

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

MUNICIPIO DE JUNCOS
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Comptroller's Office

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of 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, Puerto Rico**, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discuss in the following paragraph, 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 discussed in Note 9 (6), to the financial statements, management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the MSWLF closure and post closure care cost estimate been evaluated by the Municipality, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality of Juncos, Puerto Rico, as of June 30, 2004, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 43 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 January 14, 2005 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of 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
January 14, 2005

Stamp No. 2019460 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'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

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

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

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2004 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$50,618,323 which represents an increase of 39% compared to prior fiscal year;
2. At the end of fiscal year 2004, total liabilities amounted to \$37,260,937. Out of said amount, \$25,974,839 corresponded to long-term liabilities of which \$17,190,213 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues;
3. Total net assets of the Municipality amounted to \$13,357,386 which represents an increase of 107% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$28,783,811, derived from the following sources: \$2,748,977 charges for services; \$5,835,529 from operating grants and contributions; \$2,307,317 from capital grants and contributions obtained from other sources, and \$17,891,988 from general revenues available;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS (continued)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$21,882,645;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to the increase in the Net Assets Figure by \$6,901,166;
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$8,191,502;
8. As the end of the current fiscal year the Municipality's General Fund balance amounted to \$271,392. It is pertinent to note that it is the municipal administration's contention that the importance of such figure should not be overestimated since it has adopted the policy to use internal generated resources to increase services to Municipality's community rather than let them unused in the accounted records;
9. In accordance with the aforementioned policy, during fiscal year 2004 the Municipality used \$821,686 available in the General Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Juncos's communities.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$1,675,912 which is indicative of full compliance with the balanced budget principle applicable to all municipalities of the Commonwealth Government of Puerto Rico as required by the Municipal Autonomous Act enacted in August 1991.
11. In response to the continued increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2004 which amounted to \$467,778.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS

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

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

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

A brief review of The Statements of Activities of the Municipality at June 30, 2004, shows total expenses incurred to afford the cost of all functions and programs amounted to \$21,882,645. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$10,891,823 was derived from the following sources: \$2,748,977 charges for services; \$5,835,529 from operating grants and contributions; and \$2,307,317 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$17,891,988. When such figure is added to the \$10,891,823 previously mentioned, total revenues available for the financing of activities amounted to \$28,783,811. There was an excess of revenues over expenses in the amount of \$6,901,166 which contributed to the figure of net assets attained at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS COMPONENTS (continued)

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

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

INFRASTRUCTURE ASSETS

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

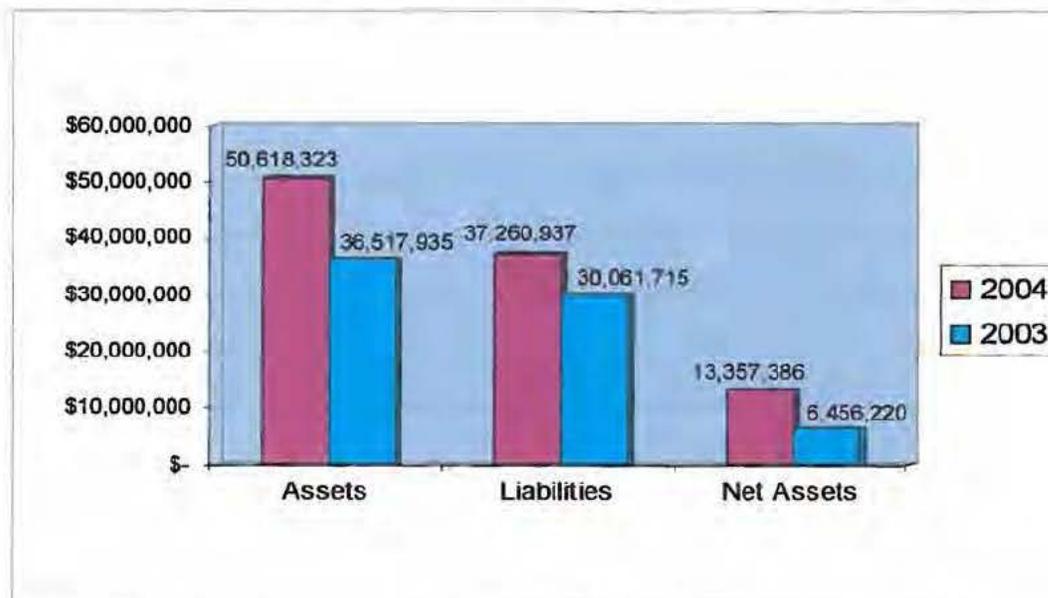
YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juncos, primary government assets exceeded total liabilities by \$13,357,386 at the end of 2004, compared to \$6,456,220 at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condensed Statement of Net Assets	2004	2003	Change	%
Current and other assets	\$19,330,179	\$17,526,266	\$1,803,913	10%
Capital assets	31,288,144	18,991,669	12,296,475	65%
Total assets	50,618,323	36,517,935	14,100,388	39%
Current and other liabilities	11,286,098	9,079,084	2,207,014	24%
Long-term liabilities	25,974,839	20,982,631	4,992,208	24%
Total liabilities	37,260,937	30,061,715	7,199,222	24%
Invested in capital assets, net of related debt	15,112,931	7,985,456	7,127,475	89%
Restricted	7,551,833	6,142,805	1,409,028	23%
Unrestricted deficit	(9,307,378)	(7,672,041)	(1,635,337)	21%
Total net assets	\$13,357,386	\$ 6,456,220	\$6,901,166	107%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2004, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$6,901,166. Approximately 43 percent of the Municipality's total revenue came from taxes, while 45 percent resulted from grants and contributions, including federal aid. Charges for Services provide 9 percent of the total revenues. The largest expenses were for general government, health and welfare services, public works, and culture and recreation. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

