | <u>467,169</u>             |
| <b>Total U.S. Department of Health and Human Services</b>                                |                                    |   | <u><b>555,513</b></u>      |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>  |                                    |   | <u><b>\$ 4,105,600</b></u> |

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Juncos** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

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

| <u>Description</u>   | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> | <u>Total</u>        |
|--|----------------------------|-----------------------------|---------------------|
| Per Schedule of Expenditures<br>of Federal Awards                    | \$ 1,863,438               | \$ 2,242,162                | \$ 4,105,600        |
| Non federal programs<br>Expenditures                                 | <u>3,183,152</u>           | <u>917,181</u>              | <u>4,100,333</u>    |
| Total expenditures in the<br>general purpose financial<br>statements | <u>\$ 5,046,590</u>        | <u>\$ 3,159,343</u>         | <u>\$ 8,205,933</u> |

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL**



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the general purpose financial statements of the **Municipality of Juncos** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Juncos's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Juncos's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items **01-01** through **01-06**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items **01-01** and **01-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Juncos** in a separate letter dated December 7, 2001.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 7, 2001

Stamp No. 1785246 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor  
and the Municipal Assembly  
Municipality of Juncos`  
Juncos, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Juncos** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Juncos's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Juncos's** management. Our responsibility is to express an opinion on the **Municipality of Juncos's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Juncos'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 Juncos's** compliance with those requirements.

In our opinion, the **Municipality of Juncos** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-07** through **01-25**.

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

Internal Control Over Compliance

The management of the **Municipality of Juncos** 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 Juncos'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 Juncos's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-07** through **01-12**, **01-14** through **01-16**, **01-20** through **01-22**, **01-24** and **01-25**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-13**, **01-17** through **01-19** and **01-23** 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 Juncos** in a separate letter dated December 7, 2001.



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

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 7, 2001

Stamp No.1785247 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2001**

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

**Financial Statements**

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

Internal control over financial reporting:

Material weakness identified? Yes  X  No \_\_\_\_\_

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

Noncompliance material to financial statements noted? Yes \_\_\_\_\_ No  X

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes  X  No \_\_\_\_\_

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

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

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

**Identification of major programs:**

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>                       |
|--------------------|---|
| 10.770             | Water and Waste Disposal Loans and Grants                       |
| 14.248             | Community Development Block Grant – Section 108 Loan Guarantees |
| 14.228             | Community Development Block Grants-State’s Program              |
| 93.575             | Child Care and Development Block Grant                          |

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

Auditee qualified as low-risk auditee? Yes \_\_\_\_\_ No  X

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-01</b>  |
| <b>Requirement</b>            | <b>Fixed\ Capital Assets and Expenditures - Subsidiary Ledger</b>   |
| <b>Statement of Condition</b> | During our examination of Municipality's property records and reports we noted the following deficiencies: (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger and (c) Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger. |
| <b>Criteria</b>               | Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.   |
| <b>Cause of Condition</b>     | There is no internal control procedures implemented to assure the completeness of the property records and reports.   |
| <b>Effect of Condition</b>    | The Municipality does not maintain an adequate control of the accountability regarding equipment and real property transactions.  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.   |
| <b>Questioned Costs</b>       | None  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-02</b>  |
| <b>Requirement</b>            | <b>Financial Reporting</b>  |
| <b>Statement of Condition</b> | The Municipality did not include in its general-purpose financial statements an estimate of the obligation for landfill closure and post closure.   |
| <b>Criteria</b>               | <i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.   |
| <b>Cause of Condition</b>     | The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.   |
| <b>Recommendation</b>         | We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> . |
| <b>Questioned Costs</b>       | None  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

**Finding Reference**        **01-03**

**Requirement**            **Cash Receipts**

**Statement of Condition**    During our examination of the Municipality's procedures related to the cash receipts process we examined sixty-two (62) collections and we noted the following situations:

- a. We noted that the Municipality recorded twice in the revenue records a deposit received by a credit memo. The Municipality recorded the revenue when it received the bank's notification and also recorded the revenue when it received the bank statement.
- b. On four (4) occasions we found no supporting evidence for collections.

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

**Cause of Condition**        There Municipality did not establish effective internal control over the recording of revenues. Also, the Municipality did not establish effective internal control to assure that revenues were properly documented.

**Effect of Condition**        The Municipality is not in compliance with Revised Regulations on Standards for the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

**Finding Reference**      **01-03 (continued)**

**Requirement**            **Cash Receipts**

**Recommendation**      We recommend that the Municipality's Official Collector should promptly receive the bank's notifications of any Credit Memo in order to record it in the revenue register and also record it in a reasonable lapse of time from its collection.

Finally we recommend that the Municipality's should maintain evidence for all collection received by it.

**Questioned Costs**      None

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

**Finding Reference**      **01-04**

**Requirement**            **Expenditures for Goods and Services and Account Payables –  
Purchasing and Receiving**

**Statement of Condition**    During our examination of the Municipality's procedures related to the purchasing and receiving process we examined twenty-one (21) disbursement vouchers for the general and special revenue fund and we noted the following situations.

- a. Five (5) disbursements vouchers were not available for our examination.
- b. On two (2) disbursement vouchers there was no evidence of invoices.
- c. Four (4) disbursement vouchers did not contain all the approval signatures.
- d. Seven (7) disbursement vouchers were not stamped as paid.
- e. Two (2) disbursement vouchers had mathematical misstatements.
- f. On two (2) disbursement vouchers there was no evidence that the Municipality realized a formal bid for that purchases.

**Criteria**                    The Revised Regulations on Standards for the Municipalities of Puerto Rico establish in Chapter four (IV) that the Finance Director will be responsible to account and realized disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter eight (VIII) of the Revised Regulations on Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

|                            |   |
|----------------------------|---|
| <b>Finding Reference</b>   | <b>01-04 (continued)</b>  |
| <b>Requirement</b>         | <b>Expenditures for Goods and Services and Account Payables – Purchasing and Receiving</b>  |
| <b>Cause of Condition</b>  | The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.   |
| <b>Effect of Condition</b> | The Municipality is not in compliance with Revised Regulations on Standards for the Municipalities of Puerto Rico.  |
| <b>Recommendation</b>      | We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase off goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed that limits. |
| <b>Questioned Costs</b>    | None  |
| <b>Management Response</b> | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-05</b>   |
| <b>Requirement</b>            | <b>Payroll and Related Liabilities – Payroll Preparation and Timekeeping</b>   |
| <b>Statement of Condition</b> | <p>We performed a payroll test and examined a sample of 60 personnel files. The following will summarize the deficiencies noted:</p> <ul style="list-style-type: none"><li>a. For three (3) employees there was no evidence of the Notifying of Nomination Form or the Form included in the employee file did not provide evidence of the employee salary.</li><li>b. For two (2) employees the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 30, 2001.</li><li>c. For one (1) employee the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 30, 2001. Also, for this employee the salary include in that payroll did not agree with the salary stated in the Reclassification and Retribution Plan of the Municipality.</li><li>d. For three (3) employees we noted differences between the sick and regular vacations as per the time assistance card and the sick and regular vacations discounted in the accumulative vacations card.</li></ul> |
| <b>Criteria</b>               | <p>The Revised Regulations on Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18-(1) establish that the Municipality will prepare the payroll based on the employee files.</p>  |
| <b>Cause of Condition</b>     | <p>There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the exactitude of accumulative vacation and sickness balances.</p>   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

