

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

MUNICIPIO DE JUNCOS
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 11, we did not obtain response from some legal counsels regarding the corroboration of information furnished by management concerning litigation, claims and assessments and unasserted claims and assessments. We were unable to obtain sufficient competent evidential matter with respect to the potential negative outcome of outstanding litigations and unasserted claims and assessments will have a significant impact in the basic financial statements of the Municipality as of June 30, 2003.

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 transactions disclosed in the third paragraph related to litigation, claims and assessments and unasserted claims and assessments, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

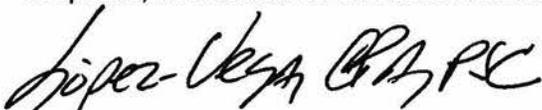
As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments, and has adopted paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, as of June 30, 2003.

In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 24, 2003

Stamp No. 1942314 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**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

Management's Discussion and Analysis

Management of the Municipality of Juncos (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets increased by \$ 1,283,018.
- In the fund financial statements, the governmental activities revenue increased \$ 1,065,122 (or 5%) while governmental activities expenditures increased \$ 4,039,021 (or 18%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$ 2,305,257.
- On a budgetary basis, actual revenues exceeded actual expenditures revenues by \$1,538,288.
- The Municipality issued bonds amounting to \$1,060,000 to finance mainly capital improvements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 6,457,777 at the end of 2003, compared to \$5,174,759 at the end of the previous year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Net Assets (Continued)

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$ 17,411,554
Capital assets	<u>19,021,565</u>
Total assets	<u>36,433,119</u>
Current liabilities	8,992,711
Noncurrent liabilities	<u>20,982,631</u>
Total liabilities	<u>29,975,342</u>
Invested in capital assets, net of related debt	8,015,352
Restricted	6,115,590
Unrestricted (deficit)	<u>(7,673,165)</u>
Total net assets	<u>\$6,457,777</u>

Changes in Net Assets

The Municipality's net assets increased by \$ 1,283,018. Approximately 38 percent of the Municipality's total revenue came from taxes, while 46 percent resulted from grants and contributions, including federal aid. Charges for Services provided 13 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for public works, general government, health and welfare, community development, culture and recreation and public safety. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets (Continued)

Condensed Statement of Activities
June 30, 2003 -

Program revenues:	
Charges for services	\$3,126,731
Operating grants and contributions	3,898,545
Capital grants and contributions	2,550,881
General revenues:	
Property taxes	5,070,475
Municipal license tax	3,383,120
Grants and contributions not restricted to specific programs	4,381,391
Other local taxes	552,649
Interest and investment earnings	178,011
Miscellaneous	<u>106,521</u>
Total revenues	<u>23,248,324</u>
Expense:	
General government	5,317,910
Public safety	1,073,592
Public works	6,253,571
Culture and recreation	1,772,013
Health and welfare	3,499,912
Community development	2,687,665
Economic development	367,569
Urban development	175,294
Education	499,165
Interest on long-term debt	<u>318,615</u>
Total expenses	<u>21,965,306</u>
Change in net assets	1,283,018
Net assets, beginning of year	<u>5,174,759</u>
Net assets, end of year	<u>\$ 6,457,777</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$8,418,843, a decrease of \$625,699 in comparison with the prior year. There are reservations of fund balance amounting to \$7,332,657. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$1,217,067), 2) to pay debt service (\$1,472,797), 3) to pay for capital projects (\$3,987,886) and 4) for other purposes (\$654,907).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$2,303,253.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$ 24,148,469, net of accumulated depreciation of \$ 5,126,904, leaving a net book value of \$ 19,021,565. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$ 4,908,207 in terms of net book value. Depreciation charges for the year totaled \$ 809,729.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$2,118,460 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 11,517,152
Cash with fiscal agent	4,234,214
Accounts receivable:	
Municipal license tax	29,267
Intergovernmental	1,034,536
Landfill users receivable	591,232
Interest	5,153
Capital assets	
Land, improvements, and construction in progress	10,516,988
Other capital assets, net of depreciation	8,504,577
Total capital assets	<u>19,021,565</u>
 Total assets	 <u>36,433,119</u>
 Liabilities	
Accounts payable and accrued liabilities	1,905,759
Due to other governmental entities	23,184
Deferred revenues:	
Municipal license tax	6,129,677
Federal grant revenues	934,091
Other	
Noncurrent liabilities:	
Due within one year	1,302,291
Due in more than one year	<u>19,680,340</u>
 Total liabilities	 <u>29,975,342</u>
 Net Assets	
Invested in capital assets, net of related debt	8,015,352
Restricted for:	
Capital projects	3,987,886
Debt service	1,472,797
Other purposes	654,907
Unrestricted (deficit)	<u>(7,673,165)</u>
 Total net assets	 <u>\$ 6,457,777</u>

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

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 5,317,910		\$ 145,539	\$ 1,338,163	\$ (3,834,208)
Public safety	1,073,592	685	122,345		(950,562)
Public works	6,253,571	2,936,241	578,287	567,378	(2,171,665)
Health and welfare	3,499,912	65,788	1,666,339		(1,767,785)
Culture and recreation	1,772,013	122,662	83,797	225,000	(1,340,554)
Economic development	367,569		367,569		-
Community development	2,687,665		669,607	393,340	(1,624,718)
Urban development	175,294		45,000		(130,294)
Education	499,165	1,355	220,062	27,000	(250,748)
Interest on long-term debt	318,615				(318,615)
Other					-
Total governmental activities	\$ 21,965,306	\$ 3,126,731	\$ 3,898,545	\$ 2,550,881	(12,389,149)
General revenues:					
					5,070,475
					3,383,120
					552,649
					4,381,391
					178,011
					106,521
					<u>13,672,167</u>
					1,283,018
					5,174,759
					<u>\$ 6,457,777</u>

Commonwealth of Puerto Rico
Municipality of Juncos
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 6,838,778	\$ 396,633	\$ 1,477,788	\$ 2,803,953	\$ 11,517,152
Cash with fiscal agent	4,909	638,048	2,118,460	1,472,797	4,234,214
Municipal license tax receivable	29,267			-	29,267
Intergovernmental receivable	20,000	203,495		811,041	1,034,536
Due from other funds	2,301,694	67,499		-	2,369,193
Landfill users receivable	591,232			-	591,232
Interest receivable	5,153			-	5,153
Total assets	\$ 9,791,033	1,305,675	\$ 3,596,248	\$ 5,087,791	\$ 19,780,747
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 1,267,420	\$ 104,963	\$ -	\$ 533,376	\$ 1,905,759
Due to other governmental entities	23,184				23,184
Due to other funds	67,499	416,627	672,865	1,212,202	2,369,193
Deferred revenues:					
Municipal license tax	6,129,677				6,129,677
Federal grant revenues		693,275		240,816	934,091
Total liabilities	7,487,780	1,214,865	672,865	1,986,394	11,361,904
Fund balances:					
Reserved for:					
Encumbrances	1,217,067			-	1,217,067
Capital projects			2,923,383	1,064,503	3,987,886
Other purposes		90,810		564,097	654,907
Reserved reported in nonmajor funds:					
Debt service fund				1,472,797	1,472,797
Unreserved:					
Undesignated	1,086,186			-	1,086,186
Total fund balances	2,303,253	90,810	2,923,383	3,101,397	8,418,843
Total liabilities and fund balances	\$ 9,791,033	1,305,675	\$ 3,596,248	\$ 5,087,791	\$ 19,780,747