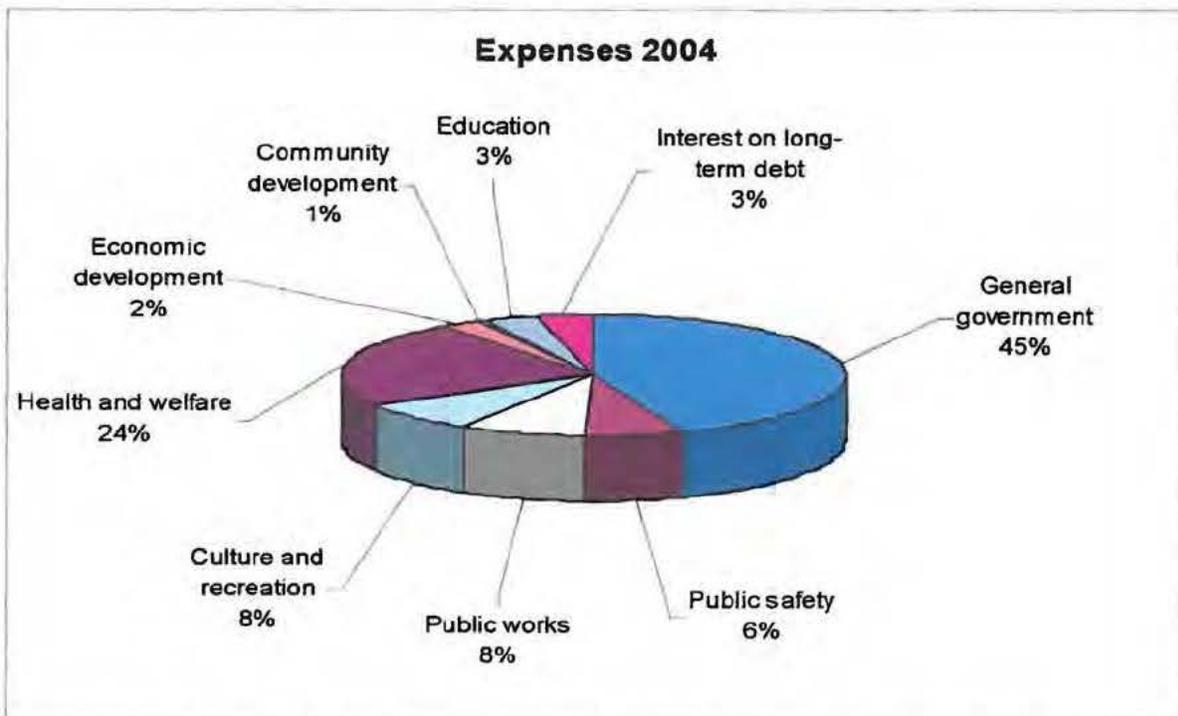
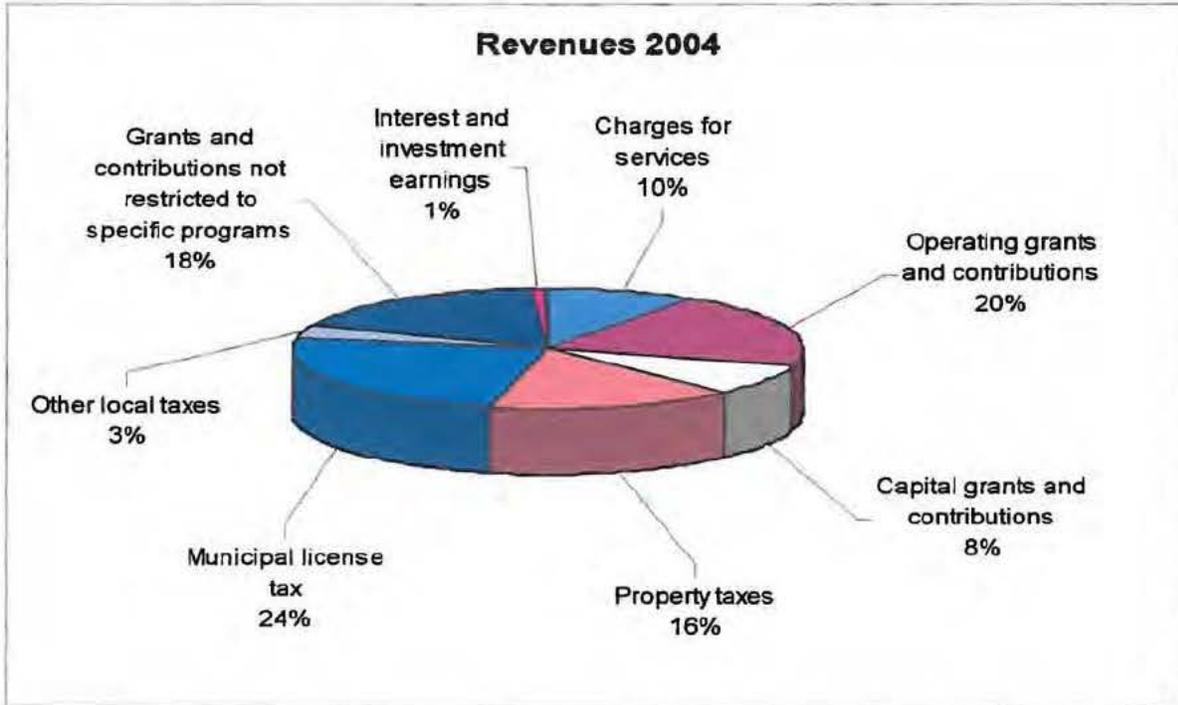
Condensed Statement of Activities	2004	2003	Change	%
Program revenues:				
Charges for services	\$ 2,748,977	\$3,126,731	\$ (377,754)	(12%)
Operating grants and contributions	5,835,529	3,898,545	1,936,984	50%
Capital grants and contributions	2,307,317	2,550,881	(243,564)	(10%)
General revenues:				
Property taxes	4,578,702	5,184,063	(605,361)	(12%)
Municipal license tax	6,927,137	3,383,120	3,544,017	105%
Other local taxes	989,308	552,649	436,659	79%
Grants and contributions not restricted to specific programs	5,080,149	4,381,391	698,758	16%
Interest and investment earnings	254,970	179,135	75,835	42%
Gain (loss) on sale/retirement of capital assets	5,953		5,953	100%
Miscellaneous	55,769	106,521	(50,752)	(48%)
Total revenues	28,783,811	23,363,036	5,420,775	23%
Expenses:				
General government	9,648,471	5,317,910	4,330,561	81%
Public safety	1,406,602	1,073,592	333,010	31%
Public works	1,795,821	6,253,571	(4,457,750)	(71%)
Culture and recreation	1,731,029	1,772,013	(40,984)	(2%)
Health and welfare	5,133,186	3,499,912	1,633,274	47%
Economic development	478,109	367,569	110,540	30%
Community development	198,460	2,687,665	(2,489,205)	(93%)
Education	723,234	499,165	224,069	45%
Urban development	6,463	175,294	(168,831)	(96%)
Interest on long-term debt	761,270	318,615	442,655	139%
Total expenses	21,882,645	21,965,306	(82,661)	-
Change in net assets	6,901,166	1,397,730	5,503,436	394%
Net assets, beginning of year, as restated	6,456,220	5,058,490	1,397,730	28%
Net assets, end of year	\$13,357,386	\$6,456,220	\$6,901,166	107%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$8,191,502, a decrease of \$342,053 in comparison with the prior year. There are reservations of fund balance amounting to \$7,920,110. 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 (\$368,277), 2) to pay debt service (\$1,637,158), 3) to pay for capital projects (\$4,782,852) and 4) for other purposes (\$1,131,823).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has an undesignated fund balance of \$271,392.

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.

During the fiscal year 2004 the Municipality used \$821,686 available in the General Fund Undesignated Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Juncos's communities.

In response to the increments in the municipal operating revenues, the Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2004 which amounted to \$467,778. Such increments were used to provide further increases in capital assets and for the extension of several municipal services to Juncos's communities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$37,544,318, net of accumulated depreciation of \$6,256,174, leaving a net book value of \$31,288,144. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004, the Municipality has \$3,297,762 of unexpended proceeds from bond and notes issuances that are committed to future construction activities.

Debt Administration

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

FINAL COMMENTS

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

On July 12, 2004, the Government Development Bank for Puerto Rico (GDB) authorized a line of credit and a general obligation bond to the Municipality for approximately \$235,000. The line of credit and the bond proceeds were used to complete costs of a specific construction in progress (sanitary and sewer system in "Comunidad Piña"). The bond repayment is scheduled from July 2005 through July 2028, and is guaranteed by the United State Department of Agriculture – Rural Development ("USDA – Rural Development").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINAL COMMENTS (continued)

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. This Law stipule a new formula to determine the contribution in lieu of taxes to be distributed by the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years. Also, in addition to the new formula established for the calculation of the contribution in lieu of taxes as described above, applicable on fiscal year 2004-2005 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates

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

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at P.O. Box 1706, Juncos, Puerto Rico 00777-1706, or call (787) 734-0335.

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

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,893,486
Cash with fiscal agent	5,720,205
Accounts receivable:	
Municipal license tax	2,074
Intergovernmental	2,377,740
Landfill users receivable	333,161
Interest	3,513
Capital assets:	
Land, improvements, and construction in progress	18,016,669
Other capital assets, net of depreciation	13,271,475
Total capital assets	<u>31,288,144</u>
Total assets	<u>50,618,323</u>
 Liabilities	
Accounts payable and accrued liabilities	1,769,715
Due to other governmental entities	313,349
Deferred revenues:	
Municipal license tax	8,366,680
Federal grant revenues	688,933
Interest Payable	147,421
Noncurrent liabilities:	
Due within one year	1,386,168
Due in more than one year	<u>24,588,671</u>
Total liabilities	<u>37,260,937</u>
 Net Assets	
Invested in capital assets, net of related debt	15,112,931
Restricted for:	
Capital projects	4,782,852
Debt service	1,637,158
Other purposes	1,131,823
Unrestricted (deficit)	<u>(9,307,378)</u>
Total net assets	<u>\$ 13,357,386</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, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 9,648,471	\$ 60	\$ 309,945	\$ -	\$ (9,338,466)
Public safety	1,406,602	1,063	197,189		(1,208,350)
Public works	1,795,821	2,592,138	65,357	1,136,595	1,998,269
Health and welfare	5,133,186	95,534	2,576,817		(2,460,835)
Culture and recreation	1,731,029	51,720	196,430	528,250	(954,629)
Economic development	478,109		396,921		(81,188)
Community development	198,460		1,865,832	512,472	2,179,844
Urban development	6,463			100,000	93,537
Education	723,234	1,169	227,038	30,000	(465,027)
Interest on long-term debt	761,270				(761,270)
Other		7,293			7,293
Total governmental activities	\$ 21,882,645	\$ 2,748,977	\$ 5,835,529	\$ 2,307,317	(10,990,822)
General revenues:					
Property taxes					4,578,702
Municipal license tax					6,927,137
Other Local Taxes					989,308
Grants and contributions not restricted to specific programs					5,080,149
Interest and investment earnings					254,970
Gain (loss) on sale/retirement of capital assets					5,953
Miscellaneous					55,769
Total general revenues					17,891,988
Change in net assets					6,901,166
Net assets - beginning, as restated					6,456,220
Net assets - ending					\$ 13,357,386