|                            |  |
|----------------------------|--|
| <b>Finding Reference</b>   | <b>01-05 (continued)</b>   |
| <b>Requirement</b>         | <b>Payroll and Related Liabilities - Payroll Preparation and Timekeeping</b>   |
| <b>Effect of Condition</b> | Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave accumulation cards.   |
| <b>Recommendation</b>      | We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should discount from the accumulative vacation worksheet the vacation and sick days used by employees as detailed in the time assistance card. |
| <b>Questioned Costs</b>    | None   |
| <b>Management Response</b> | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-06</b>  |
| <b>Requirement</b>            | <b>Financial Reporting – Accounting Records</b>   |
| <b>Statement of Condition</b> | During our examination of the Municipality’s accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.   |
| <b>Criteria</b>               | Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.  |
| <b>Cause of Condition</b>     | The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.  |
| <b>Effect of Condition</b>    | The Municipality accounting system did not provide update and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc. |
| <b>Questioned Costs</b>       | None  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-07</b>  |
| <b>Program</b>                | <b>Water and Waste Disposal Loans and Grants (CFDA. No. 10.770);<br/>U.S. Department of Agriculture</b>   |
| <b>Requirement</b>            | <b>Financial Administration - Standard for Financial Management<br/>System</b>  |
| <b>Statement of Condition</b> | During our audit we noted that the Municipality did not maintain for the Water and Waste Disposal System For Rural Communities Program a set of accounting records that present the financial position of the program, the results of operations and changes in fund balance. We noted that the only record prepared by the Municipality for that program was a check register.   |
| <b>Criteria</b>               | Code of Federal Regulations, Subpart C, 7 CFR 3016.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. That situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.  |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Subpart C, 7 CFR, Part 3016.20 (b) (2).  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.  |
| <b>Questioned Cost</b>        | None.   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-08</b>   |
| <b>Program</b>                | <b>Water and Waste Disposal Loans and Grants (CFDA. No. 10.770);<br/>U.S. Department of Agriculture</b>  |
| <b>Requirement</b>            | <b>Allowable Cost - Cost Principles</b>  |
| <b>Statement of Condition</b> | During our disbursements test of the Water and Waste Disposal Systems for Rural Communities we noted the following situations: four (4) disbursement vouchers did not contain all approval signatures; six (6) disbursements vouchers did not have all supporting documents stamped as paid; and on four (4) disbursement vouchers the Municipality did not retain the ten percentage retention related to construction contracts. |
| <b>Criteria</b>               | Code of Federal Regulations, Subpart C, 7 CFR 3016.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.   |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls to assure that all disbursements made have all supporting documents and were realized for allowable costs.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation 7, Subpart C, Part 3016.20 (b) (6), provision regarding allowable cost.  |
| <b>Recommendation</b>         | We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the related payments were made.  |
| <b>Questioned Cost</b>        | None.  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-09</b>  |
| <b>Program</b>                | <b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>  |
| <b>Requirement</b>            | <b>Financial Administration - Standard for Financial Management System</b>  |
| <b>Statement of Condition</b> | During our audit we noted that the Municipality did not maintain for the Community Development Block Grant - Section 108 Loan Guarantees Program a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance. We noted that the only record prepared by the Municipality for that program was a check register.  |
| <b>Criteria</b>               | Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. This situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.  |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Part 85.20 (b) (2).  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.  |
| <b>Questioned Cost</b>        | None.   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-10</b>   |
| <b>Program</b>                | <b>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</b><br><br><b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>   |
| <b>Requirement</b>            | <b>Allowable Cost - Cost Principles</b>  |
| <b>Statement of Condition</b> | <p>During our disbursements test of the Community Development Block Grant - State's Program we noted the following situations: three (3) disbursement vouchers did not have a certification that the services were performed according to contracts; one (1) disbursement voucher only have a copy of the invoice; five (5) disbursement vouchers did not have all necessary approval signatures and all the thirteen (13) disbursement vouchers examined by us were not stamped as paid.</p> <p>During our disbursements test of the Community Development Block Grant - Section 108 Loan Guarantees we noted the following situations: five (5) disbursements vouchers did not contain all necessary approval signatures; and all the twelve (12) disbursement vouchers examined by us were not stamped as paid.</p> |
| <b>Criteria</b>               | Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.   |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation, Subpart C, 24 CFR 85.20 (b) (6), provisions regarding allowable cost.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-10 (continued)**

**Requirement**            **Allowable Cost - Cost Principles**

**Recommendation**      We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the related payments are made.

**Questioned Cost**        None.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-11</b>   |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>  |
| <b>Requirements</b>           | <b>Financial Administration - Standard for Financial Management System</b>   |
| <b>Statement of Condition</b> | During our audit we noted that the Municipality did not maintain for the Child Care and Development Block Grant Program a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance. We noted that the only record for that program was a check register.   |
| <b>Criteria</b>               | Code of Federal Regulations 45, Subpart C, Part 92.20 (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 subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. That situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (2).   |
| <b>Recommendation</b>         | We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.   |
| <b>Questioned Cost</b>        | None.  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-12</b>   |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>  |
| <b>Requirement</b>            | <b>Allowable cost - Cost principles</b>  |
| <b>Statement of Condition</b> | During our disbursements test of the Child Care and Development Block Grant Program we noted the following situations: for one (1) disbursement the Municipality did not follow the specifications of the State's Parents Contribution Regulation; two (2) receiving reports and one (1) invoice were not available for our examination and five disbursement vouchers did not have all supporting documents stamped as paid. Also, we noted that the Municipality did not prepare disbursement vouchers or journal vouchers for two (2) electronic fund transfers between the program and the Finance Department related to the payroll reimbursements. |
| <b>Criteria</b>               | Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.  |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls to assure that all disbursements made have all supporting documents and were realized for allowable costs.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation, Subpart C, 45 CFR 92.20 (b) (6), provisions regarding allowable cost.   |
| <b>Recommendation</b>         | We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the related payments are made.   |
| <b>Questioned Cost</b>        | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-13</b>   |
| <b>Program</b>                | <b>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</b>   |
| <b>Requirement</b>            | <b>Activities Allowed or Unallowed–Allowable Cost</b>  |
| <b>Statement of Condition</b> | <p>During our examination of files maintained by the Municipality relating to assistance for housing rehabilitation we noted that there was no complete evidence to support that the rehabilitation assistance was made to an eligible participants and allowable activities. In our examination of twenty-five files we noted the following situations:</p> <ol style="list-style-type: none"><li>1. On the twenty-five (25) examined files we noted that the file did not have the pre-rehabilitation inspections forms that describe the deficiencies to be corrected.</li><li>2. On the twenty-five (25) examined files we noted that the contract between the Municipality and the participant did not contain the amount of the assistance to the participant, the deficiencies to be corrected and one of both signatures of the Municipality’ Mayor or the participant were missing.</li><li>3. On eighteen (18) of the examined files we noted that application form was incomplete.</li><li>4. On the twenty-five (25) examined files we noted that the eligibility or non-eligibility were not properly documented; also we noted that files did not contain the Evaluation Results Forms.</li><li>5. On the twenty-five (25) examined files we noted that the file did not contain the forms related to the inspections of the rehabilitation work during the contract term and upon completion of renovations to assure that the assistance were used in accordance with contract specifications.</li></ol> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-13 (continued)**

**Requirement**            **Activities Allowed or Unallowed – Allowable Cost**

6. On two (2) of the examined files we noted that there was no evidence of family composition.
7. On ten (10) of the examined files we noted that there was no evidence of family income for all the family members who reached the majority of age.
8. On one (1) examined file we noted that the Municipality exceeded the maximum assistance benefit by the amount of \$264.40.
9. On three (3) of the examined files we noted that the assistance were for a completion of a house or a room instead of a house rehabilitation.

**Criteria**                    Code of Federal Regulations 24, Subpart C, Part 570.506, states that each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. The OMB Circular A-87 states that to be allowable under Federal awards, cost must be properly documented. Also, the state pass-through agency has provided the Municipality with certain forms to document the assistance to each participant. The Grant Agreement establishes that the proposal approved by the Office of Commissioner of Municipal Affairs (OCAM) is part of the contract. The proposal states that the Preservation of Existing Deteriorated Housing Units project is for the rehabilitation of existing housing units.

**Cause of Condition**      The Municipality did not maintain appropriate controls and procedures to assure that the housing rehabilitation assistance were used only in applicable participants and only for allowable activities.