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 4,177,501	\$ -	\$ -	\$ 892,975	\$ 5,070,476
Municipal license taxes	3,383,120				3,383,120
Licenses, permits and other local taxes	565,869				565,869
Intergovernmental	4,726,930	4,103	850,878	978,597	6,560,508
Rent of property	55,887			65,500	121,387
Fines and forfeitures	685				685
Interest	178,011				178,011
Users fees on landfill facilities	2,924,295				2,924,295
Federal grants		2,064,889		848,909	2,913,798
Miscellaneous	44,438	449	406	146,719	192,012
Total revenues	\$ 16,056,736	2,069,441	\$ 851,284	\$ 2,932,700	\$ 21,910,161
Expenditures					
Current:					
General government	\$ 8,682,281			279,705	\$ 8,961,986
Public safety	977,151	103,244		6,309	1,086,704
Public works	4,595,116	148,207	\$ 692,790	826,555	6,262,668
Health and welfare	1,309,332	1,434,811		602,983	3,347,126
Culture and recreation	1,100,834		474,663	194,192	1,769,689
Economic development				367,569	367,569
Community development		663,489	311,169	1,729,000	2,703,658
Urban development			137,794	37,500	175,294
Education	482,146		30,444	32,592	545,182
Debt service:					
Principal				468,000	468,000
Interest				318,615	318,615
Total expenditures	17,146,860	2,349,751	1,646,860	4,863,020	26,006,491
Excess (deficiency) of revenues over (under) expenditures	(1,090,124)	(280,310)	(795,576)	(1,930,320)	(4,096,330)
Other financing sources (uses)					
Transfers in			380,217	834,916	1,215,133
Transfers out	(1,215,133)				(1,215,133)
Long-term debt issued			1,060,000	2,410,631	3,470,631
Total other financing sources (uses)	(1,215,133)	-	1,440,217	3,245,547	3,470,631
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(2,305,257)	(280,310)	644,641	1,315,227	(625,699)
Fund balance, beginning	4,608,510	371,120	2,278,742	1,786,170	9,044,542
Fund balance, ending	\$ 2,303,253	90,810	\$ 2,923,383	\$ 3,101,397	\$ 8,418,843

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

Commonwealth of Puerto Rico
Municipality of Juncos
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (625,699)

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

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 4,379,773

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (809,729)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. (544,281)

Some revenues reported in the Statements of Activities do not provide current financial resources in Governmental Funds. 547,422

Some expenses reported in the Governmental Funds require the use of current financial resources and, therefore, are not reported as expenditures in Statement of Activities. 1,338,163

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (3,002,631)

Change in Net Assets of Governmental Activities \$ 1,283,018

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Juncos** (the Municipality) was founded on the year 1782. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and sixteen members Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 12.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. 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 if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

C. Financial reporting presentation

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

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

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

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

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

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

D. Measurement focus, basis of accounting and financial presentation

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

E. Assets, liabilities and net assets

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

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

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$241,702. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$353,149 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

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

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$19,021,565	
Deduct:		
Bonds Payable	(5,721,213)	
Notes Payable	(5,285,000)	\$8,015,352
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		3,987,886
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,472,797
<u>Net assets restricted for other purposes</u>		
Other governmental funds - fund balance restricted for other purposes		654,907

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Net assets unrestricted (deficit)

General fund - total fund balance:	\$2,303,253	
Deduct:		
Bond and Notes	(1,093,750)	
Compensated absences debt	(1,155,504)	
Puerto Rico Electric Power Authority	(106,605)	
Department of Labor - Unemployment Tax	(91,497)	
Property Tax Debt - Treasury Department	(464,189)	
Property Tax Debt - CRIM-Law 146	(1,494,392)	
Landfill Closure Costs	(4,055,481)	
Landfill Post closure Cost	(1,470,000)	
Claims and Judgments debt	<u>(45,000)</u>	<u>(7,673,165)</u>
Total net assets - governmental activities		<u>\$6,457,777</u>

2. DEPOSITS

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

The Municipality's bank balances in commercial banks of approximately \$6,838,778, \$396,633, \$1,477,788 in the general fund, special revenue fund - federal grants and capital projects fund - state and local grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$2,803,953, respectively, that were fully collateralized.

The deposits at GDB of approximately \$4,909, that is restricted for other purposes in the general fund, the \$638,048 in the special revenue fund - federal grants, the \$2,118,460 that is restricted principally for capital projects in the capital project fund - local, state and federal grants, and the \$1,472,797 that is restricted for other purposes in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 24 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

1. Financial business- 1.50% of gross revenues

2. Other organizations- 0.45% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 24. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

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

B. Intergovernmental Receivables- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances and other agencies receivables. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Education	\$20,000
Total	<u>\$20,000</u>

Intergovernmental receivable in special revenue funds represent expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant – State's Program	\$99,069
Child Care and Development Block Grant	<u>104,426</u>
Total	<u>\$203,495</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in other governmental funds represent expenditures incurred not yet reimbursed by the state, local and federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Water and Waste Disposal Loans and Grants	218,982
Department of Labor	592,059
Total	<u>\$811,041</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – State and Local Grants	Payroll and related accruals paid and not reimbursed by the Special Revenue Fund	\$1,015,814
General Fund	Special Revenue Fund – Federal Grants-	Payroll and related accruals paid and not reimbursed by the Federal Programs	62,254
General Fund	Special Revenue Fund – Federal Grants	Payroll and related accruals paid and not reimbursed by the Federal Programs	416,627
General Fund	Capital Project Fund – Local and State Grants	Payroll and related accruals paid and not reimbursed by the Capital Project Fund	672,865
General Fund	Capital Project Fund – Federal Grants	Payroll and related accruals paid and not reimbursed by the Federal Programs	134,134
Other Governmental Fund	General Fund	Payroll and related accruals paid and not reimbursed by Other Governmental Funds	<u>67,499</u>
Total			<u>\$2,369,193</u>

The balance of \$1,015,814 of general fund due from the special revenue fund – state and local grants includes \$661,676 pending to be reimbursed by the department of Labor. And also includes \$264,499 that probably will not be collected. This amount will not expect to be repaid within a year of the Municipality's year end.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Local and State Grants	Transfer of fund for special purpose	\$698,760
General Fund	Capital Project Fund - Local and State Grants	Transfer of funds for capital outlays	380,217
General Fund	Debt Service Fund	Debt Retirement	<u>136,156</u>
Total			<u>\$1,215,133</u>