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

	<u>General Fund</u>	<u>Special Revenue Fund - State & Local Grants</u>	<u>Special Revenue Fund Federal Grants</u>	<u>Capital Projects Fund - State & Local Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 5,648,920	\$ 1,768,802	\$ 623,253	\$ 2,192,860	\$ 659,651	\$ 10,893,486
Cash with fiscal agent	4,909	226,891	658,243	3,297,762	1,532,400	5,720,205
Municipal license tax receivable	2,074					2,074
Intergovernmental receivable	38,631	524,012	1,708,503		106,594	2,377,740
Due from other funds	3,947,104		54,154			4,001,258
Landfill users receivable	333,161					333,161
Interest receivable	2,541				972	3,513
Total assets	<u>\$ 9,977,340</u>	<u>\$ 2,519,705</u>	<u>\$ 3,044,153</u>	<u>\$ 5,490,622</u>	<u>\$ 2,299,617</u>	<u>\$ 23,331,437</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 603,488	\$ 275,578	\$ 351,445	\$ 187,991	\$ 351,213	\$ 1,769,715
Due to other governmental entities	313,349					313,349
Due to other funds	54,154	1,203,133	1,947,411	789,252	7,308	4,001,258
Deferred revenues:						
Municipal license tax	8,366,680					8,366,680
Federal grant revenues			654,468		34,465	688,933
Total liabilities	<u>9,337,671</u>	<u>1,478,711</u>	<u>2,953,324</u>	<u>977,243</u>	<u>392,986</u>	<u>15,139,935</u>
Fund balances:						
Reserved for:						
Encumbrances	368,277					368,277
Capital projects				4,513,379		4,513,379
Other purposes		1,040,994	90,829			1,131,823
Reserved reported in nonmajor funds:						
Debt service fund					1,637,158	1,637,158
Capital projects					269,473	269,473
(Unreserved):						
Undesigned	271,392					271,392
Total fund balances	<u>639,669</u>	<u>1,040,994</u>	<u>90,829</u>	<u>4,513,379</u>	<u>1,906,631</u>	<u>8,191,502</u>
Total liabilities and fund balances	<u>\$ 9,977,340</u>	<u>\$ 2,519,705</u>	<u>\$ 3,044,153</u>	<u>\$ 5,490,622</u>	<u>\$ 2,299,617</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	31,288,144
Long-term liabilities and accrue interest are not due and payable in the current period, and therefore, are not reported in the funds	(26,122,260)
Net assets of governmental activities	<u>\$ 13,357,386</u>

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

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 3,658,791	\$ -	\$ -	\$ -	\$ 919,911	\$ 4,578,702
Municipal license taxes	6,754,134	173,003				6,927,137
Licenses, permits and other local taxes	989,308					989,308
Charges for services	64,500					64,500
Intergovernmental	5,355,210	1,557,206		1,794,845		8,707,261
Rent of property	52,420	65,000				117,420
Fines and forfeitures	1,063					1,063
Interest	148,885	106,085				254,970
Users fees on landfill facilities	2,574,290					2,574,290
Federal grants			3,384,424		935,598	4,320,022
Miscellaneous	67,629	133,077	18	218	55,807	256,749
Total revenues	19,666,230	2,034,371	3,384,442	1,795,063	1,911,316	28,791,422
Expenditures						
Current						
General government	9,677,119	363,802		28,379		10,069,300
Public safety	1,148,114	144,401	22,824	16,213		1,331,552
Public works	4,181,478	1,517,110		1,931,511		7,630,099
Health and welfare	2,408,612	533,116	1,495,768	3,112,369	478,264	8,028,129
Culture and recreation	1,538,204	164,323		604,559		2,307,086
Economic development		478,109				478,109
Community development		2,700	1,356,241	139,555	1,442,305	2,940,801
Urban development				6,463		6,463
Education	485,242	211,722		35,000		731,964
Debt service						
Principal			353,000		646,750	999,750
Interest			156,590		543,632	700,222
Total expenditures	19,438,769	3,415,283	3,384,423	5,874,049	3,110,951	35,223,475
Excess (deficiency) of revenues over (under) expenditures	227,461	(1,380,912)	19	(4,078,986)	(1,199,635)	(6,432,053)
Other financing sources (uses)						
Transfers in	24,100	1,462,409		553	457,591	1,944,653
Transfers out	(1,918,482)	(9,600)		(18,571)		(1,944,653)
Long-term debt issued		405,000		5,685,000		6,090,000
Total other financing sources (uses)	(1,894,382)	1,857,809		5,668,982	457,591	5,090,000
Net change in fund balances	(1,666,921)	476,897	19	1,589,996	(742,044)	(342,053)
Fund balance, beginning as restated	2,306,590	564,097	90,810	2,923,383	2,648,675	8,533,555
Fund balance, ending	\$ 639,669	\$ 1,040,994	\$ 90,829	\$ 4,513,379	\$ 1,906,631	\$ 8,191,502

**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, 2004**

Net Change in Fund Balances - Total Governmental Funds	\$ (342,053)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>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.</p>	13,433,356
<p>Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.</p>	(1,129,270)
<p>Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a gain on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets.</p>	(7,611)
<p>Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.</p>	(61,048)
<p>Bonds and notes proceeds provides current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.</p>	(6,090,000)
<p>Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount paid in the current year.</p>	999,750
<p>Repayment of long term unemployment tax debt is an expenditure in Governmental Funds, but the repayment reduces long -term unemployment tax debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.</p>	49,907
<p>Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.</p>	74,270
<p>Repayment of long term debt with the Puerto Rico Electric Power Authority is an expenditure in Governmental Funds, but the repayment reduces long -term debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.</p>	95,046
<p>Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represented the change in long-term compensated absences from prior year.</p>	(166,181)
<p>Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represented the change in long-term claims and judgments from prior year.</p>	45,000
Change in Net Assets of Governmental Activities	<u>\$ 6,901,166</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

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, 2004

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 – State and Local Grants – is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

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

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, 2004

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 – 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.

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

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.