**Effect of Condition**      Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Part 570.506; the OMB Circular A-87 and the state pass-through agency.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                            |  |
|----------------------------|--|
| <b>Finding Reference</b>   | <b>01-13 (continued)</b>   |
| <b>Requirement</b>         | <b>Activities Allowed or Unallowed - Allowable Cost</b>  |
| <b>Recommendation</b>      | We recommend that the Municipality should implement the procedures designed by that federal and local agencies in order to assure that all assistance files contain all documents requested by federal and local agencies. |
| <b>Questioned Costs</b>    | None   |
| <b>Management Response</b> | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-14</b>   |
| <b>Program</b>                | <b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>   |
| <b>Requirement</b>            | <b>Cash Management</b>   |
| <b>Statement of Condition</b> | During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.  |
| <b>Criteria</b>               | Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used. |
| <b>Cause of Condition</b>     | Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.   |
| <b>Effect of Condition</b>    | Municipality requested funds in excess of immediate needs and for that reason it's not in compliance with Code of Federal Regulation 24, Subpart C, Part 85.20 (b) (7).  |
| <b>Recommendation</b>         | We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.  |
| <b>Questioned Costs</b>       | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-15</b>   |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>  |
| <b>Requirement</b>            | <b>Cash Management</b>   |
| <b>Statement of Condition</b> | During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.  |
| <b>Criteria</b>               | Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (7) state that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used. |
| <b>Cause of Condition</b>     | Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.   |
| <b>Effect of Condition</b>    | Municipality requested funds in excess of immediate needs and for that reason it's not in compliance with Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (7).  |
| <b>Recommendation</b>         | We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.  |
| <b>Questioned Costs</b>       | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-16**

**Program**                      **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**

**Community Development Block Grants – Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development**

**Requirement**              **Davis-Bacon Act**

**Statement of Condition**   **During our Davis Bacon Act test for the Community Development Block Grants – State’s Program we noted the following situations:**

- a. We noted that in the interviews realized on June 12, 2001 by the Municipality for the project 99-FD-35-001 there was one employee interviewed that was not included in the payroll for that week. The Municipality did not communicate such deviation to the contractor.
- b. We noted that in the interviews realized on June 12, 2001 by the Municipality for the project 99-FD-35-002 there was one employee interviewed that was not included in the payroll for that week. The Municipality did not communicate such deviation to the contractor.

**During our Davis Bacon Act test for the Community Development Block Grant – Section 108 Loan Guarantee we noted the following situations:**

- a. We noted that in the interviews realized on June 04, 2001 by the Municipality for the project “Construction of the New Market Place” there was one employee interviewed that was not included in the payroll for that week. The Municipality did not communicate such deviation to the contractor.

**Criteria**                      **Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                            |  |
|----------------------------|--|
| <b>Finding Reference</b>   | <b>01-16 (continued)</b>   |
| <b>Requirement</b>         | <b>Davis-Bacon Act</b>   |
| <b>Cause of Condition</b>  | Municipality did not apply all monitoring system procedures developed by it to test applicable contractors with respect to payment of prevailing wages.  |
| <b>Effect of Condition</b> | Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.   |
| <b>Recommendation</b>      | We recommend management to follow monitoring system procedures developed by it, including obtaining contractor and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee. Also, interview contractor and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any. Also, we recommend management to communicate contractors promptly any failure found in the payroll process. |
| <b>Questioned Costs</b>    | None   |
| <b>Management Response</b> | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-17</b>   |
| <b>Program</b>                | <b>Water and Waste Disposal Loans and Grants (CFDA. No. 10.770);<br/>U.S. Department of Agriculture</b>  |
| <b>Requirement</b>            | <b>Equipment and Real Property Management</b>  |
| <b>Statement of Condition</b> | During our examination of equipment and real property management requirement we noted that the Municipality does not have property records that include all required specifications required by federal agencies.  |
| <b>Criteria</b>               | Code of Federal Regulations 7, Subpart C, Part 3016.32 (d) (1), states that the property records must be maintained to include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. |
| <b>Cause of Condition</b>     | There is no internal control procedures implemented to assure that the equipment and real property records includes all necessary information as required by Code of Federal Regulation 7, Subpart C, Part 3016.32 (d) (1).  |
| <b>Effect of Condition</b>    | The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement procedures in order to assure that its property records include all required specifications suggested by federal agencies.   |
| <b>Questioned Costs</b>       | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-18</b>   |
| <b>Program</b>                | <b>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</b><br><br><b>Community Development Block Grant – Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>  |
| <b>Requirement</b>            | <b>Equipment and Real Property Management</b>  |
| <b>Statement of Condition</b> | During our examination of equipment and real property management requirement we noted that the Municipality does not have property records that include all required specifications required by federal agencies.  |
| <b>Criteria</b>               | Code of Federal Regulation 24, Subpart C, Part 85.32 (d) (1), states that the property records must be maintained to include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. |
| <b>Cause of Condition</b>     | There is no internal control procedures implemented to assure that equipment and real property records include all necessary information as required by Code of Federal Regulation 24, Subpart C, Part 85.32 (d) (1).  |
| <b>Effect of Condition</b>    | Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement procedures in order to assure that its property records include all required specifications suggested by federal agencies.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-18 (continued)**

**Requirement**            **Equipment and Real Property Management**

**Questioned Costs**      **None**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-19</b>   |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>  |
| <b>Requirement</b>            | <b>Equipment and Real Property Management</b>  |
| <b>Statement of Condition</b> | During our examination of equipment and real property management requirement we noted that the Municipality does not have property records that include all required specifications required by federal agencies.  |
| <b>Criteria</b>               | Code of Federal Regulation 45, Subpart C, Part 92.32 (d) (1), states that the property records must be maintained to include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. |
| <b>Cause of Condition</b>     | There is no internal control procedures implemented to assure that equipment and real property records includes all necessary information as required by Code of Federal Regulation 45, Subpart C, Part 92.32 (d) (1)  |
| <b>Effect of Condition</b>    | The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.  |
| <b>Recommendation</b>         | We recommend that the Municipality should implement procedures in order to assure that its property records include all required specifications suggested by federal agencies.   |
| <b>Questioned Costs</b>       | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-20</b>   |
| <b>Program</b>                | <b>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</b>   |
| <b>Requirement</b>            | <b>Procurement and Suspension and Debarment</b>  |
| <b>Statement of Condition</b> | During our contract provision test we noted that two contracts did not include legal clauses for breach of contract terms, and such clauses did not provide sanctions or penalties for these actions; one (1) contract did not include provisions for termination by grantee for default; one contract did not include provisions for granting access to GAO or other federal agencies to books and documents; three contracts did not include provision for compliance with Energy Policy and Conservation Act; and two (2) contracts did not include provisions for retention of all required records for three years. |
| <b>Criteria</b>               | Subpart C, 24 CFR, Part 85.36 (i) (1-13), states that grantees and sub grantee’s contracts must contain provisions in paragraph (i) of this section.   |
| <b>Cause of Condition</b>     | The Municipality did not maintain appropriate procurement standards procedures in order to assure that contract clauses comply with federal requirements.  |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with Code of Federal Regulation, Subpart C, 24 CFR, Part 85.36 (i) (1-13).   |
| <b>Recommendation</b>         | We recommend that the Municipality should strength its procedures in order to assure that the contracts contain all provisions requested by federal agencies.  |
| <b>Questioned Costs</b>       | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-21</b>  |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>   |
| <b>Requirement</b>            | <b>Procurement and Suspension and Debarment</b>   |
| <b>Statement of Condition</b> | During our examination of disbursements made by the Child Care and Development Block Grant from the family contribution account we did not find evidence that at least three quotations were obtained for two disbursements.  |
| <b>Criteria</b>               | Code of Federal Regulation 45, Subpart C, Part 92.36 (c) states that all procurement transactions would be conducted in a manner providing full and open competition. Also Chapter VIII, Part IV, Section 4 Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that Municipality should request at least three quotations for purchase of equipment and materials of \$10,000 or less and for construction projects of \$40,000 or less. |
| <b>Cause of Condition</b>     | The Municipality did not maintain adequate controls to assure an adequate procurement process for all purchases.  |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with the Code of Federal Regulation 45, Subpart C, Part 92.36 (c) and with the Chapter VIII, Part IV, Section 4 of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico regarding provisions for small purchases.   |
| <b>Recommendation</b>         | We recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchases of goods or services that do not exceed \$10,000 and for construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed these limits.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-21 (continued)**