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$6,588,439	\$1,338,163		\$7,926,602
Construction in progress	<u> </u>	<u>2,590,386</u>	<u> </u>	<u>\$2,590,386</u>
Total capital assets not being depreciated	<u>6,588,439</u>	<u>3,928,549</u>	<u> </u>	<u>10,516,988</u>
Capital assets, being depreciated:				
Buildings	\$6,518,888			\$6,518,888
Buildings improvements	1,247,566	546,111		1,793,677
Infrastructure		481,077		481,077
Infrastructure improvements		52,711		52,711
Equipment	1,615,947	155,907		1,771,854
Furnishing	285,851	113,694		399,545
Works of art		7,100		7,100
Computers	166,516	99,548		266,064
Vehicles	<u>2,007,326</u>	<u>333,239</u>	<u> </u>	<u>2,340,565</u>
Total capital assets being depreciated	<u>\$11,842,094</u>	<u>\$1,789,387</u>	<u> </u>	<u>\$13,631,481</u>
Less accumulated depreciation for:				
Buildings	(\$2,145,875)	(\$162,972)		(\$2,308,847)
Buildings improvements	(41,838)	(37,591)		(79,429)
Infrastructure		(3,818)		(3,818)
Infrastructure improvements		(2,499)		(2,499)
Equipment	(461,723)	(303,087)		(764,810)
Furnishing	(182,258)	(43,389)		(225,647)
Works of art		(511)		(511)
Computers	(104,891)	(45,958)		(150,849)
Land				
Vehicles	<u>(1,380,590)</u>	<u>(209,904)</u>	<u> </u>	<u>(1,590,494)</u>
Total accumulated depreciation	<u>(\$4,317,175)</u>	<u>(\$809,729)</u>	<u> </u>	<u>(\$5,126,904)</u>
Total capital assets being depreciated, net	<u>\$7,524,919</u>	<u>\$979,658</u>	<u> </u>	<u>\$8,504,577</u>
Governmental activities capital assets, net	<u>\$14,113,358</u>	<u>\$4,908,207</u>	<u> </u>	<u>\$19,021,565</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

Community Development	\$15,780
Culture and Recreation	28,072
Education	9,395
General Governmental	295,119
Health and Welfare	246,435
Public Safety	122,912
Public Work	<u>92,016</u>

Total depreciation expense-governmental activities **\$809,729**

6. PROPERTY TAXES

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$X and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2004	\$74,270
2005	74,270
2006	74,270
2007	74,270
2008	74,270
2009-2013	<u>92,839</u>
Total	<u>\$464,189</u>

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

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money. A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government-wide statement of net assets includes an outstanding debt balance of \$1,494,392 related to Law 146.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.08% for real property and 6.08% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$6,129,677 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

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

<u>Program Description</u>	<u>Amount</u>
FEMA-Public Assistance Grants	\$589,033
Section 8 Rental Voucher Program	205,813
Special Programs for Aging - Title III	52,668
Child and Adult Care Food Program	25,138
Housing Opportunities for Persons with Aids	21,657
Water and Waste Disposal Loans and Grants	13,345
Safety Community Project Implementation- Incentive Grant	11,741
Emergency Management State and Local Assistance	9,077
Child Care and Development Block Grant	3,708
Juvenile Justice and Delinquency Prevention	1,351
Community Services Block Grant	168
Others	<u>392</u>
Total	<u>\$934,091</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$4,426,137	\$1,438,076	\$143,000	\$5,721,213	\$185,000
Notes Payable	4,671,195	2,032,555	325,000	6,378,750	764,750
Property Tax Debt - Treasury Department	538,459		74,270	464,189	74,270
Department of Labor - Unemployment tax	149,722		58,225	91,497	58,225
Property tax debt- Crim- Law 146	1,494,392			1,494,392	
Puerto Rico Electric Power Authority	354,608	88,577	336,580	106,605	95,046
Landfill Closure costs	4,055,481			4,055,481	
Landfill Obligation post closure costs	1,470,000			1,470,000	
Compensated Absences	823,148	410,704	78,348	1,155,504	80,000
Claims and judgments		45,000		45,000	45,000
Total	<u>\$ 17,983,142</u>	<u>\$4,014,912</u>	<u>\$1,015,423</u>	<u>\$20,982,631</u>	<u>\$1,302,291</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$1,438,076. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1984 Series	1-1-08	\$ 700,000	5.00%	\$ 220,000
1993 Series	1-1-17	264,000	4.50%	196,000
1994 Series	1-1-18	650,000	5.25%	537,000
1996 Series	1-1-21	525,000	4.50%	463,213
1996 Series	1-1-21	551,000	4.50%	500,000
1998 Series	1-1-22	520,000	4.50%	520,000
2002 Series	7-1-26	305,000	5.00% to 6.75%	300,000
2002 Series	7-1-26	1,955,000	5.00% to 6.75%	1,925,000
2003 Series	7-1-27	1,060,000	5.00% to 6.50%	<u>1,060,000</u>
Total general obligation bonds				<u>\$5,721,213</u>

These bonds are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 185,000	\$ 263,461
2005	196,000	283,953
2006	207,000	274,910
2007	213,000	265,418
2008	230,000	255,240
2009-2013	1,065,000	1,123,363
2014-2018	1,372,000	826,729
2019-2023	1,233,213	470,257
2024-2028	<u>1,020,000</u>	<u>138,895</u>
Total	<u>\$ 5,721,213</u>	<u>\$3,902,226</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2003</u>
1993 Series	4-1-13	\$1,680,000	4.73% to 8.00%	\$ 1,093,750
2001 Series	7-1-05	1,365,000	6.13% to 8.00%	880,000
2002 Series	1-1-10	510,000	4.75%	510,000
Section 108 Loan	8-1-13	1,835,000	6.24% to 6.49%	1,510,000
Section 108 Loan	8-1-13	2,385,000		2,385,000

Total notes payable \$ 6,378,750

The notes are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$764,750	\$272,605
2005	797,750	254,355
2006	825,750	226,246
2007	519,750	199,800
2008	531,500	175,811
2009-2013	2,574,250	465,752
2014-2018	365,000	9,654
Total	<u>\$6,378,750</u>	<u>\$1,604,223</u>

4. Property Tax Debt- These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections and other property tax debts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

- 5. Compensated absences-** The government-wide statement of net assets includes approximately \$410,259 of accrued sick leave benefits, and approximately \$745,245 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 6. Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$4,055,481 as the Municipality's estimated current cost for landfill closure as of June 30, 2003. The preliminary annual estimate of postclosure costs has been assessed approximately to be \$1,470,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2002, the Municipality's landfill facilities have been active. The balance of closure and post-closure costs of \$4,055,481 and \$1,470,000, respectively, are reported in the government-wide statement of net assets.

9. PENSION PLAN

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$296,529 and \$332,363 respectively.

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

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. RISK MANAGEMENT

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

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to a lost lawsuit, the Municipality has reported liabilities of \$45,000. This amount was included in the financial statements and represents the final settlement.