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

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

Debt Service 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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

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

E. Assets, liabilities and net assets

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

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

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represents mostly contributions from the Puerto Rico Electric Power Authority (PREPA), which, pays the municipalities as contributions in lieu of taxes greater of the following amounts: (a) twenty percent (20%) of its net revenues as defined in the Trust Indenture signed with the Trustee as representative of the bondholders, adjusted by subsidies granted by the PREPA; (b) an amount equal to the actual cost of electric power consumed by each Municipality in its common facilities during the current year; or (c) an average of the contribution in lieu of taxes paid by PREPA to each municipality during the past five fiscal years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

The contribution in lieu of tax revenue and related receivable recorded in the General Fund for the current fiscal year was determined based on the preliminary liquidation made by the PREPA. Such liquidation is subject to final results of the PREPA financial statements audit. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

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.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$288,898. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$464,241 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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 31,288,144	
Deduct:		
Bonds Payable	(11,171,213)	
Notes Payable	<u>(5,004,000)</u>	\$ 15,112,931
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		4,782,852
<u>Net assets restricted for debt service</u>		
Debt Service Fund – fund balance	1,637,158	
Deduct:		
Interest Payable	<u>(147,421)</u>	1,489,737
<u>Net assets restricted for other purposes</u>		
Other governmental funds – fund balances		1,131,823
<u>Net assets unrestricted (deficit)</u>		
General fund – total fund balance:	639,669	
Deduct:		
Bond and Notes	(1,015,000)	
Compensated absences debt	(1,321,686)	
Puerto Rico Electric Power Authority	(11,559)	
Unemployment Tax – Department of Labor	(41,589)	
Advances Property Tax Debt	(1,884,311)	
Landfill Closure Costs	(4,055,481)	
Landfill Post closure Cost	<u>(1,470,000)</u>	<u>(9,159,957)</u>
Total net assets – governmental activities		<u>\$ 13,357,386</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 \$5,648,920 in the general fund, the \$1,768,802 in the special revenue fund – state and local grants, the \$623,253 in the special revenue fund – federal grants, and the \$2,192,860 in the capital projects fund – state and local grants, were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$659,651 that were fully collateralized.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

2. DEPOSITS (CONTINUED)

The deposits at GDB of approximately \$4,909 in the general fund, the \$226,891 in the special revenue fund – state and local grants, the \$658,243 in the special revenue fund – federal grants, the \$3,297,762 in the capital projects fund – state and local grants and the \$1,532,400 that is restricted for debt service fund 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 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

1. Financial business – 1.50% of gross revenues
2. Other organizations – 0.45% 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 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, 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 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. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority (“PREPA”)	\$ 38,631
Total	\$ 38,631

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

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

<u>Governmental Entity</u>	<u>Amount</u>
Department of Health	\$ 274,875
"Consortio del Sureste"	132,175
Department of Labor	<u>116,962</u>
Total	\$ <u>524,012</u>

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

<u>Program Description</u>	<u>Amount</u>
Child Care and Development Block Grant	\$ 956,818
Community Development Block Grant – State's Program	700,453
Special Programs for Aging – Title III, Part B	20,590
Local Law and Enforcement Block Grant	18,130
Child and Adult Care Food Program	<u>12,512</u>
Total	\$ <u>1,708,503</u>

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	<u>\$ 106,594</u>
Total	\$ <u>106,594</u>

- C. Landfill Users Receivable** – Landfill users receivable in the general fund principally consist of the amounts due from industries and other governmental entities clients which use the Municipality's landfill facilities.

4. INTERFUND TRANSACTIONS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

4. INTERFUND TRANSACTIONS (CONTINUED)

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	Payrolls, accruals and other expenditures not reimbursed	\$ 1,203,133
General Fund	Special Revenue Fund – Federal Grants	Payrolls, accruals, and other expenditures not reimbursed	1,947,411
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	789,252
General Fund	Other governmental funds	Reimbursable expenditures	4,500
General Fund	Other governmental funds	Interest not transferred	2,808
Other Governmental Fund	General Fund	Reimbursable expenditures	<u>54,154</u>
Total			<u>\$ 4,001,258</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	\$ 323,457
General Fund	Special Revenue Fund – state and local grants	PREPA agreement	710,000
General Fund	Special Revenue Fund – state and local grants	CRIM prior year liquidation	274,891
General Fund	Special Revenue Fund – state and local grants	To match special grant funds	475,447
General Fund	Capital Projects Fund – federal grants	To match special grant funds	134,134
General Fund	Capital Projects Fund – state and local grants	To match special grant funds	553
Capital Projects Fund – and local grants	Special Revenue Fund – state and local grants	Transfer of funds to Special Revenue Fund – state and local grants	2,071
Special Revenue Fund – state and local grants	General Fund	Reimbursements	9,600
Capital Projects Fund – and local grants	Capital Projects Fund – state and local grants	Reimbursements	<u>14,500</u>
Total			<u>\$ 1,944,653</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS

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

Governmental Activities:	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Capital asset, not being depreciated:				
Land	\$ 7,926,602	\$ 3,576,904	(\$ 7,611)	\$ 11,495,895
Construction in progress	<u>2,590,386</u>	<u>4,569,675</u>	<u>(639,287)</u>	<u>6,520,774</u>
Total capital assets not being depreciated	<u>10,516,988</u>	<u>8,146,579</u>	<u>(646,898)</u>	<u>18,016,669</u>
Capital assets, being depreciated:				
Buildings	6,518,888	2,050,235		8,569,123
Buildings improvements	1,793,677	1,300,848		3,094,525
Infrastructure	481,077	858,706		1,339,783
Infrastructure improvements	52,711	608,777		659,488
Equipment	1,771,854	515,546		2,287,400
Furnishing	399,545	154,497		554,042
Works of art	7,100	800		7,900
Computers	266,064	67,169		333,233
Vehicles	<u>2,340,565</u>	<u>341,590</u>	<u>-</u>	<u>2,682,155</u>
Total capital assets being depreciated	<u>13,631,481</u>	<u>5,896,168</u>	<u>-</u>	<u>19,527,649</u>
Less accumulated depreciation for:				
Buildings	(2,308,847)	(206,924)		(2,515,771)
Buildings improvements	(79,429)	(53,167)		(132,596)
Infrastructure	(3,818)	(29,354)		(33,172)
Infrastructure improvements	(2,499)	(36,296)		(38,795)
Equipment	(764,810)	(393,691)		(1,158,501)
Furnishing	(225,647)	(81,046)		(306,693)
Works of art	(511)	(866)		(1,377)
Computers	(150,849)	(70,520)		(221,369)
Vehicles	<u>(1,590,494)</u>	<u>(257,406)</u>	<u>-</u>	<u>(1,847,900)</u>
Total accumulated depreciation	<u>(5,126,904)</u>	<u>(1,129,270)</u>	<u>-</u>	<u>(6,256,174)</u>
Total capital assets being depreciated, net	<u>8,504,577</u>	<u>4,766,898</u>	<u>-</u>	<u>13,271,475</u>
Governmental activities capital assets, net	<u>\$ 19,021,565</u>	<u>\$ 12,913,477</u>	<u>(\$ 646,898)</u>	<u>\$ 31,288,144</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	<u>Amount</u>
Community Development	\$ 41,624
Culture and Recreation	52,279
Education	25,462
General Governmental	392,696
Health and Welfare	332,538
Public Safety	132,206
Public Work	<u>152,465</u>
Total depreciation expense-governmental activities	<u>\$ 1,129,270</u>

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, 2004

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, 2004, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$389,919 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 74,270
2006	74,270
2007	74,270
2008	74,270
2009	74,270
Thereafter	<u>18,569</u>
Total	<u>\$ 389,919</u>

On June 26 1997, Public Law Num. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30, 2004, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$1,494,392.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED)

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

The annual tax rate is 8.08% 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. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM) – Fiscal year 2003-2004 Liquidation	\$ 201,505
State Insurance Fund	89,775
General Service Administration	9,780
Department of Labor – Unemployment	6,801
Puerto Rico Aqueduct and Sewer Authority	<u>5,488</u>
Total	<u>\$ 313,349</u>

8. DEFERRED REVENUES

A. Municipal License Tax – The deferred revenues of approximately \$8,366,680 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. DEFERRED REVENUES (CONTINUED)

B. Federal Government – The deferred revenues presented in the special revenue fund – federal grants 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>
Public Assistance Grants	\$ 609,227
Emergency Management Performance Grant	17,529
Homeland Security Grant Program	4,295
Child Care and Development Block Grant	3,710
Juvenile Justice and Delinquency Prevention	1,352
Others	<u>215</u>
Total	<u>\$ 654,468</u>

The deferred revenue presented in the 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>
Housing Opportunities for Persons with Aids	\$ 18,364
Water and Waste Disposal Loans and Grants	10,358
Section 8 Housing Choice Voucher	<u>5,743</u>
Total	<u>\$ 34,465</u>

9. LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 5,721,213	\$ 5,685,000	\$ 235,000	\$ 11,171,213	\$ 306,000
Notes Payable	6,378,750	405,000	764,750	6,019,000	847,749
Property Tax Debt	1,958,581		74,270	1,884,311	74,270
Department of Labor	91,497		49,907	41,590	41,590
Puerto Rico Electric Power Authority	106,605		95,046	11,559	11,559
Landfill Closure costs	4,055,481			4,055,481	
Landfill Obligation post closure costs	1,470,000			1,470,000	
Compensated Absences	1,155,504	285,814	119,633	1,321,685	105,000
Claims and judgments	<u>45,000</u>	<u>-</u>	<u>45,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 20,982,631</u>	<u>\$ 6,375,814</u>	<u>\$ 1,383,606</u>	<u>\$ 25,974,839</u>	<u>\$1,386,168</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. 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, 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 \$5,685,000. Bonds payable outstanding at June 30, 2004 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2004</u>
1984 Series	1-1-08	\$ 700,000	5.00%	\$ 180,000
1993 Series	1-1-17	264,000	4.50%	186,000
1994 Series	1-1-18	650,000	5.25%	511,000
1996 Series	1-1-21	525,000	4.50%	446,213
1996 Series	1-1-21	551,000	4.50%	481,000
1998 Series	1-1-22	520,000	4.50%	502,000
2002 Series	7-1-26	305,000	5.00% to 6.75%	295,000
2002 Series	7-1-26	1,955,000	5.00% to 6.75%	1,890,000
2003 Series	7-1-27	1,060,000	5.00% to 6.50%	1,045,000
2004 Series	7-1-28	305,000	2.36% to 4.0%	305,000
2004 Series	7-1-18	405,000	2.36% to 4.0%	405,000
2004 Series	7-1-28	1,860,000	5.00% to 6.50%	1,860,000
2004 Series	7-1-28	3,115,000	5.00% to 6.50%	<u>3,065,000</u>
Total general obligation bonds				<u>\$ 11,171,213</u>

These bonds, except the 2004 Series \$3,115,000 bond, 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. The 2004 Series \$3,115,000 bond is payable with the General Fund resources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 306,000	\$ 550,268
2006	327,000	615,273
2007	343,000	598,505
2008	375,000	580,366
2009	331,000	560,888
2010-2014	1,999,000	2,512,046
2015-2019	2,531,000	1,900,832
2020-2024	2,549,213	1,165,694
2025-2029	<u>2,410,000</u>	<u>350,558</u>
Total	<u>\$ 11,171,213</u>	<u>\$ 8,834,430</u>

- 3. Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. During the current year, the Municipality issued notes for approximately \$405,000. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2004</u>
1994 Series	4-1-13	\$1,680,000	5.00% to 8.00%	\$ 1,015,000
2001 Series	7-1-05	1,365,000	2.70% to 6.13%	610,000
2002 Series	1-1-10	510,000	4.75%	447,000
2004 Series	7-1-10	405,000	5.00% to 6.50%	405,000
Section 108 Loan	8-1-13	1,835,000	1.75% to 5.29%	1,373,000
Section 108 Loan	8-1-13	2,385,000	1.75% to 5.29%	<u>2,169,000</u>
Total notes payable				<u>\$ 6,019,000</u>

Except for the Section 108 Notes, which are payable with Community Development Block Grant Program resources and the 1994 Series \$1,680,000 note, which is payable with the General Fund resources, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 847,750	\$ 265,742
2006	875,750	247,696
2007	574,750	217,837
2008	586,500	190,273
2009	601,750	160,452
2010-2014	<u>2,532,500</u>	<u>334,618</u>
Total	<u>\$ 6,019,000</u>	<u>\$ 1,416,618</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, 2004, as described in Note 6, from property tax advances in excess of actual collections and other property tax debts.
5. **Compensated absences** – The government-wide statement of net assets includes approximately \$469,743 of accrued sick leave benefits, and approximately \$851,942 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. The Municipality has recognized \$4,055,481 as the Municipality's estimated current cost for landfill closure as of June 30, 2004. Such estimate was determined in the prior fiscal year. The Municipality has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN

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

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

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2004 amounted to approximately \$315,319 and \$353,424 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN (CONTINUED)

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

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

11. RISK MANAGEMENT

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

12. 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.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

13. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance for General Fund has been restated by approximately \$3,337 to properly presents the previously reported fund balance at June 30, 2003. The restatement is mainly due to recognition of interfund receivable from the Debt Service Fund.

The beginning Fund Balance for Debt Service Fund has been restated by approximately \$111,375 to properly presents the previously reported fund balances at June 30, 2003. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2002-2003.

The beginning Governmental Activities Net Assets has been restated by approximately \$1,557 to properly present the previously reported net assets at June 30, 2003. The restatement is mainly due to fund balances restatements described above, the recognition of bond and notes accrued interest as of the beginning of the current fiscal year and the cancellation of construction in progress included in the beginning balance of the capital assets.

14. SUBSEQUENT EVENTS

On July 12, 2004, the Government Development Bank for Puerto Rico (GDB) authorized a line of credit and a general obligation bond to the Municipality for approximately \$235,000. The line of credit and the bond proceeds were used to complete costs of a specific construction in progress (sanitary and sewer system in "Comunidad Piña"). The bond repayment is scheduled from July 2005 through July 2028, and is guaranteed by the United State Department of Agriculture – Rural Development ("USDA – Rural Development").

On September 7, 2004, Public Law 255 was enacted amending Public Law 83 of May 2, 1941, as amended. In addition to the new formula established for the calculation of the contribution in lieu of taxes as described in Note 1 (E) (2), applicable on fiscal year 2002-2003 and each subsequent fiscal year, the Law provides for quarterly revisions to be prepared by PREPA of its estimates corresponding to the contribution in lieu of taxes for the current fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

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

YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 3,231,561	\$ 3,699,339	\$ 3,844,965	\$ 145,626
Municipal license tax	6,020,000	6,020,000	6,752,060	732,060
Licenses, permits and other local taxes	510,000	510,000	989,308	479,308
Intergovernmental	4,652,529	4,652,529	4,645,210	(7,319)
Rent of property	42,600	42,600	68,468	25,868
Fines and forfeitures	6,000	6,000	1,063	(4,937)
Charges for services	1,000	1,000	1,160	160
Interest	152,000	152,000	146,344	(5,656)
Users Fees on Landfill Facilities	3,200,000	3,200,000	2,574,290	(625,710)
Miscellaneous	<u>70,000</u>	<u>70,000</u>	<u>811,394</u>	<u>741,394</u>
Total revenues	<u>17,885,690</u>	<u>18,353,468</u>	<u>19,834,262</u>	<u>1,480,794</u>
Budget carryover (1)		821,686	821,686	
Total revenues	<u>17,885,690</u>	<u>19,175,154</u>	<u>20,655,948</u>	<u>1,480,794</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	8,531,928	9,532,733	9,613,106	(80,373)
Public safety	1,414,408	1,154,933	1,149,230	5,703
Public works	3,393,741	3,602,389	3,542,890	59,499
Health and welfare	2,463,164	2,328,088	2,291,071	37,017
Culture and recreation	1,358,028	1,558,489	1,551,815	6,674
Education	560,496	509,705	508,467	1,238
Operating transfer to other fund	<u>163,925</u>	<u>488,817</u>	<u>323,457</u>	<u>165,360</u>
Total expenditures, encumbrances and other financing uses	<u>17,885,690</u>	<u>19,175,154</u>	<u>18,980,036</u>	<u>195,118</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,675,912</u>	<u>\$ 1,675,912</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis)*available for appropriation* from the budgetary comparison schedule				\$ 20,655,948
Differences-budget to GAAP:				
Budget carryover				(821,686)
GAAP adjustments to revenues				<u>(143,932)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,690,330</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)*total charges to appropriations* from the budgetary comparison schedule				\$ 18,980,036
Differences-budget to GAAP:				
Non budgeted transfer out to other funds				1,595,025
Non budgeted expenditures				148,981
GAAP adjustments to expenditures				78,922
Prior year encumbrances recorded as current year expenditures for GAAP basis				778,887
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(224,600)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 21,357,251</u>