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

**Questioned Cost**        **None**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-22</b>   |
| <b>Program</b>                | <b>Water and Waste Disposal Loans and Grants (CFDA. No. 10.770);<br/>U.S. Department of Agriculture</b>  |
| <b>Requirement</b>            | <b>Reporting</b>   |
| <b>Statement of Condition</b> | During our reporting test we could not obtain evidence of the submission by the Municipality of the Form RD 442-2, Statement of Budget, Income and Equity (OMB No. 0575-0015) and the Form RD 442-3, Balance Sheet (OMB No. 0575-0015).  |
| <b>Criteria</b>               | Code of Federal Regulation 7, Subpart C, Part 3016.20 (b) (1) states that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant. |
| <b>Cause of Condition</b>     | The Municipality did not maintain adequate controls and procedures to assure that the financial and programmatic reports were prepared according to Federal and State Regulations.   |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with Code of Federal Regulation 7, Subpart C, Part 3016.20 (b) (1), provisions regarding financial reporting.  |
| <b>Recommendation</b>         | We recommend that that the Municipality should implement procedures in order to assure that all financial and programmatic reports were submit on time to the agencies and were prepared in accordance with the required accounting basis.                                       |
| <b>Questioned Cost</b>        | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-23</b>   |
| <b>Program</b>                | <b>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</b>   |
| <b>Requirement</b>            | <b>Reporting</b>   |
| <b>Statement of Condition</b> | During our audit we noted the following situations: <ul style="list-style-type: none"><li>b. The Financial Management Quarterly Report as of 6/30/01 presents total disbursements of \$20,697.03 for the project 97-FD-35-002 but the General Ledger presents total disbursements of \$10,000.00 for this project for the quarter ending 6/30/01.</li><li>c. The Financial Management Quarterly Report as of 6/30/01 presents total disbursements of \$4,680.00 for the expenditure account 505 but the General Ledger presents total disbursements of \$35,200.00 for this account for the quarter ending 6/30/01.</li><li>d. The Financial Management Quarterly Report as of 06/30/01 did not present the detail for the projects 97-FD-35-003 and for the project 97-FD-35-006.</li></ul> |
| <b>Criteria</b>               | OMB Common Rules, Subpart C, Section 85.20, states that the grantee must maintain internal control procedures that permits proper tracing of fund to accounting records. Also, it requires accurate, current and complete disclosure of financial results.   |
| <b>Cause of Condition</b>     | The Municipality did not maintain an adequate internal control to assure that the Financial Management Quarterly Reports are accurately prepared in order to assure that the information reported is in accordance with the accounting records.  |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with OMB Common Rules, Subpart C, Section 85.20.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**Finding Reference**      **01-23 (continued)**

**Requirement**            **Reporting**

**Recommendation**      We recommend that the Municipality should implement controls and procedures in order to assure accurate accounting records are maintained and current and complete disclosure of financial results are presented in financial reports. Also, we recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and prepared in accordance with the required accounting basis.

**Questioned Costs**      None

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>01-24</b>  |
| <b>Program</b>                | <b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>  |
| <b>Requirement</b>            | <b>Reporting</b>  |
| <b>Statement of Condition</b> | During our reporting test we could not obtain evidence of the submission by the Municipality of a monthly written statement to the Secretary of HUD.  |
| <b>Criteria</b>               | The Contract for Loan Guarantee Assistance, Section 1 (b) states that the borrower should, by the fifteenth day of each month, provide the Secretary with a written statement showing the balances of funds in the Guaranteed Loan Fund Account and the withdrawals from such accounts during the preceding calendar month. |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls and procedures to assure that the financial and programmatic reports were prepared according to the grant agreement.  |
| <b>Effect of Condition</b>    | Municipality is not in compliance with the Contract for Loan Guarantee Assistance relating to reporting requirements.   |
| <b>Recommendation</b>         | We recommend that that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies. Also, we recommend management to prepare such reports in accordance with the required accounting basis.   |
| <b>Questioned Cost</b>        | None  |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>01-25</b>   |
| <b>Program</b>                | <b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico - Administration for Children and Families</b>  |
| <b>Requirement</b>            | <b>Reporting</b>   |
| <b>Statement of Condition</b> | During our reporting test we noted that the Municipality did not maintain a reliable set of accounting records for the Child Care and Development Block Grant Program, thus, we could not obtain evidence that assure us that the Annual Closing Report (CC-006); the Trial Balance as of September 30, 2000 and the programmatic reports were prepared according to Federal and State Regulations.  |
| <b>Criteria</b>               | Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (1) states that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.  |
| <b>Cause of Condition</b>     | Municipality did not maintain adequate controls and accounting records to assure that the financial and programmatic reports were prepared according to Federal and State Regulations.   |
| <b>Effect of Condition</b>    | Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Part 92.20 (b) (1), provisions regarding financial reporting.   |
| <b>Recommendation</b>         | We recommend that the Municipality should implement controls and procedures in order to assure accurate accounting records are maintained and current and complete disclosure of financial results is presented in the financial reports. Also, we recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and are prepared in accordance with the required accounting basis. |
| <b>Questioned Cost</b>        | None   |
| <b>Management Response</b>    | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

| Original Finding Number | CFDA No.       | Current Status of Prior Audit Findings   |
|-------------------------|----------------|--|
| 00-18                   | All Programs   | <p><u>Single Audit Act</u></p> <p>Full corrective action has been taken.</p>   |
| 00-19                   | 93.575         | <p><u>Inadequate Property Records</u></p> <p>Partial corrective action has been taken. The Municipality is preparing an inventory, which will be completed as of December 2001.</p>  |
| 00-20                   | All Programs   | <p><u>Accounting System and Federal Financial Report</u></p> <p>Partial corrective action has been taken. The Municipality contracted a consultants group in order to establish the adjusted balances of all municipal funds as of 6/30/00, for the preparation of the Budgetary Liquidation for the fiscal year 2000-2001 and for the development of a fiscal administrative system for the management of federal programs. Actually, the Municipality's consultants are updating the manual accounting records with the OCAM system.</p> |
| 00-21                   | 10.770, 93.575 | <p><u>Cash Management</u></p> <p>Partial corrective action has been taken. This finding no longer apply to the Sanitary System program since it was corrected. For the Child Care program the Municipality started the payment process once they receive the funds from the federal agency. For fiscal year 2001-2002 they will start the payment process and then make the funds requisition to the federal agency in order to comply with the regulation.</p>  |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

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00-22 10.770 Records Retention Requirement

Partial corrective action has been taken. The Municipality assigns an employee responsible of file and safeguards all disbursements vouchers and its documentation. The Municipality will provide an area to keep these documents.

00-23 10.770 Statement of Budget Income and Equity Balance Sheet

No corrective action has been taken. The forms FMHA 442-2 and 442-3 were not prepare by the Municipality. These forms will be prepared for the fiscal year 2001-2002 and thereafter.

00-24 93.575 Program Income

Full corrective action has been taken.

00-25 83.544 Allowable Cost – Cost Principles

Full corrective action has been taken.

00-26 83.544 Activities Allowed or Unallowed - Allowable Cost

Partial corrective action has been taken. The Municipality revised the files and found that they comply with the federal requirements.

00-27 83.544 Activities Allowed or Unallowed - Allowable Cost

Full corrective action has been taken.