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. More recently and following extensive negotiations with the responsible parties, EPA and the Department of Justice (DOJ) reached an agreement in principal to settle these claims. A draft settlement agreement was forwarded to the Municipality in October 2003. To date, however, the parties have not executed a final version of the settlement agreement. Under the terms of the proposed settlement agreement, the government PRPs (namely, the Municipality, the Land Administration and the Housing Improvement Administration) would be jointly liable to pay EPA a total of \$650,000. Of this amount, EPA would designate \$500,000 as corresponding to the Municipality's alleged failure to timely comply with EPA's remedial orders. EPA would designate that remaining \$150,000 as reimbursement for its past cost. It is management's opinion, based on the advice of the legal counsel that the Land Administration and the Housing Improvement Administration have agreed to remit the entire \$650,000 corresponding to the government PRPs, and that the Municipality will not be required to contribute financially to this settlement amount. As indicated above, however, the precise terms of the settlement continue to be negotiated. The parties anticipate that a final settlement agreement will be signed during January or February 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

11. CONTINGENCIES (CONTINUED)

With respect to other pending and threatened litigation, we did not obtain response from some legal counsels regarding the corroboration of information furnished by management concerning litigation, claims and assessments and unasserted claims and assessments. We were unable to obtain sufficient competent evidential matter with respect to the potential negative outcome of outstanding litigations and unasserted claims and assessments will have a significant impact in the basic financial statements of the Municipality as of June 30, 2003.

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

12. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$65,463 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the elimination of liabilities.

13. SUBSEQUENT EVENTS

On July 1, 2003 the Municipality authorized the issuance of a general obligation note for the amount of \$405,000, for equipment acquisition. Repayment of the general obligation note is scheduled from January, 2004 through July, 2010 with a fixed interest rate of 6.50%.

On July 9, 2003 the Municipality authorized the issuance of a general obligation bond for the amount of \$3,115,000 for the acquisition of the Juncos Diagnostic Treatment Center operated by "Turabo Medical Group". Repayment of the general obligation bond is scheduled from January, 2004 through July, 2028 with a variable interest rate of 5.00% to 6.50%.

On July 9, 2003 the Municipality authorized the issuance of a general obligation bond for the amount of \$1,860,000 for the construction of a conventions center, Municipal Gym, and other facilities. Repayment of the general obligation bond is scheduled from January, 2004 through July, 2028 with a variable interest rate of 5.00% to 6.50%.

On October 27, 2003 the Municipality authorized the issuance of \$155,000 in Municipal general obligation bonds, and the issuance of \$155,000 in notes in anticipation of the receipt of the proceeds of said bond issue, and providing for the payment of the principal of an the interest of said bonds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note 1)	Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$2,881,759	\$3,831,847	\$3,831,847	\$ -
Municipal license tax	3,060,000	3,060,000	3,383,120	\$323,120
Licenses, permits and other local taxes	408,750	408,750	565,869	157,119
Intergovernmental	4,639,356	4,639,356	4,726,930	87,574
Rent of property	76,800	76,800	55,887	(20,913)
Fines and forfeitures	6,000	6,000	685	(5,315)
Interest	152,000	152,000	192,205	40,205
Users Fees on Landfill Facilities	2,600,000	2,600,000	3,569,256	969,256
Miscellaneous	65,000	65,000	390,091	325,091
Operating transfer from other fund				
Total revenues and other financing sources before carryover	<u>13,889,665</u>	<u>14,839,753</u>	<u>16,715,890</u>	<u>1,876,137</u>
Budget carryover (1)		3,971,332	3,971,332	
Total revenues and other financing sources after carryover	<u>13,889,665</u>	<u>18,811,085</u>	<u>20,687,222</u>	<u>1,876,137</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,146,111	8,308,147	8,464,602	(156,455)
Public safety	1,028,245	970,000	977,732	(7,732)
Public works	2,567,462	5,355,459	5,525,854	(170,395)
Health and welfare	1,501,486	1,290,688	1,279,594	11,094
Culture and recreation	919,076	1,107,120	1,098,237	8,883
Economic development				
Community development				
Urban development				
Education	559,535	490,267	468,511	21,756
Operating transfer to other fund	<u>167,750</u>	<u>1,289,404</u>	<u>1,289,404</u>	
Total expenditures, encumbrances and other financing uses	<u>13,889,665</u>	<u>18,811,085</u>	<u>19,103,934</u>	<u>(292,849)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1,583,288</u>	<u>1,583,288</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)*available for appropriation* from the budgetary comparison schedule				\$20,687,222
Differences-budget to GAAP:				
Budget carryover				(3,971,332)
Net change in accounts receivable				(659,154)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$16,056,736</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)*total charges to appropriations* from the budgetary comparison schedule				\$19,103,934
Differences-budget to GAAP:				
Nonbudgeted expenditures				
Prior year encumbrances recorded as current year expenditures for GAAP basis				323,664
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,065,605)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$18,361,993</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program: Community Facilities Loans and Grants	10.766		\$ 280,310
Direct Program: Water and Waste Disposal Loans and Grants	10.770		739,467
Pass-through the Commonwealth of Puerto Rico-Department of Education: Child and Adult Care Food Program	10.558		<u>140,782</u>
Total U.S. Department of Agriculture			<u>1,160,559</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		968,052
Direct Program: Section 8 Housing Choice Vouchers	14.871		364,167
Pass-through the Commonwealth of Puerto Rico-Office of the Commissioner of Municipal Affairs: Community Development Block Grant- State's Program	14.228	02-FC,AB-35 01-FD-35 00-FD-35 99-FD-35 98-FD-35 97-FD-35 95-FD-35	663,030

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	<u>87,112</u>
Total U.S. Department of Housing and Urban Development:			<u>2,082,361</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law and Enforcement Block Grants	16.592	2000-LB-VX- 1085	<u>100,000</u>
Total U.S. Department of Justice			<u>100,000</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission			
Safety Community Project Implementation - Incentive Grant	20.601	99-06-2	<u>3,244</u>
Total U.S. Department of Transportation			<u>3,244</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency			
Emergency Management Performance Grant	83.522	Not Available	<u>867</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DRPR	<u>143,237</u>
Total U.S. Federal Emergency Management Agency			<u>144,104</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Programs for Aging- Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	111,221
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Community Services Block Grant	93.569	Not Available	8,018
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	<u>894,481</u>
Total U.S. Department of Health and Human Services			<u>1,013,720</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,503,988</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, 2003

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 fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund Federal Grants and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 2,345,189	\$ 2,158,799	\$ 4,503,988
Non federal programs Expenditures	4,562	2,704,221	2,708,783
Total expenditures in the general purpose financial statements	<u>\$ 2,349,751</u>	<u>\$ 4,863,020</u>	<u>\$ 7,212,771</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the basic financial statements of the **Municipality of Juncos** as of and for the year ended June 30, 2003, and have issued our report thereon dated October 24, 2003, which was qualify because we were unable to obtain sufficient competent evidential matter with respect to the potential negative outcome of outstanding litigations and unasserted claims and assessments will have a significant impact in the basic financial statements of the Municipality as of June 30, 2003. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Juncos's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Juncos's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items **03-01** through **03-03**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 that none 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 October 24, 2003.

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
October 24, 2003

Stamp No. 1942315 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133**

**To the Honorable Mayor
and the Municipal Legislature
Municipality of 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, 2003. 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.