(1) Represents fund balance carried over from prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2004

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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

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

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

<u>Expenditures, Encumbrances and Other Financing Uses:</u>	<u>Appropriations</u>	<u>Actual Amounts</u>	<u>Excess</u>
General Government	\$ 9,532,733	\$ 9,613,106	(\$ 80,373)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program: Nutrition Program for the Elderly	10.570		\$ 23,874
Direct Program: Water and Waste Disposal Loans and Grants	10.770		512,472
Pass-through the Commonwealth of Puerto Rico-Department of Education: Child and Adult Care Food Program	10.558	Not Available	<u>185,555</u>
Total U.S. Department of Agriculture			<u>721,901</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		929,833
Direct Program: Section 8 Housing Choice Vouchers	14.871		331,382
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	03-FC, AB-35 02-FC, AB-35 01-FD-35 00-FD-35 99-FD-35 98-FD-35 97-FD-35	1,865,832

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan: Housing Opportunities for Persons with Aids	14.241	Not Available	<u>91,744</u>
Total U.S. Department of Housing and Urban Development			<u>3,218,791</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>18,130</u>
Total U.S. Department of Justice			<u>18,130</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>3,977</u>
Total U.S. Department of Transportation			<u>3,977</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 Center	93.044	Not Available	108,769

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Family Department (ACUDEN): Child Care and Development Block Grant	93.575	Not Available	<u>1,177,571</u>
Total U.S. Department of Health and Human Services			<u>1,286,340</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency Emergency Management Performance Grant	83.552	Not Available	<u>716</u>
Total U.S. Department of Homeland Security			<u>716</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,249,855</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, 2004

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	\$ 3,384,423	\$ 1,865,432	\$ 5,249,855
Non federal programs Expenditures	-	1,245,519	1,245,519
Total expenditures in the general purpose financial statements	<u>\$ 3,384,423</u>	<u>\$ 3,110,951</u>	<u>\$ 6,495,374</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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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, 2004, and have issued our report thereon dated January 14, 2005, which was qualify because the management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non current liability in governmental activities and, accordingly, has not adjusted the recorded liability. 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 04-01 through 04-03.

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 item 04-02 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. 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 January 14, 2005.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 14, 2005

Stamp No. 2019461 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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**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, 2004. 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 04-05 and 04-08 in the accompanying schedule of findings and questioned costs, the **Municipality of Juncos** did not comply with requirements regarding Special Test and Provisions, and Reporting 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, 2004. 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, **04-04, 04-06, 04-07 and 04-09 through 04-15.**

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 **04-04 through 04-15.**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **04-04, 04-05, 04-08, 04-10, 04-12, 04-14 and 04-15** 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 18, 2005.

**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 18, 2005

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section I – Summary of Auditors' Results

Financial Statements

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

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Reportable conditions identified not considered to be material weaknesses?	Yes X	None reported
<u>Type of auditors' report issued on compliance for major programs:</u>	Unqualified, except 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

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, 2004

Section II – Financial Statements Findings

Finding Reference	04-01
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 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 to the Municipality management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Finance Department personnel were instructed to strengthen controls and procedures to assure that the accounting system will provide information regarding authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Implementation Date: July 2005

Responsible Person: Mrs. Iris Judith Ramos
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II – Financial Statements Findings

Finding Reference	04-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	The Municipality has not updated the estimate of the obligation for landfill closure and post closure cost recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2004.
Criteria	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
Cause of Condition	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
Recommendation	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Management will update the estimate of closure and post closure cost of its landfill facilities in order to include that liability in the fiscal year 2004-2005 government-wide financial statements. Implementation Date: December 2005 Responsible Person: Mrs. Iris Judith Ramos Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II - Financial Statements Findings

Finding Reference	04-03
Requirement	Cash Receipts\Revenue, Receivable - Collections
Statement of Condition	We performed a cash receipt test and examined a sample of sixty (60) cash collections and noted that for ten (10) collections of Municipal Excise Tax, the Municipality's Revenue Collection Office did not maintain the evidence of the customer's remittance data and other support. Also, six (6) collections of Municipal License Taxes were deposited between three (3) and seven (7) days after it were received.
Criteria	The Revised Regulation on Basic Standards for Municipalities of Puerto Rico, Chapter III, Section V, establish that the Finance Director or any other designed public official are responsible for the maintenance and conservation of the records, documents and files related to the revenues transactions.
Cause of Condition	The Municipality's controls and procedures failed to assure that all revenues were properly documented.
Effect of Condition	The Municipality is not compliance with regulations stated in The Revised Regulation on Basic Standards for Municipalities of Puerto Rico, Chapter III, Section V.
Recommendation	The Municipality should strengthen the filling procedures in order to assure that collections supporting documents such as the customer's remittance data and other support are duly organized and filled in the Municipality's Revenue Collection Office. Also, the Municipality should strengthen its procedures in order to assure that deposits were made the same day of its collections or in the next labor day.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section II - Financial Statements Findings

Finding Reference 04-03 (continued)

Management Response
and Corrective Action

The personnel of the Municipality's Revenue Collection Office were instructed to strengthen the filing procedures in order to assure that collections supporting documents such as the customer's remittance data and other support are duly organized and maintained. Also, they were instructed to strengthen its procedures in order to assure that deposits were made the same day of it collection or in the next labor day.

Implementation Date: April 2005

Responsible Person: Mrs. Iris Judith Ramos
Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-04
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 Loans and Grants program a set of accounting records that present the financial position of the program and the results of operations.
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 must prepare a General Ledger that summarized all the financial activity of the Water and Waste Disposal Loans and Grants Program. The General Ledger must be supported by subsidiary records and those records should be periodically reconciled with the General Ledger to eliminate discrepancies. The subsidiary records should include a Cash Receipt Register and a Disbursement Register. Also, for budgetary purposes the program should implement the use of a Purchase Order and Contracts Register.
Questioned Cost	None.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-04 (continued)

Management Response
and Corrective Action

The Municipality's Management instructed program accountant to develop a full set of accounting records as recommended by the auditors.

Implementation Date: April 2005

Responsible Person: Mrs. Gladys M. Marcano Díaz
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-05
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Assistance Payment (HAP)
Statement of Condition	<p>During our examination of the Housing Assistance Payment Register for the fiscal year 2003-2004 we noted the following situations:</p> <ul style="list-style-type: none">a. The HAP Register did not have evidence of the check number and the check date of the monthly HAP payments to the owners and the monthly utility reimbursement to the families.b. The HAP register did not show clearly the coverage period of the HAP contracts and the coverage period of amendments to the HAP contracts during the fiscal year 2003-2004.c. During our examination of fifteen (15) participant's files we noted that for three (3) participants the PHA made adjustments to the rent composition during the fiscal year 2003-2004 that were not reflected on the HAP register.
Criteria	Code of Federal Regulations 24, section 982.158 states that the PHA's are required to maintain a HAP contract register or similar record in which to record the PHA's obligation for monthly HAP's. This record must provide information as to: the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant, if any.
Cause of Condition	The controls and procedures failed to assure that the Housing Assistance Payment Register contain at least the minimum requirements required by HUD.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulation 24, Section 982.158.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-05 (continued)

Recommendation We recommend that the PHA must improve the procedures used to prepare the Housing Assistance Payment Register in order to comply with the federal requirements.

Questioned Cost None.

Management Response
and Corrective Action The Municipality management assigned a new accountant to the program in order to maintain update records, including HAP register.

Implementation Date: April 2005

Responsible Person: Mrs. Deborah Díaz López
Section 8 Housing Choice Voucher Program's
Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-06
Program	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 two (2) participant's files, there was no evidence of the application form.b. In one (1) participant's file there was no evidence of the head of household release form to allow the PHA to obtain information from third parties.c. In four (4) participant's files, there was 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.d. In five (5) participant's files, the head of household spouse or a member of the family with 18 years or more did not sign a release form to allow the PHA to obtain information from third parties.e. In four (4) participant's files there was no evidence of the Value of Assets certifications.
Criteria	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-06 (continued)
Cause of Condition	The PHA internal controls 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 do not include all the required documentation 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 and Corrective Action	The Municipality's Management will give instructions to the Program staff to include the application forms in every new participant file. Also to include in every participant's file the required release forms and other documents as required by the federal regulations.