00-28 83.544 Special Test

Full corrective action has been taken.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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|       |                   |  |
|-------|-------------------|--|
| 00-29 | 83.544            | <u>Special Test</u>  |
|       |                   | Full corrective action has been taken.                                     |
| 00-30 | 83.544            | <u>Reporting</u>   |
|       |                   | Full corrective action has been taken.                                     |
| 00-31 | 14.228            | <u>Failure to timely submit quarterly reports</u>                          |
|       |                   | Full corrective action has been taken.                                     |
| 00-32 | 14.857,<br>14.855 | <u>Voucher for Payment of Annual Contributions and Operating Statement</u> |
|       |                   | Full corrective action has been taken.                                     |
| 00-33 | 14.857,<br>14.855 | <u>Supporting Data for Annual Contributions</u>                            |
|       |                   | Full corrective action has been taken.                                     |
| 00-34 | 14.857,<br>14.855 | <u>Requisition for Partial Payment of Annual Contributions</u>             |
|       |                   | Full corrective action has been taken.                                     |
| 00-35 | 14.857,<br>14.855 | <u>Estimate of Total Required Annual Contributions</u>                     |
|       |                   | Full corrective action has been taken.                                     |
| 00-36 | 14.857,<br>14.855 | <u>Balance Sheet for Section 8</u>   |
|       |                   | Full corrective action has been taken.                                     |

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OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES

02 FEB -5 AM 10: 29

RECIBIDO  
UNIDAD DE CORREO

*Cantel #024570*

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUNCOS**

**REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

YEAR ENDED JUNE 30, 2001

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Juncos**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As disclosed in **Note 13**, at June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and postclosure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Postclosure Care Costs. The general purpose financial statements do not include a provision for landfill closure and postclosure costs in the general long-term debt account group as required by accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As described in **Note 8**, the **Municipality of Juncos** did not maintain complete and adequate records of its general fixed assets. The general purpose financial statements referred to above do not include the general fixed assets account group that should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Juncos** as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 7, 2001

Stamp No. 1700914 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 2001**

|  | GOVERNMENTAL FUND TYPES |                    |                    | ACCOUNT GROUP       | TOTALS<br>(MEMORANDUM ONLY) |
|--|-------------------------|--------------------|--------------------|---------------------|-----------------------------|
|  | General                 | Special<br>Revenue | Debt Service       | Capital<br>Projects |                             |
| <b>ASSETS AND OTHER DEBITS</b>                                 |                         |                    |                    |                     |                             |
| Cash and cash equivalents                                      | \$3,884,529             | \$953,186          |                    | \$311,530           | \$5,149,245                 |
| Cash with fiscal agent   | 4,909                   | 576,135            | \$2,312,110        |                     | 2,893,154                   |
| Intergovernmental receivable                                   |                         | 113,678            |                    | 1,365,000           | 1,478,678                   |
| Federal grants receivable                                      |                         | 306,643            |                    | 242,169             | 548,812                     |
| Due from other funds   | 940,899                 |                    |                    |                     | 940,899                     |
| Landfill users receivable                                      | 177,065                 |                    |                    |                     | 177,065                     |
| Amount available in Debt Service Fund                          |                         |                    |                    | \$2,312,110         | 2,312,110                   |
| Amount to be provided for retirement of general long-term debt |                         |                    |                    | 12,041,803          | 12,041,803                  |
| <b>Total assets and other debits</b>                           | <b>\$5,007,402</b>      | <b>\$1,949,642</b> | <b>\$2,312,110</b> | <b>\$1,918,699</b>  | <b>\$14,353,913</b>         |
|  |                         |                    |                    |                     | <b>\$25,541,766</b>         |
| <b>LIABILITIES AND FUND EQUITY</b>                             |                         |                    |                    |                     |                             |
| <b>Liabilities:</b>  |                         |                    |                    |                     |                             |
| Accounts payable and accrued liabilities                       | \$210,391               | \$116,127          |                    | \$239,446           | \$565,964                   |
| Due to other funds   |                         | 518,173            |                    | 422,726             | 940,899                     |
| Due to other governmental entities                             | 311,277                 |                    |                    |                     | \$1,217,684                 |
| Deferred municipal license tax revenues                        | 1,714,402               |                    |                    |                     | 1,714,402                   |
| Deferred federal grant revenues                                |                         | 985,184            |                    | 34,261              | 1,019,445                   |
| General obligation bonds                                       |                         |                    |                    |                     | 2,155,349                   |
| Notes payable  |                         |                    |                    |                     | 4,378,290                   |
| Claims and judgments   |                         |                    |                    |                     | 5,763,780                   |
| Accrued compensated absences                                   |                         |                    |                    |                     | 838,810                     |
| <b>Total liabilities</b>                                       | <b>2,236,070</b>        | <b>1,619,484</b>   |                    | <b>696,433</b>      | <b>14,353,913</b>           |
| <b>Fund equity:</b>  |                         |                    |                    |                     |                             |
| <b>Fund balances:</b>  |                         |                    |                    |                     |                             |
| Reserved for encumbrances                                      | 112,117                 |                    |                    |                     | 112,117                     |
| Reserved for debt service                                      |                         |                    | 2,312,110          |                     | 2,312,110                   |
| <b>Unreserved:</b>   |                         |                    |                    |                     |                             |
| Designated for specific fund purposes                          |                         | 330,158            |                    | 1,222,266           | 1,552,424                   |
| Undesignated   | 2,659,215               |                    |                    |                     | 2,659,215                   |
| <b>Total fund equity</b>                                       | <b>2,771,332</b>        | <b>330,158</b>     | <b>2,312,110</b>   | <b>1,222,266</b>    | <b>6,635,866</b>            |
| <b>Total liabilities and fund equity</b>                       | <b>\$5,007,402</b>      | <b>\$1,949,642</b> | <b>\$2,312,110</b> | <b>\$1,918,699</b>  | <b>\$25,541,766</b>         |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2000**

|   | GOVERNMENTAL FUND TYPES |                    |                    |                     | TOTALS<br>(MEMORANDUM ONLY) |
|---|-------------------------|--------------------|--------------------|---------------------|-----------------------------|
|   | General                 | Special<br>Revenue | Debt Service       | Capital<br>Projects |                             |
| <b>REVENUES</b>   |                         |                    |                    |                     |                             |
| Property taxes  | \$2,818,583             |                    | \$801,357          |                     | \$3,619,940                 |
| Municipal license taxes   | 2,218,678               |                    |                    |                     | 2,218,678                   |
| Licenses and permits  | 364,725                 |                    |                    |                     | 364,725                     |
| Intergovernmental   | 2,806,598               | \$1,665,036        |                    | \$988,157           | 5,459,791                   |
| Rent of property  | 56,773                  |                    |                    |                     | 56,773                      |
| Fines and penalties   | 11,510                  |                    |                    |                     | 11,510                      |
| Interest  | 270,089                 |                    |                    |                     | 270,089                     |
| Federal grants  |                         | 2,242,163          |                    | 653,220             | 2,895,383                   |
| Users fees on landfill facilities   | 2,515,966               |                    |                    |                     | 2,515,966                   |
| Miscellaneous   | 80,710                  | 43,537             |                    |                     | 124,247                     |
| <b>Total revenues</b>   | <u>11,143,632</u>       | <u>3,950,736</u>   | <u>801,357</u>     | <u>1,641,377</u>    | <u>17,537,102</u>           |
| <b>EXPENDITURES</b>   |                         |                    |                    |                     |                             |
| <b>Current:</b>   |                         |                    |                    |                     |                             |
| Mayor and Municipal Assembly  | 981,591                 |                    |                    |                     | 981,591                     |
| General government  | 4,612,185               | 237,574            |                    |                     | 4,849,759                   |
| Public safety   | 501,659                 | 154,498            |                    |                     | 656,157                     |
| Public works  | 2,046,201               | 2,545,430          |                    | 1,817,248           | 6,408,879                   |
| Public health and sanitation  | 1,308,624               |                    |                    |                     | 1,308,624                   |
| Welfare   |                         | 1,168,422          |                    |                     | 1,168,422                   |
| Economic development  | 51,197                  | 315,803            |                    |                     | 367,000                     |
| Recreation  | 606,675                 | 100                |                    |                     | 606,775                     |
| Human services  | 78,735                  |                    |                    |                     | 78,735                      |
| Principal retirement  | 188,750                 |                    | 319,285            |                     | 508,035                     |
| Interest  | 105,185                 |                    | 108,051            | 46,191              | 259,427                     |
| <b>Capital outlays</b>  | <u>293,307</u>          | <u>624,763</u>     |                    | <u>1,295,904</u>    | <u>2,213,974</u>            |
| <b>Total expenditures</b>   | <u>10,774,109</u>       | <u>5,046,590</u>   | <u>427,336</u>     | <u>3,159,343</u>    | <u>19,407,378</u>           |
| <b>Excess (deficiency) of revenues over (under) expenditures</b>  | 369,523                 | (1,095,854)        | 374,021            | (1,517,966)         | (1,870,276)                 |
| <b>OTHER FINANCING SOURCES (USES):</b>  |                         |                    |                    |                     |                             |
| Proceeds from bond issuance   |                         |                    |                    | 2,465,790           | 2,465,790                   |
| <b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)</b> | 369,523                 | (1,095,854)        | 374,021            | 947,824             | 595,514                     |
| <b>Fund balances beginning</b>  | <u>2,401,809</u>        | <u>1,426,012</u>   | <u>1,938,089</u>   | <u>274,442</u>      | <u>6,040,352</u>            |
| <b>Fund balances, ending</b>  | <u>\$2,771,332</u>      | <u>\$330,158</u>   | <u>\$2,312,110</u> | <u>\$1,222,266</u>  | <u>\$6,635,866</u>          |