As described in items 03-06 through 03-08, 03-11, 03-12 and 03-14 in the accompanying schedule of findings and questioned costs, the **Municipality of Juncos** did not comply with requirements regarding Financial Administration, Allowable Costs, Cash Management, Reporting, and Special Test that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Juncos** to comply with requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2003. Also, the results of our auditing procedures disclosed instances of noncompliance with those requirements which 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, 03-04, 03-05, 03-09, 03-10, 03-13, and 03-15 through 03-23.

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 03-04 through 03-23.

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 03-04, 03-06 through 03-08, 03-11, 03-12, 03-14, 03-17 through 03-20, 03-22 and 03-23 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 March 05, 2004.



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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 5, 2004

Stamp No. 1942316 of the Puerto Rico
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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, 2003

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified, except for qualify for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
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

<u>Type of auditors’ report issued on compliance for major programs:</u>	Unqualified, except for Section 8 Housing Choice Voucher (CFDA No. 14.871)	Qualified for Section 8 Housing Choice Voucher (CFDA No. 14.871)
--------------------------------------------------------------------------	----------------------------------------------------------------------------	------------------------------------------------------------------

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

CFDA Number	Name of Federal Program or Cluster
10.770	Water and Waste Disposal Loans and Grants
14.871	Section 8 Housing Choice Voucher
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, 2003

Section II - Financial Statements Findings

Finding Reference	03-01
Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds).
Criteria	Chapter VIII, Article 8.010 of the State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality 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.
Recommendation	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.
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, 2003