Implementation Date: April 2005

Responsible Person: Mrs. Deborah Díaz López
Section 8 Housing Choice Voucher Program's
Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07
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	During the fiscal year 2003-2004 the PHA used the Fair Market Rent as the Payment Standard instead of the 90% of the Fair Market Rent, as established by the PHA in its rent calculation policies and procedures. Also, we noted that during the fiscal year 2003-2004 the PHA used a Minimum Rent of \$25 instead of \$50 as stated in the Administrative Plan for the fiscal year 2003-2004.

Also, during our verification of fifteen (15) participant's files we noted the following exceptions related to the Housing Assistance Payment (HAP) calculations:

- a. In six (6) participant's files the PHA miscalculated the family income as part of the Housing Assistance Payment calculation. As result, for five (5) of that participants the PHA paid an incorrect Housing Assistance Payment to the owner an it caused differences in the amount of Tenants Rent to the owner.
- b. In one (1) participant's file the PHA did not consider one dependent allowance for a full time student as part of the Housing Assistance Payment calculation. As result, the PHA paid an incorrect Housing Assistance Payment to the owner and it cause difference in the amount of Tenant Rent to the owner.
- c. In two (2) participant's files the PHA did not used the correct utility allowance for the actual size of the unit as part of the Housing Assistance Payment calculation.
- d. In two (2) participant's files the PHA did not select the correct Payment Standard according with the actual family unit size or the unit size rented by the family as part of the Housing Assistance Payment calculation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-07 (continued)
Criteria	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) and the PHA Administrative Plan establish procedures to be used as part of the HAP calculation.
Cause of Condition	The PHA controls and procedures failed to assure that all HAPs payments are duly computed by the program staff.
Effect of Condition	The PHA is not in compliance with Code of Federal Regulations 24, Subpart K, Section 982.505 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 that the PHA must verify the tenant files to determine which families required adjustments in their rents or utility reimbursements, and adjust the same retroactively to the date of the last reexamination, if need.
Questioned Costs	None.
Management Response and Corrective Action	<p>The Municipality Management gave instructions to the Section 8 Housing Choice Voucher Program's staff to establish the adequate controls and a procedures to assure that the Housing Assistant Payments are calculated according with the Federal Regulations.</p> <p>Implementation Date: April 2005</p> <p>Responsible Person: Mrs. Deborah Díaz López Section 8 Housing Choice Voucher Program's Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08
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 preliminary 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 the Annual Closing Report and the program's accounting records:</p> <ul style="list-style-type: none">a. The Housing Assistance Payment presented in the Voucher for Payment of Annual Contributions and Operating Statement (OMB 2577-0169) was \$227,076, and the accounting records shows a Housing Assistance Payment of \$263,703 which represents a difference of \$36,627.b. The PHA include in the operating expenditures section of the Voucher for Payment of Annual Contributions and Operating Statement (OMB 2577-0169), \$38,635 of ongoing administrative fees, and the PHA accounting records shows that the total administrative expenditures for the fiscal year 2003-2004 were \$69,539 which represents a difference of \$30,904.c. At June 30, 2004 the preliminary Voucher for Payment of Annual Contributions and Operating Statement (OMB 2577-0169) present an overpayment due to HUD of \$6,646 and an Operating Reserve Ending Balance of \$65,406. At June 30, 2004, the cash balance in book was \$5,742 and the portability accounts receivable as per the Annual Report was \$27,365.
Criteria	<p>Code of Federal Regulation 24, Subpart C, Section 85.20, states that the grantee must maintain internal control procedures that permits the 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>

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

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-08 (continued)
Cause of Condition	The PHA accounting controls and procedures failed to assure that the financial reports were prepared according to Federal and State Regulations.
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 and Corrective Action	The Municipality's Management assigned a new accountant to the program in order to maintain update accounting records and to prepare the financial reports as required by the federal regulation. Implementation Date: April 2005 Responsible Person: Mrs. Deborah Díaz López Section 8 Housing Choice Voucher Program's Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-09
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, 2004. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.
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 and Corrective Action	During the month of September 2004 the Municipality's Management conducted a survey in order to perform a review of its utility rates. Instructions were given to the program staff to establish the adequate controls and a procedure to assure that the Housing Assistant Payment is calculated using the correct utility rates.

Implementation Date: September 2004

Responsible Person: Mrs. Deborah Díaz López
Section 8 Housing Choice Voucher Program's
Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	04-10
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)
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of ten (10) housekeeping assistance project participant's files, we noted the following situations:</p> <ul style="list-style-type: none">a) Six (6) participant's files did not have an application form (OCAM-AH-002) totally completed by the participant prior to be selected by the Municipality to receive CDBG Program benefits.b) Nine (9) participant's files did not have the eligibility determination form (OCAM-AH-003) completed in all its parts.c) Ten (10) participant's files did not have the eligibility approval form (OCAM-AH-004A) completed in all its parts.d) Ten (10) participant's files did not have the participation contract (OCAM-AH-005) completed in all its parts.e) For ten (10) participants the Service Coordinator did not made an adequate number of monitoring visits as stated in the procedures manual. The Service Coordinator made follow up procedures by phone calls.
Criteria	Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality have an operational manual for housekeepers activities titled "Guía Operacional de Servicio de Auxiliares del Hogar".
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements.
Effect of Condition	The Municipality is not in noncompliance with Code of Federal Regulations 24, Section 570.484 and with the procedures manual.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Mayor Federal Award Program Findings and Questioned Costs

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

Recommendation We recommended management to follow the procedures established in the procedures manual titled "Guía Operacional de Servicio de Auxiliares del Hogar", including the use of the forms included on it.

Questioned Costs None

Management Response and Corrective Action The Municipality's Management instructed program staff in order to follow the procedures guide titled "Guía Operacional de Servicio de Auxiliares del Hogar", including the use of forms included on it, to assure that conditions as observed by the auditors does not occurred again.

Implementation Date: April 2005

Responsible Person: Mrs. Gladys M. Marcano Díaz
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-11
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)
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, for the Community Development Block Grant Program – State’s Program, we verified the construction projects 01-FD-35-003, 01-FD-35-010, 02-FC-35-001 and 03-AB-35-001. The following summarizes the situations founded:</p> <ul style="list-style-type: none">a. The Municipality did not monitoring the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates.b. For the projects 01-FD-35-010 the Municipality did not made interviews to the contractor’s laborers. For the projects 01-FD-35-003, 02-FC-35-001 and 03-AB-35-001 the Municipality interviewed the contractor’s laborers only once.
Criteria	Davis-Bacon Act, as amended, DOL (40 USC 276a – 276a-7). Also, the pre-construction agreement between the Municipality and the contractor state that during the project construction the Municipality will visit the project at least two times to verify compliance with the Davis Bacon Act.
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) and with the pre-construction agreements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-11 (continued)

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
and Corrective Action The Municipality's Management instructed program staff in order to follow the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees, and to assure that conditions as observed by the auditors does not occur again.

Implementation Date: April 2005

Responsible Person: Mrs. Gladys M. Marcano Díaz
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-12
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 - Family Department (ACUDEN)
Requirement	Financial Administration - Standard for Financial Management System
Statement of Condition	<p>During our audit we noted that for the Program Year 2002-2003 ending on September 30, 2003 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 and the results of operations.</p> <p>For the Program Year 2003-2004 the Municipality developed a General Ledger that present the revenues and expenditures related with the Operational Grant, but this General Ledger did not include the real accounts and it was not supported by a double entry set of accounting records.</p>
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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-12 (continued)

Recommendation We recommend that the Municipality must prepare a General Ledger that summarizes all the financial activity of the Child Care Program. The General Ledger must be supported by subsidiary records and those records should be periodically reconciled with the General Ledger to eliminate discrepancies. The subsidiary records should include a Cash Receipt Register and a Disbursement Register. Also, for budgetary purposes the program should implement the use of a Purchase Order and Contracts Register.