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*- 141,517.00*

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

|   | <u>GENERAL FUND</u> |                           |   | <u>DEBT SERVICE FUND</u> |                           |   |
|---|---------------------|---------------------------|---|--------------------------|---------------------------|---|
|   | <u>Budget</u>       | <u>Actual</u>             | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> | <u>Budget</u>            | <u>Actual</u>             | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
| <b>REVENUES</b>   |                     |                           |   |                          |                           |   |
| Property taxes  | \$2,712,019         | \$2,818,582               | \$106,563                                       | \$611,251                | \$801,358                 | \$190,107                                       |
| Municipal license taxes   | 2,513,502           | 2,218,678                 | (294,824)                                       |                          |                           |   |
| Licenses and permits  | 354,000             | 364,725                   | 10,725  |                          |                           |   |
| Intergovernmental   | 2,672,099           | 2,806,598                 | 134,499   |                          |                           |   |
| Rent of property  | 36,280              | 56,773                    | 20,493  |                          |                           |   |
| Fines and penalties   | 5,000               | 11,510                    | 6,510   |                          |                           |   |
| Interest  | 101,000             | 270,089                   | 169,089   |                          |                           |   |
| Users fee on landfill facilities  | 2,210,000           | 2,515,966                 | 305,966   |                          |                           |   |
| Miscellaneous   | 70,000              | 80,710                    | 10,710  |                          |                           |   |
| <b>Total revenues</b>   | <u>10,673,900</u>   | <u>11,143,631</u>         | <u>469,731</u>                                  | <u>611,251</u>           | <u>801,358</u>            | <u>190,107</u>                                  |
| <b>EXPENDITURES AND ENCUMBRANCES:</b>   |                     |                           |   |                          |                           |   |
| <b>Current:</b>   |                     |                           |   |                          |                           |   |
| Mayor and Municipal Assembly  | 1,040,161           | 1,010,012                 | 30,149  |                          |                           |   |
| General government  | 4,592,065           | 4,622,041                 | (29,976)  |                          |                           |   |
| Public safety   | 503,833             | 502,803                   | 1,030   |                          |                           |   |
| Public works  | 1,853,343           | 1,836,766                 | 16,577  |                          |                           |   |
| Public health and sanitation  | 1,332,149           | 1,331,542                 | 607   |                          |                           |   |
| Economic Development  | 68,669              | 51,197                    | 17,472  |                          |                           |   |
| Recreation  | 608,777             | 608,355                   | 422   |                          |                           |   |
| Human services  | 82,716              | 82,367                    | 349   |                          |                           |   |
| Principal retirement  | 188,750             | 188,750                   | -   | 215,000                  | 319,286                   | (104,286)                                       |
| Interest  | 105,185             | 105,185                   | -   | 396,251                  | 108,051                   | 288,200   |
| <b>Capital outlays</b>  | <u>298,252</u>      | <u>293,582</u>            | <u>4,670</u>                                    |                          |                           |   |
| <b>Total expenditures and encumbrances</b>  | <u>10,673,900</u>   | <u>10,632,600</u>         | <u>41,300</u>                                   | <u>611,251</u>           | <u>427,337</u>            | <u>183,914</u>                                  |
| <b>Excess (deficiency) of revenues over<br/>(under) expenditures and encumbrances</b> |                     | 511,031                   | <u>428,431</u>                                  |                          | 374,021                   | <u>6,193</u>                                    |
| Adjustment required under Generally Accepted<br>Accounting Principles:                |                     |                           |   |                          |                           |   |
| Net change in encumbrances  |                     | (141,508)                 |   |                          |                           |   |
| <b>Fund balances beginning</b>  |                     | <u>2,401,809</u>          |   |                          | <u>1,938,089</u>          |   |
| <b>Fund balance, ending</b>   |                     | <u><u>\$2,771,332</u></u> |   |                          | <u><u>\$2,312,110</u></u> |   |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

The **Municipality of Juncos** (the Municipality) was established in 1797. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

**A. Financial reporting entity:**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

B. Basis of presentation:

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

**Governmental fund types:**

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

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

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

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

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

**Account groups:**

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

**General Fixed Assets** - is used to account for all fixed assets of the Municipality (see Note 8)

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**C. Basis of accounting:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**D. Reservations of fund balance:**

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

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

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

**E. Budgetary data:**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

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

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

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

**F. Inventories:**

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

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant. As indicated in Note 8, the information to account for these general fixed assets is not available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**H. Cash and cash equivalents:**

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

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

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

**J. Compensated absences:**

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

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

**K. Insurance:**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

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

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

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

**N. Claims and judgments:**

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

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

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

|  |                   |
|--|-------------------|
| Puerto Rico Electric Power Authority     | \$ 155,124        |
| Retirement System Administration         | 57,461            |
| Puerto Rico Aqueduct and Sewer Authority | 64,351            |
| General Services Administration          | 8,985             |
| Department of Treasury                   | <u>25,356</u>     |
| Total                                    | <u>\$ 311,277</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

|  |                     |
|--|---------------------|
| Department of Treasury (Property tax advances) | \$ 612,729          |
| Puerto Rico Electric Power Authority           | 415,339             |
| Department of Labor                            | 41,227              |
| Municipal Revenue Collection Center            | <u>148,389</u>      |
| Total  | <u>\$ 1,217,684</u> |

**3. PROPERTY TAXES:**

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

Tax rates are 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.25% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were in excess of actual advances by \$870,656 according to CRIM preliminary liquidation. Such amount was not included as intergovernmental receivable in the General Fund.