Section II - Financial Statements Findings

Finding Reference	03-02
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files, and the related payroll documents of these employees for the semi-monthly payroll ended June 30, 2003. The following will summarize the situations noted:</p> <ul style="list-style-type: none">a. For five (5) employees we noted difference between the employee assistance cards and the employee accumulative vacations card.b. For nine (9) employees the salary stated in the employee file did not agree with the salary included in the payroll for the period ended June 30, 2003.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18-(1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee's files.</p>
Cause of Condition	<p>The Municipality's procedures and controls failed to assure the proper preparation and payment of payroll, the exactitude of accumulative vacation and sickness balances and the maintenance of updated employee's file.</p>
Effect of Condition	<p>The Municipality did not maintain an adequate control over the personnel files, compensated absences records, and time and assistance records.</p>
Recommendation	<p>We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should deduct from the accumulative vacation worksheet the vacation and sick days used by employees as detailed in the time assistance card.</p>
Questioned Costs	None
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-03
Requirement	Expenditures for Goods and Services and Account Payables - Purchasing
Statement of Condition	<p>During our examination of the Municipality's procedures related to the formal procurement process we examined twenty five (25) bid files and other related documents and noted the following situations:</p> <ul style="list-style-type: none">a. We did not find evidence regarding the mailing of adjudication or non-adjudication letters through certified mail for two (2) bidders who participated in the formal bids.b. We did not find evidence of the proposal of one (1) bidder who participated in the formal bids.c. We did not find evidence in the bid or contract files regarding the bonding, insurance and tax requirements:<ul style="list-style-type: none">1. Bid Bond - One (1) case.2. Payment and Performance Bond - Two (2) cases.3. Workmen's Compensation Insurance - One (1) case.4. Municipal Sales Volume Tax - Five (5) cases.5. Municipal Excise Construction Tax - Five (5) cases.d. For two (2) formal bids the Municipality's made purchases before the expiration of the twenty (20) days after the adjudication letter.
Criteria	<p>Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services. Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-03 (continued)
Cause of Condition	The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.
Effect of Condition	The Municipality is not in compliance with Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico and with the Article 8.016 (c) of State Act Number 81 of August 30, 1991.
Recommendation	We recommend to the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
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, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-04
Program	Water and Waste Disposal Loans and Grants (CFDA. No. 10.770); U.S. Department of Agriculture
Requirement	Financial Administration - Standard for Financial Management System
Statement of Condition	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.
Criteria	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.
Cause of Condition	The 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.
Effect of Condition	The Municipality is not in compliance with Subpart C, 7 CFR, Part 3016.20 (b) (2).
Recommendation	We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.
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, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-05
Program	Water and Waste Disposal Loans and Grants (CFDA. No. 10.770); U.S. Department of Agriculture
Requirement	Procurement and Suspension and Debarment
Statement of Condition	<p>During our test of the construction contract of the Sanitary Sewer System at Piñas Community, for \$1,307,900, we noted the following situations:</p> <ul style="list-style-type: none">a. The contract did not include a provision for compliance with Energy Policy and Conservation Act.b. The contract did not include provisions for retention of all required records for three years.c. The contract did not include provisions for compliance with suspension and debarment.
Criteria	Code of Federal Regulations 7, Subpart C, Section, 1780.75 states the provisions that any recipient of Agency funds shall include in all contracts.
Cause of Condition	The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 7, Subpart C, Section, 1780.75.
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Financial Administration – Standard for Financial Management System
Statement of Condition	The PHA does not maintain a Housing Assistance Payment Register during the fiscal year 2002-2003.
Criteria	<p>Code of Federal Regulations 24, Subpart D, Section 982.158 states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements.</p> <p>The Housing Choice Voucher Guidebook, number 7420.10G, Chapter twenty (20), states that the PHA must establish a Housing Assistance Payment Register as part of the minimum accounting requirements for the Housing Choice Voucher Program. The Housing Assistance Payment Register is used to record monthly housing assistance payments. Also, the Guidebook states the minimum requirements of the Housing Assistance Payment Register.</p>
Cause of Condition	The controls and procedures failed to assure that the PHA maintains a Housing Assistance Payment Register as part of the minimum accounts and records required by HUD.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulation 24, Subpart D, Section 982.158 and, with the Housing Choice Voucher Guidebook, number 7420.10G, Chapter twenty (20).
Recommendation	We recommend that the PHA must establish a Housing Assistance Payment Register for each individual participants or owners, according with HUD requirements.
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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Allowable Cost – Cost Principles
Statement of Condition	During the fiscal year 2002-2003 the PHA requested to HUD preliminary fees of \$114,208, to be used as expenditures to administer the Housing Choice Voucher Program. As part of the closing process, HUD determined that the PHA was not eligible to receive preliminary fees. For that reason the PHA is spending in excess of administrative fee earned. According with the accounting records the administrative expenditures for the fiscal year 2002-2003 was approximately \$152,867, nevertheless, HUD only approved ongoing administrative expenditures of \$33,978 which represent an excess of administrative expenditures of \$118,889.
Criteria	Code of Federal Regulations 24, Subpart C, 982.152 states that preliminary fees are only eligible for a PHA that was not administering a program of Section 8 tenant-based assistance. HUD will pay a one time fee in the amount of \$500 in the first year the PHA administers the program. The fee is paid for each new unit added to the PHA program.
Cause of Condition	The controls and procedures failed to assure that the PHA only request funds that were eligible according with the federal regulation.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulation 24, Subpart C, 982.152.
Recommendation	We recommend that the PHA should strengthen its procedures to assure that only eligible funds were requested. The PHA must reduce the actual administrative expenses charged to the program to a level funded by the ongoing administrative fee.
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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management – Program Utilization
Statement of Condition	We realized Cash Management Test and after our procedures were performed we found that the PHA maintained during the current fiscal year average cash balance in books of approximately \$322,690. At June 30, 2003, the cash balance in book was \$270,269; \$192,561 of these funds was from HUD overpayment during the fiscal year 2002-2003 as determined in the year-end settlement; \$72,164 was from operating reserve at June 30, 2003, as determined in the year-end settlement; and the remaining \$5,545 was not identified in order to determine its origin. The overpayment of \$192,561 represents a 47% of estimate of total required annual contributions for the year.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system; in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The PHA did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The PHA did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the PHA. The management must submit a revise requisition (Form 52663) to HUD when the leasing rate not exceeds the 95% in order to avoid an excessive cash balance in books.
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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	<p>We performed an eligibility test and examined fifteen (15) participant's files. The following summarizes the situations noted:</p> <ul style="list-style-type: none">a. In the fifteen (15) participant's files, there is no evidence of the "Privacy Act Notice" signed by the head of household and by any other member of the family with 18 years or older.b. In three (3) participant's files, the members of the family with 18 years or more did not sign a release form to allow the PHA to obtain information from third parties.c. The PHA did not document in the participant's files why third party verification of the value of assets was not obtained during the eligibility determination.d. In one (1) participant's file the PHA did not obtain, during the annual reexamination, evidence of income, or evidence of study, for two members of the family with 18 years or older.e. In three (3) participant's files the PHA did not obtain, during the annual reexamination, evidence of study for members of the family under 18 years.f. In one (1) participant's file the PHA did not obtain, during the annual reexamination, actualized evidence of family income. The PHA used income evidence for the previous reexamination.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09 (continued)
Criteria	Code of Federal Regulations 24, Sections 5.230, 5,212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a federally prescribed general release form for employment information and a Privacy Act Notice.
Cause of Condition	The PHA internal control and procedures failed to assure that the participant's files include all required documentation and releases required by federal agencies as condition of admission or continued occupancy.
Effect of Condition	Participant's files examined not include all documentation required by the Federal Agency.
Recommendation	The PHA must give instructions to the program staff to assure that the participant's files include all documentation required by the Federal Agencies.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of Individuals
Statement of Condition	<p>During our verification of fifteen (15) participant's files we noted the following exceptions related to the Housing Assistance Payment (HAP) calculations:</p> <ul style="list-style-type: none">a. In five (5) participant's files, the PHA did not use the actualized HUD fair market rent tables at the time of the (HAP) calculation. Also, in two (2) participant's files the PHA determined the HAP using incorrect annual income and deductions amounts and incorrect numbers of rooms. Nevertheless, those situations did not affect the final HAP calculation.b. In one (1) participant's file the PHA did not consider the revenues of the head of household for the HAP calculation. As result the program paid a HAP to the owner of \$300 instead of \$232 and paid a utility reimbursement of \$15 instead of \$68.c. In one (1) participant's file the PHA use a Total Tenant Payment of \$25 instead of \$150 for the HAP calculation. As result the program paid a HAP to the owner of \$450 instead of \$375 and paid a utility reimbursement of \$26 instead of \$75.d. In four (4) participant's files the PHA did not realize a family income and composition reexamination during the fiscal year 2002-2003.
Criteria	<p>Code of Federal Regulations 24, Subpart K, Section 982.505 establish the procedures to be followed to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, number 7420.10G, Chapter six (6) establishes procedures for the HAP calculation. Also, the Code of Federal Regulations 24, Subpart K, Section 982.516, requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and housing assistance payment as necessary.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10 (continued)
Cause of Condition	The PHA controls and procedures failed to assure that all HAPs payments are duly computed by the program staff and to assure that the PHA reexamine family income and composition at least every twelve months.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Section 982.505 and 982.516 and with the Housing Choice Voucher Guidebook, number 7420.10G, Chapter six (6).
Recommendation	We recommend the PHA to strengthen its monitoring procedures to assure the HAPs are duly computed as required by the Federal Regulations. Also, we recommend the PHA to strengthen its monitoring procedures to assure that a reexamination of family income and composition will be made at least once every twelve months and will adjust the tenant rent and housing assistance payment as necessary.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting - Financial Reporting
Statement of Condition	<p>During our reporting test we verified the HUD-52681, Voucher for Payment of Annual Contributions and Operating Statements (OMB No. 2577-0169). The following summarize the differences between the amounts presented in Annual report and the program's accounting records:</p> <ul style="list-style-type: none">a. The Housing Assistance Payment presented in the Annual Report was \$187,664, and the accounting records shows a Housing Assistance Payment of \$211,299 which represents a difference of \$23,635. That situation represents an excess of the overpayment computed by HUD.b. The PHA include in the operating expenditures section of the Annual Report, \$114,208 of preliminary administrative fees and did not include ongoing administrative expenditures. The PHA accounting records shows that the total administrative expenditures for the fiscal year 2002-2003 were \$152,867.c. The PHA general ledger did not reconcile with the cash journal.
Criteria	<p>Code of Federal Regulation 24, 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.</p> <p>The Housing Assistance Payments Program Accounting Handbook states the minimum HUD accounting requirements with respect to Housing Assistance Payments Program Projects under annual contribution contracts.</p>
Cause of Condition	<p>The PHA did not maintain adequate controls and accounting records to assure that the financial and programmatic reports were prepared according to Federal and State Regulations.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11 (continued)
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart C, Section 85.20, provisions regarding financial reporting.
Recommendation	We recommend the PHA 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 the financial reports.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-12
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	During our verification of fifteen (15) participant's files we noted that for two participants the PHA approved a lease of a new housing unit without verifying if the rent to the owner is reasonable in comparison to rent for other comparable unassisted units.
Criteria	Code of Federal Regulations 24, Subpart K, Sections 982.507 and 982.158 (f) (7) states that the PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent. The PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary, if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary. Also, the PHA must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
Cause of Condition	The PHA controls and procedures failed to assure that a reasonable rent determination were performed as applicable by the federal regulation.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Sections 982.507 and 982.158 (f) (7).
Recommendation	We recommend management to establish adequate internal controls to assure that the rent paid to the owners was reasonable and that appropriate documentation of the determination of reasonable rent is maintained in participant's files.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-13
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.
Criteria	Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category on a yearly basis and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The PHA did not follow the procedures established to review utility rate date each year.
Effect of Condition	The PHA is no in compliance with Code of Federal Regulations 24, Subpart K, Section 982.517.
Recommendation	The PHA should evaluate utility allowance rate each year as established in the federal regulations.
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.

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YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and Housing Quality Standards Enforcement
Statement of Condition	<p>During our examination of fifteen (15) participant's files we noted the following situations:</p> <ul style="list-style-type: none">a. In our examination we noted that during the fiscal year 2002-2003 the PHA did not perform supervisory quality control re-inspection.b. On six (6) participant's files the evidence showed that the PHA followed up the deficiencies noted on the Housing Quality Standards Inspections after the expiration of the correction period. In some cases, the follow up procedures were performed several months after the expiration of the correction period. There was no evidence on the participant's files that showed that the PHA extended the time frame to correct the deficiencies noted on the inspection.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct supervisory quality control re-inspections.</p> <p>Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 establish that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14 (continued)
Cause of Condition	The controls and procedures failed to assure that the PHA properly follows up the deficiencies noted as part of the HQS inspections. Also, the PHA does not maintain adequate controls and procedures to assure the performance of supervisory quality control re-inspections.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.405 (b) and 982.404.
Recommendation	We recommend management to improve monitoring procedures to assure that the deficiencies noted as part of the HQS inspections were corrected within the specified time frame and to assure that the PHA follow up procedures were properly documented in the tenant file. Also, the PHA must implement procedures to realize supervisory quality control re-inspections.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
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 (OCAM) 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 Grant Program – State's Program, we verified the construction projects 99-FD-35-001, 99-FD-35-003 and 02-FC-35-002. The following summarizes the situations found: a. For the projects 99-FD-35-001 and 02-FC-35-002, the contractor weekly payrolls were not requested during activity of construction project to be reviewed by the municipal employee responsible of applying monitoring procedures. b. For the project 99-FD-35-003, the Municipality did not communicate to the contractor some deficiencies noted in the payroll monitoring process. Those deficiencies were related with the preparation of the weekly payrolls and with the compliance with the prevailing wage rates by the contractor. c. For the project 99-FD-35-001 there is no evidence that contractor's and subcontractor's laborers interviews were made. Also, for the projects 99-FD-35-003 and 02-FC-35-002 there is no evidence that the Municipality performed an adequate number of interviews to the contractor's and subcontractor's laborers.

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YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-15 (continued)**

Also, during our Davis-Bacon Act test, for the Community Development Block Grant Program - Section 108 Loan Guarantees, we verified the construction project of the Athletic Track on the Valenciano Sport Complex. The following summarizes the situations found:

- a. The contractor weekly payrolls were not requested during activity of construction project to be reviewed by the municipal employee responsible of applying monitoring procedures.
- b. There is no evidence that the Municipality perform an adequate number of interviews to the contractor's and subcontractor's laborers.

Criteria Davis-Bacon Act, as amended, DOL (40 USC 276a - 276a-7).

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

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

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors, promptly, about any failure in the payroll process.

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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-16

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 (OCAM)

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

Requirement Procurement and Suspension and Debarment

Statement of Condition During our contract provision test we verified two (2) contracts for the Community Development Block Grants - State's Program; and one (1) contract for the Community Development Block Grants - Section 108 Loan Guarantees Program. The following summarizes the situations found:

- a. Two (2) contracts did not include a provision for compliance with Executive Order 11246 "Equal Employment Opportunity".
- b. One (1) contract did not include a provision for granting access, to GAO or other federally agency, to books and other documentation.
- c. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act.
- d. Three (3) contracts did not include provisions for retention of all required records for three years.
- e. Two (2) contracts did not include provisions for compliance with suspension and debarment.

Criteria Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-16 (continued)
Cause of Condition	The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Section 570.489 (g).
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-17
Program	Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development
Requirement	Program Income
Statement of Condition	<p>During our internal control tests over program income requirements we noted that the Municipality did not maintain controls procedures to assure:</p> <ul style="list-style-type: none">a. That the program income was properly determined or calculated in accordance with stated criteria and that program income was only collected from allowable sources.b. That all program income was properly recorded in the accounting records.c. That program income was used in accordance with the program requirements and other applicable regulations.
Criteria	Code of Federal Regulation 24, Subpart I, Section 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality did not maintain internal controls in order to assure the properly determination, accountability, and use of program income.
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 24, Subpart I, Section 570.489 (d) (1).

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-17 (continued)
Recommendation	We recommend management to develop internal control procedures in order to assure that the program income be: properly determined and calculated, properly recorded and used for allowable costs.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-18
Program	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
Requirement	Financial Administration – Standard for Financial Management System
Statement of Condition	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.
Criteria	Code of Federal Regulations 45, Subpart C, Section 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 sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
Cause of Condition	The 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.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (2).
Recommendation	We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-19
Program	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
Requirement	Allowable cost - Cost principles
Statement of Condition	<p>During our disbursements test of the Child Care and Development Block Grant Program we examined thirty nine (39) disbursement transactions and we noted the following situations:</p> <ul style="list-style-type: none">a. On twelve (12) electronic fund transfers the Municipality did not maintain evidence of the disbursement or journal voucher. These disbursements were related to the payroll reimbursements from the Child Care Program to the Municipality's General Fund.b. Two (2) disbursement vouchers were not available for our examination.c. On ten (10) disbursement vouchers the Municipality did not cancelled or marked as paid the documents along the disbursements voucher.d. On two (2) disbursement vouchers there was no evidence of the receiving report or the certification of the Municipality's employee who receive of the good or services.e. On seven (12) disbursement vouchers the Purchase Order was issued after the receiving of goods or services.
Criteria	<p>Code of Federal Regulation 45, Subpart C, Section 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.</p>
Cause of Condition	<p>The Municipality controls and procedures failed to assure that all disbursements made have all supporting documents and were realized for allowable costs. Also, the Municipality's record retention system failed to assure that all documents related to the federal grants were properly maintained.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-19 (continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6), provisions regarding allowable cost.
Recommendation	We recommend that the Municipality should strengthen its procedures to assure that all disbursement transactions contain all supporting documents and approval signatures should be obtained before the related payments are made. The Municipality should prepare a purchase order before the receipt of any good or service. Also, the Municipality's should strengthen its record retention system to assure that all documents related to the federal grants were properly maintained.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-20
Program	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
Requirement	Cash Management
Statement of Condition	During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) state that the Municipality must maintain procedures in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-21
Program	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
Requirement	Eligibility
Statement of Condition	<p>We performed an eligibility test and examined a sample of twenty five (25) participant's files. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. On one (1) participant's file we noted that the eligibility determination and the parent's contribution were computed using incorrect income and deduction amounts. This caused that the Municipality accepted in the program, a children that resides with a family whose income exceed 85 percent of the median income for a family of the same size.b. On two (2) participant's files we noted that the eligibility determination and the parent's contribution were computed using an incorrect column of the 85 percent of median income table, applicable for the fiscal year. This caused that the Municipality accepted in the program, a children that resides with a family whose income exceed 85 percent of the median income for a family of the same size.c. On two (2) participant's files we noted that the eligibility determination and the parent's contribution were computed using incorrect income and deduction amounts. This situation did not affect the eligibility and the parent's contribution.d. On one (1) participant's file we noted that the Municipality did not verify the eligibility of the participants during the fiscal year 2002-2003.e. On one (1) participant's file we did not obtain evidence of the income used by the Municipality in the determination of the eligibility of the participant.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