**4. MUNICIPAL LICENSE TAXES:**

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

|                                |       |
|--------------------------------|-------|
| Financial institutions         | 1.50% |
| Savings and loans associations | 1.25% |
| Other organizations            | 0.45% |

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

**5. INTERGOVERNMENTAL:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**5. INTERGOVERNMENTAL (CONTINUED):**

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

**6. CASH AND CASH EQUIVALENTS:**

|   |                     |
|---|---------------------|
| Cash in bank accounts                     | \$ 1,571,993        |
| Certificates of deposit (90 days or less) | <u>3,577,252</u>    |
| Total cash and cash equivalents           | <u>\$ 5,149,245</u> |

**7. DEBT SERVICE FUND:**

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

**8. GENERAL FIXED ASSETS:**

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS:**

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

|                                      |              |
|--------------------------------------|--------------|
| Balance at July 1, 2000              | \$ 2,474,634 |
| Debt issued                          | -            |
| Principal retirements                | (319,285)    |
| Adjustments and/or Reclassifications | _____        |
| Balance at June 30, 2001             | \$ 2,155,349 |

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

| Type of bonds                  | Maturity date                                  | Original Amount | Range of Interest Rates | Balance at June 30, 2001 |
|--------------------------------|--|-----------------|-------------------------|--------------------------|
| 1979 Series                    | 1-1-02   | \$ 177,000      | 5.00%                   | \$ 2,502                 |
| 1984 Series                    | 1-1-08   | 700,000         | 5.00%                   | 294,000                  |
| 1993 Series                    | 1-1-17   | 264,000         | 4.50%                   | 215,000                  |
| 1994 Series                    | 1-1-18   | 650,000         | 5.25%                   | 586,000                  |
| 1996 Series                    | 1-1-21   | 525,000         | 4.50%                   | 496,213                  |
| 1996 Series                    | 1-1-21   | 551,000         | 4.50%                   | 535,000                  |
| 1996 Series                    | Bond proceeds<br>in process of<br>disbursement | 520,000         | 4.50%                   | 26,634                   |
| Total general obligation bonds |  |                 |                         | \$ 2,155,349             |

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

| Year ended<br>June 30 | Total        |
|-----------------------|--------------|
| 2002                  | \$ 104,715   |
| 2003                  | 108,000      |
| 2004                  | 112,000      |
| 2005                  | 117,000      |
| 2006                  | 122,000      |
| Thereafter            | 1,591,634    |
| Total                 | \$ 2,155,349 |

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**10. NOTES PAYABLE:**

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

|                                  |                     |
|----------------------------------|---------------------|
| Balance at July 1, 2000          | \$ 2,146,250        |
| Debt issued                      | 2,465,790           |
| Payments during the current year | (188,750)           |
| Adjustments\Reclassifications    | <u>(45,000)</u>     |
| Balance at June 30, 2001         | <u>\$ 4,378,290</u> |

Notes payable at June 30, 2001 is as follows:

| Description                | Maturity Date                            | Original Amount | Range of Interest rates | Balance June 30, 2001      |
|----------------------------|--|-----------------|-------------------------|----------------------------|
| 1993 Series                | 4-1-13                                   | \$ 1,680,000    | 4.37% - 8.00%           | \$ 1,242,500               |
| 2001 Series                | 7-1-05                                   | 1,365,000       | 6.13% - 8.00%           | 1,365,000                  |
| Section 108 Loan           | Note proceeds in process of disbursement | 4,220,000       | 6.24% - 6.49%           | <u>1,770,790</u>           |
| <b>Total notes payable</b> |  |                 |                         | <u><b>\$ 4,378,290</b></u> |

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

| Year ended June 30 | Total                      |
|--------------------|----------------------------|
| 2002               | \$ 313,750                 |
| 2003               | 341,250                    |
| 2004               | 355,175                    |
| 2005               | 373,725                    |
| 2006               | 386,875                    |
| Thereafter         | <u>2,607,515</u>           |
| Total              | <u><b>\$ 4,378,290</b></u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED)**

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

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

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

**Defined Contribution Plan**

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 284,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

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

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

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

**12. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

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

**13. LANDFILL OBLIGATIONS:**

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. At June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure care costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**14. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

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

**B. Claims and lawsuits:**

The Municipality is a defendant in several 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 \$152,000 in the general long-term debt account group according to an Consent Agreement entered into the Municipality of Juncos and the Federal Environmental Protection Agency (EPA) resulting from an administrative complaint filed against the Municipality by failure to follow applicable regulations for the handling and disposal of waste oil. The amount presented in the general long-term debt account group is the estimated cost to remove, test, and properly dispose of impacted soil, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant. In addition the Municipality has reported liabilities of \$111,780 in the general long-term debt account group for final unfavorable judgments.

Also, the Municipality and other responsible parties are defendants in a lawsuit presented by the Federal Environmental Protection Agency (EPA) in order to recover EPA's past cost plus interest, associated with the overseeing procedures applied by EPA on Juncos Landfill Superfund Site. EPA estimates the amount of these cost plus interest at approximately \$5,500,000 that is included in the general long-term debt account group. EPA also has stated that it intends to seek monetary penalties against the responsible parties for failure to timely comply with EPA's remedial orders. The responsible parties, including the Municipality of Juncos, have informed EPA of their willingness to enter into negotiations regarding EPA's claims for past costs and penalties.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2001**

**15. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances for General, Special Revenue, Capital Projects and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

| Description  | General             | Special<br>Revenue  | Capital<br>Projects |
|--|---------------------|---------------------|---------------------|
| Beginning Fund Balances at July 1, 2000  | \$ 2,543,322        | \$ 1,434,199        | \$ 264,315          |
| Accounting errors in beginning cash balances   | (282,192)           | (8,187)             | 10,127              |
| General Fund interfund receivable from Special Revenue Fund not recorded                 | 121,171             |                     |                     |
| Adjustment of General Fund Account Payable with the Puerto Rico Electric Power Authority | 19,508              |                     |                     |
| Beginning Fund Balances at July 1, 2000, as restated                                     | <u>\$ 2,401,809</u> | <u>\$ 1,426,012</u> | <u>\$ 274,442</u>   |

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS**

**RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132**

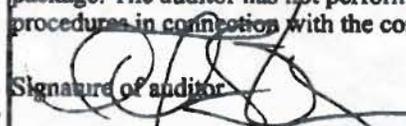
Form SF-SAC(3-20-2001)

OMB #0348-0057

Report ID : 37741

3/31/02

**Part I: GENERAL INFORMATION**

|  |                     |  |                                   |
|--|---------------------|--|-----------------------------------|
| 1. Fiscal year ending date for this submission (mm/dd/yyyy);<br>06/30/2001   |                     | 2. Type of A-133 audit<br><input checked="" type="radio"/> Single audit  |                                   |
| 3. Audit period covered<br><input checked="" type="radio"/> Annual   |                     | CENSUS<br>USE<br>ONLY  | 4. Date received by clearinghouse |
| 5. Employer Identification<br>Number (EIN)<br>a. Auditee EIN 660433469   |                     | b. Are multiple EINS covered in this report?<br><input checked="" type="radio"/> Yes   |                                   |
| <b>6. AUDITEE INFORMATION</b>  |                     | <b>7. AUDITOR INFORMATION</b>  |                                   |
| a. Auditee name<br>MUNICIPALITY OF JUNCOS  |                     | a. Auditor name<br>LOPEZ VEGA, CPA, PSC  |                                   |
| b. Auditee address (Number and street)<br>APARTADO 1706  |                     | b. Auditor address (Number and street)<br>PARANA # 1686, EL CEREZAL  |                                   |
| City<br>JUNCOS   |                     | City<br>SAN JUAN   |                                   |
| State<br>PR  | Zip Code<br>00777 - | State<br>PR  | Zip Code<br>00926 - 3144          |
| c. Auditee contact<br>Name<br>IVETTE DIAZ VELEZ  |                     | c. Auditor contact<br>Name<br>ANGEL ALFREDO LOPEZ VEGA   |                                   |
| Title<br>FINANCE DIRECTOR  |                     | Title<br>PRESIDENT   |                                   |
| d. Auditee contact telephone<br>( 787 ) 734 - 0335   |                     | d. Auditor contact telephone<br>( 787 ) 777 - 8044   |                                   |
| e. Auditee contact FAX (Optional)<br>( 787 ) 734 - 6866  |                     | e. Auditor contact FAX (Optional)<br>( 787 ) 777 - 8045  |                                   |
| f. Auditee contact E-mail (Optional)   |                     | f. Auditor contact E-mail (Optional)<br>MCG@ISLA.NET   |                                   |
| g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has:<br>(1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct. |                     | g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form. |                                   |
| Signature of certifying official<br>   |                     | Signature of auditor<br>   |                                   |
| Date<br>04/11/2002   |                     | Date<br>3/31/02  |                                   |
| Name/Title of certifying official<br>Lynette Feliciano Sanchez<br>Acting as Municipality's Mayor   |                     |  |                                   |

OFIC. DEL COMISIONADO  
 DE ASUNTOS MUNICIPALES  
 02 APR -3 PM 4:10  
 RECIDIDO  
 UNIDAD DE CORR.