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Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-21 (continued)
Criteria	Code of Federal Regulations 45, Subpart C, Section 98.20 states that in order to be eligible for services, a child shall: (1) be under 13 years of age or be under age 19 and physically or mentally incapable of caring for himself or herself or under court supervision; (2) reside with a family whose income does not exceed 85% of the State's median income for a family of the same size; (3) reside with a parent or parents who are working or attending a job training or educational program or receive protective services. Also, the pass through agency promulgates controls and procedures to be used by the Municipality in the eligibility determination process.
Cause of Condition	The Municipality's internal controls and procedures failed to assure that the eligibility and the parent's contribution were determined using the correct income and deductions amounts and, using the correct column of the 85 percent of median income table. Also, that procedures failed to assure that the participants eligibility were revised at least annually and to assure that the participant's files contain all the information that support the family compositions and the family income and deductions.
Effect of Condition	This caused that the Municipality accepted in the program three children that reside with families whose income exceed 85 percent of the median income for a family of the same size. Nevertheless, during the month of March 2003 the pass through agency, Administration for Children and Families, performed monitoring procedures and noted that situation. During the following months the Municipality proceeded to drop of the participants from the program.
Recommendation	We recommend the Municipality to strengthen its procedure in order to assure that the participant's files are revised periodically to determine if an annual eligibility examination is required. Also, we recommend the Municipality to assure that the participant's eligibility and the parents contributions are performed using the procedures established by the federal and local agencies.
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, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-22
Program	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
Requirement	Equipment and Real Property Management
Statement of Condition	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.
Criteria	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.
Cause of Condition	The Municipality's internal control and procedures failed 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).
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.32 (d) (1).
Recommendation	We recommend that the Municipality should implement procedures in order to assure that its property records include all required specifications suggested by federal agencies.
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, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-23
Program	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
Requirement	Reporting
Statement of Condition	During our reporting test we noted the following situations: <ul style="list-style-type: none">a. We did not obtain evidence of the submission by the Municipality of the Annual Closing Report (CC-006) for the program fiscal year ended September 30, 2002, and the Trial Balance as of September 30, 2002.b. 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 programmatic reports; the closing reports and the trial balance were prepared according to Federal and State Regulations.
Criteria	Code of Federal Regulation 45, Subpart C, Section 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.
Cause of Condition	The 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. Also, the Municipality's record retention system failed to assure that all documents related to the federal grants were properly maintained.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (1), provisions regarding financial reporting.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-23 (continued)
Recommendation	We recommend that the Municipality should implement controls and procedures in order to assure that accurate accounting records are maintained and current and complete disclosure of financial results are 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.
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**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-05	14.248	<p><u>The Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.</u></p> <p>Full corrective action has been taken.</p>
02-06	93.575	<p><u>The Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.</u></p> <p>No corrective action has been taken. The auditors have reissued the finding for the current year. Finding Reference 03-18</p>
02-07	14.228	<p><u>The Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures should be obtained before the related payments are made.</u></p> <p>Full corrective action has been taken.</p>
02-08	14.248	<p><u>The Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures should be obtained before the related payments are made.</u></p> <p>Full corrective action has been taken.</p>
02-09	93.575	<p><u>The Municipality should strength its procedures to assure that all disbursement transactions contain all supporting documents and approval signatures should be obtained before the related payments are made.</u></p> <p>No corrective action has been taken. The auditors have reissued the finding for the current year. Finding Reference 03-19</p>
02-10	14.248	<p><u>The Municipality should 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.</u></p> <p>Full corrective action has been taken.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-11	93.575	<p><u>The Municipality should 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.</u></p> <p>No corrective action has taken. The auditors have reissued the finding for the current year. Finding Reference 03-20.</p>
02-12	93.575	<p><u>The Municipality should strength its procedure in order to assure that the participant files are revised periodically to determine if an annual eligibility examination is required. Also, the Municipality should assure that the participant's eligibility and the parents contributions are performed using the procedures established by the federal and local agencies.</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-21</p>
02-13	14.228	<p><u>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.</u></p> <p>Full corrective action has been.</p>
02-13	14.248	<p><u>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.</u></p> <p>Full corrective action has been.</p>
02-13	93.575	<p><u>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.</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-22.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-14	14.228	<p><u>The Municipality should strength its procedures in order to assure that the contracts contain all provisions requested by federal agencies.</u></p> <p>No corrective action has been taken. The auditors have reissued the finding for the current year. Finding Reference 03-16</p>
02-15	14.248	<p><u>The Municipality should develop internal control procedures in order to assure that the program income be: properly determined and calculated, properly recorded and used for allowable costs.</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-17</p>
02-16	14.228	<p><u>The Municipality Management should reconcile differences between the financial quarterly report and the general ledgers before report submission to the Pass-through Grantor.</u></p> <p>Full corrective action has been.</p>
02-17	14.248	<p><u>The Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies. Also, the Municipality should prepare such reports in accordance with the required accounting basis.</u></p> <p>No longer valid.</p>
02-18	93.575	<p><u>The Municipality should implement controls and procedures in order to assure that accurate accounting records are maintained and current and complete disclosure of financial results are presented in the financial reports. Also, 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.</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-23</p>

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-07	10.770	<p><u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u></p> <p>No corrective action has been taken. The auditors reissued this finding for the current year. Finding Reference 03-04.</p>
01-08	10.770	<p><u>Failures related with the disbursement process</u></p> <p>Full corrective action has been taken.</p>
01-09	14.248	<p><u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u></p> <p>Full corrective action has been taken.</p>
01-10	14.228 14.248	<p><u>Failures related with the disbursement process.</u></p> <p>Full corrective action has been taken.</p>
01-11	93.575	<p><u>The Municipality did not maintain a set of accounting records that present the financial position of the program</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-18</p>
01-12	93.575	<p><u>Failures related with the disbursement process</u></p> <p>No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-19</p>
01-13	14.228	<p><u>Failures related to housing rehabilitation participant files</u></p> <p>No corrective action has been taken.</p>
01-14	14.248	<p><u>The Municipality did not maintain adequate cash management procedures.</u></p> <p>Full corrective action has been taken.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-15	93.575	<u>The Municipality did not maintain adequate cash management procedures.</u> No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-20
01-17	10.770	<u>Inadequate Property Records</u> Full corrective action has been taken.
01-18	14.228 14.248	<u>Inadequate Property Records</u> Full corrective action has been taken.
01-19	93.575	<u>Inadequate Property Records</u> No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-22.
01-22	10.770	<u>Reporting Failures</u> No longer valid.
01-23	14.228	<u>Reporting Failures</u> Full corrective action has been taken.
01-24	14.248	<u>Reporting Failures</u> No longer valid.
01-25	93.575	<u>Reporting Failures</u> No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-23.
00-19	93.575	<u>Inadequate Property Records</u> No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-22.

COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-20	All Programs	<u>Accounting System and Federal Financial Report</u> No longer valid.
00-21	10.770	<u>Cash Management</u> Full corrective action has been taken.
00-21	93.575	<u>Cash Management</u> No corrective action has been. The auditors have reissued the finding for the current year. Finding Reference 03-20.
00-22	10.770	<u>Records Retention Requirement</u> Partial corrective action has been taken.
00-23	10.770	<u>Statement of Budget Income and Equity Balance Sheet</u> No longer valid.
00-26	83.544	Activities Allowed or Unallowed - Allowable Cost Partial corrective action has been taken.