CDF #02.60.60

OMB  
 DIVISION RECLAMACIONES  
 E INTERVENCIONES  
 02 APR -4 PM

**Form SF-SAC(3-20-2001) OMB #0348-0057**

**Report ID : 37741**

**Part I: GENERAL INFORMATION - Continued**

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? *(Mark (x) one box)*

No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. *(Mark (x) one box) However, if cognizance has been reassigned, see instructions*

**Part II: FINANCIAL STATEMENTS *(To be completed by auditor)***

1. Type of audit report *(Mark (x) one box)*

Qualified opinion

2. Is a "going concern" explanatory paragraph included in the audit report?

No

3. Is a reportable condition disclosed?

Yes

4. Is any reportable condition reported as a material weakness?

Yes

5. Is a material noncompliance disclosed?

No

**Part III: FEDERAL PROGRAMS *(To be completed by auditor)***

1. Type of audit report on major program compliance

Unqualified opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? *(AICPA SOP 98-3 chapter 10)*

No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar.  
\$300000.00

4. Did the auditee qualify as a low-risk auditee? (§ .530)

No

5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))

Yes

6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))

Yes

7. Are any known questioned costs reported? (§ .510(a)(3) or (4))

No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))

Yes

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to direct funding. *(Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.*

|    |                                     |   |
|----|-------------------------------------|---|
| 10 | <input checked="" type="checkbox"/> | Department of Agriculture                   |
| 14 | <input checked="" type="checkbox"/> | Department of Housing and Urban Development |

*In addition, one copy each of the reporting package is required for:*

- 1 .....the Federal Audit Clearinghouse archives
- 0 .....and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
- 3 .....Total number of reporting packages to be submitted

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 37741

| Part III: FEDERAL PROGRAMS Continued           |                           |               |                                       |   |                                       |                                       |                                       |   |  |
|--|---------------------------|---------------|---------------------------------------|---|---------------------------------------|---------------------------------------|---------------------------------------|---|--|
| 10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR |                           |               |                                       |   |                                       |                                       | 11. AUDIT FINDINGS                    |   |  |
| Row  | 10a. CFDA Number          |               | 10b. Research and development         | 10c. Name of Federal Program                                    | 10d. Amount expended in Whole Numbers | 10e. Direct Award                     | 10f. Major program                    | 11a. Type of compliance requirement (3) | 11b. Audit finding reference # (s) (4)   |
|  | Federal Agency Prefix (1) | Extension (2) |                                       |   |                                       |                                       |                                       |   |  |
| 1  | 10.                       | 570           | <input checked="" type="checkbox"/> N | NUTRITION PROGRAM FOR THE ELDERLY                               | \$ 13623 .00                          | <input checked="" type="checkbox"/> Y | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 2  | 10.                       | 770           | <input checked="" type="checkbox"/> N | WATER AND WASTE DISPOSAL LOANS AND GRANTS                       | \$ 653220 .00                         | <input checked="" type="checkbox"/> Y | <input checked="" type="checkbox"/> Y | P, B, F, L                              | 01-07, 01-08, 01-17, 01-22               |
| 3  | 10.                       | 558           | <input checked="" type="checkbox"/> N | CHILD AND ADULT CARE FOOD PROGRAM                               | \$ 26740 .00                          | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 4  | 14                        | 248           | <input checked="" type="checkbox"/> N | COMMUNITY DEVELOPMENT BLOCK GRANTS- SECTION 108 LOAN GUARANTEES | \$ 1210218 .00                        | <input checked="" type="checkbox"/> Y | <input checked="" type="checkbox"/> Y | P,B,C,D,F,L                             | 01-09, 01-10, 01-14, 01-16, 01-18, 01-24 |
| 5  | 14.                       | 855           | <input checked="" type="checkbox"/> N | SECTION 8 - RENTAL VOUCHER PROGRAM                              | \$ 292860 .00                         | <input checked="" type="checkbox"/> Y | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 6  | 14.                       | 228           | <input checked="" type="checkbox"/> N | COMMUNITY DEVELOPMENT BLOCK GRANTS- STATES PROGRAM              | \$ 820539 .00                         | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> Y | B,A,D,F,I,L                             | 01-10, 01-13, 01-16, 01-18, 01-20, 01-23 |
| 7  | 14.                       | 241           | <input checked="" type="checkbox"/> N | HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS                     | \$ 81210 .00                          | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 8  | 16.                       | 710           | <input checked="" type="checkbox"/> N | PUBLIC SAFETY PARTNERSHIPS AND COMMUNITY POLICING GRANTS (COPS) | \$ 33759 .00                          | <input checked="" type="checkbox"/> Y | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 9  | 16.                       | 540           | <input checked="" type="checkbox"/> N | JUVENILE JUSTICE AND DELINQUENCY PREVENTION                     | \$ 8683 .00                           | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 10   | 16.                       | 592           | <input checked="" type="checkbox"/> N | LOCAL LAW AND ENFORCEMENT BLOCK GRANTS                          | \$ 85950 .00                          | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 11   | 20.                       | 500           | <input checked="" type="checkbox"/> N | FEDERAL TRANSIT - CAPITAL IMPROVEMENT GRANTS                    | \$ 63797 .00                          | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 12   | 20.                       | 601           | <input checked="" type="checkbox"/> N | INCENTIVE GRANTS  | \$ 21449 .00                          | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |
| 13   | 83.                       | 534           | <input checked="" type="checkbox"/> N | EMERGENCY MANAGEMENT - STATE AND LOCAL ASSISTANCE               | \$ 4658 .00                           | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                                       | N/A                                      |

|  |         |                                       |   |               |                                       |                                       |                  |   |
|--|---------|---------------------------------------|---|---------------|---------------------------------------|---------------------------------------|------------------|---|
| 14   | 83. 544 | <input checked="" type="checkbox"/> N | PUBLIC ASSISTANCE GRANTS                      | \$ 233381 .00 | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                | N/A   |
| 15   | 93. 044 | <input checked="" type="checkbox"/> N | SPECIAL PROGRAM FOR AGING - TITLE III, PART B | \$ 53498 .00  | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                | N/A   |
| 16   | 93. 569 | <input checked="" type="checkbox"/> N | COMMUNITY SERVICE BLOCK GRANT                 | \$ 34846 .00  | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> N | O                | N/A   |
| 17   | 93. 575 | <input checked="" type="checkbox"/> N | CHILD CARE AND DEVELOPMENT BLOCK GRANT        | \$ 467169 .00 | <input checked="" type="checkbox"/> N | <input checked="" type="checkbox"/> Y | P, B, C, F, I, L | 01-11,<br>01-12,<br>01-15,<br>01-19,<br>01-21,<br>01-25 |
| <b>Computer Generated Total Federal Awards Expended:</b> |         |                                       | <b>\$ 4105600</b>                             |               |                                       |                                       |                  |   |
| <b>TOTAL FEDERAL AWARDS EXPENDED</b>                     |         |                                       | <b>\$4105600</b>                              |               |                                       |                                       |                  |   |

\*Footnotes for Part 3 - Item 10 and Item 11

1. See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
2. Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.
3. Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weakness), questioned costs, fraud, and other items reported under § .510 (a)) reported for each Federal program.

A. Activities allowed or unallowed  
B. Allowable costs/cost principles  
C. Cash management  
D. Davis-Bacon Act  
E. Eligibility  
F. Equipment and real property management

G. Matching, level of effort, earmarking  
H. Period of availability of funds  
I. Procurement  
J. Program income  
K. Real property acquisition and relocation assistance

L. Reporting  
M. Subrecipient monitoring  
N. Special tests and provisions  
O. None

P. Other

4. N/A for None.

**Form SF-SAC(3-20-2001) OMB #0348-0057**  
**Form SF-SAC Data Collection Form for Fiscal Year Ending 2001+**  
**Report ID : 37741**  
1. 660521054  
2. 660433517