Questioned Cost None.

Management Response
and Corrective Actions The Municipality's Management instructed program accountant to develop a full set of accounting records as recommended by the auditors.

Implementation Date: April 2005

Responsible Person: Mrs. Janet López
Child Care and Development Block Grant
Program's Coordinator

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 04-13

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 - Family Department (ACUDEN)

Requirement Eligibility

Statement of Condition We performed an eligibility test and examined a sample of twenty five (25) participant's files. The following summarizes the situations founded:

- a. On one (1) participant's file 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.
- b. On two (2) participant's files we noted that the eligibility determination and the parent's contribution were computed using incorrect income amounts. As results, the Municipality miscomputed the parent's contribution.
- c. On one (1) participant's file we noted that the Municipality did not verify the eligibility of the participants during the fiscal year 2003-2004.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-13 (continued)
Cause of Condition	The Municipality's internal controls and procedures failed to assure that the eligibility and the parent's contribution were determined using correct income and deductions amounts and, using the correct column of the 85 percent of median income table. Also, the procedures failed to assure that the participant's eligibility was revised at least annually.
Effect of Condition	This caused that the Municipality accepted in the program one children that resides with families whose income exceed 85 percent of the median income for a family of the same size.
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 and Corrective Action	<p>The Municipality's Management assigns four employees to be responsible of the proper management of the participant's files. Also, the Program's Coordinator will revise the eligibility determination and the parent's contribution calculation for all the participant's files in order to assure the compliance with the procedures established by the federal and local agencies.</p> <p>Implementation Date: April 2005</p> <p>Responsible Person: Mrs. Janet López Child Care and Development Block Grant Program's Coordinator</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-14
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 – Family Department (ACUDEN)
Requirement	Equipment and Real Property Management
Statement of Condition	The program capital assets subsidiary ledger did not include the following required specifications required by the Code of Federal Regulations: (a) the source of property, (b) who holds the title, (c) percentage of Federal participation in the cost of the property, (d) the location, (e) and use and condition of the property.
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 capital assets 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 the Municipality's management to instruct program staff to add to its capital assets subsidiary ledger format the additional information required by the Federal regulations.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Management instructed program staff to add to the Program capital assets subsidiary ledger format the additional information required by the Federal regulations. Implementation Date: July 2005 Responsible Person: Mrs. Janet López Child Care and Development Block Grant Program's Coordinator

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	04-15
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 - Family Department (ACUDEN)
Requirement	Reporting
Statement of Condition	During our reporting test we noted that the Annual Closing Reports (CC-006) for the program years ended on September 30, 2003 and September 30, 2004 were submitted to the pass through agency after the deadline. Also, these reports were not supported by a reliable set of accounting records.
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.
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.
Recommendation	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 and corrective Action	The Municipality's Management instructed program staff in order to assure that all the financials and programmatic reports required by the pass through agency will be submitted on a timely basis. Implementation Date: April 2005 Responsible Person: Mrs. Janet López Child Care and Development Block Grant Program's Coordinator

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-04	10.770	<p><u>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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-04.</p>
03-05	10.770	<p><u>During our test of the construction contract of the Sanitary Sewer System at Piñas Community, for \$1,307,900, we noted that the contract did not include a provision for compliance with Energy Policy and Conservation Act; did not include provisions for retention of all required records for three years; did not include provisions for compliance with suspension and debarment.</u></p> <p>Partial corrective action was taken. During the fiscal year 2003-2004 the Municipality did not formalize construction contracts for the Water and Waste Disposal Loan and Grant program. For the fiscal year 2004-2005 and thereafter the Municipality will include to the construction contracts all the clauses or addendums necessities to comply with the federal regulations.</p>
03-06	14.871	<p><u>The PHA does not maintain a Housing Assistance Payment Register during the fiscal year 2002-2003.</u></p> <p>Partial corrective action was taken. During the fiscal year 2003-2004 the PHA implement the use of a Housing Assistance Payment Register but it did not contain all HUD's requirement. The Municipality management assigned a new accountant to the program in order to update the accounting records, including the HAP register. See corrective action planned on Finding Reference 04-05.</p>
03-07	14.871	<p><u>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</u></p>

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

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>administrative expenditures of \$33,978 which represent an excess of administrative expenditures of \$118,889.</u></p> <p>Full corrective action was taken.</p>
03-08	14.871	<p><u>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.</u></p> <p>Full corrective action was taken.</p>
03-09	14.871	<p><u>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. 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. 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. 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. 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. 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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-06.</p>
03-10	14.871	<p><u>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</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>rooms. Nevertheless, those situations did not affect the final HAP calculation. 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. 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. In four (4) participant's files the PHA did not realize a family income and composition reexamination during the fiscal year 2002-2003.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-07.</p>
03-11	14.871	<p><u>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. 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. The PHA general ledger did not reconcile with the cash journal.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-08.</p>
03-12	14.871	<p><u>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.</u></p> <p>Full corrective action was taken.</p>
03-13	14.871	<p><u>The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.</u></p>

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

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. See corrective action planned on Finding Reference 04-09.
03-14	14.871	<p><u>In our examination we noted that during the fiscal year 2002-2003 the PHA did not perform supervisory quality control re-inspection. 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.</u></p> <p>Full corrective action was taken.</p>
03-15	14.228 14.248	<p><u>CDBG-State's Program: 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; 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; 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.</u></p> <p><u>CDBG-Section 108 Loan Guarantees: for the construction project of the Athletic Track on the Valenciano Sport Complex; the contractor weekly payrolls were not requested during activity of construction project to be reviewed by the municipal employee responsible of applying monitoring procedures; there is no evidence that the Municipality perform an adequate number of interviews to the contractor's and subcontractor's laborers.</u></p> <p>For the Community Development Block Grant - State's Program no corrective action has been taken. See corrective action planned on Finding Reference 04-11.</p>

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

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		For the Community Development Block Grant - Section 108 Loan Guarantee program a full corrective action was taken.
03-16	14.228 14.248	<u>Two (2) contracts did not include a provision for compliance with Executive Order 11246 "Equal Employment Opportunity". One (1) contract did not include a provision for granting access, to GAO or other federally agency, to books and other documentation. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act. Three (3) contracts did not include provisions for retention of all required records for three years. Two (2) contracts did not include provisions for compliance with suspension and debarment.</u>
		Full corrective action was taken.
03-17	14.248	<u>The Municipality did not maintain controls procedures to assure that the program income was properly determined or calculated in accordance with stated criteria and that program income was only collected from allowable sources; that all program income was properly recorded in the accounting records; and that program income was used in accordance with the program requirements and other applicable regulations.</u>
		Full corrective action was taken.
03-18	93.575	<u>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.</u>
		No corrective action has been taken. See corrective action planned on Finding Reference 04-12.
03-19	93.575	<u>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. Two (2) disbursement vouchers were not available for our examination. On ten (10) disbursement vouchers the Municipality did not cancelled or marked as paid the documents along the disbursements voucher. On two (2) disbursement vouchers there was no evidence of the receiving report or the certification of the Municipality's employee who receive of</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>the good or services. On seven (12) disbursement vouchers the Purchase Order was issued after the receiving of goods or services.</u></p> <p>Full corrective action was taken.</p>
03-20	93.575	<p><u>During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.</u></p> <p>Full corrective action was taken.</p>
03-21	93.575	<p><u>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. 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. 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. 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. 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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-13.</p>
03-22	93.575	<p><u>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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-14.</p>

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

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-23	93.575	<p><u>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. 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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 04-15.</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. See corrective action planned on Finding Reference 04-12.</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>Full corrective action was taken.</p>
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>Full corrective action was taken.</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 taken. See corrective action planned on Finding Reference 04-13.</p>

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

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-13	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 taken. See corrective action planned on Finding Reference 04-14.</p>
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>Full corrective action was taken.</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>Full corrective action was taken.</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 taken. See corrective action planned on Finding Reference 04-15.</p>
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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
01-09	14.248	<p><u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-11	93.575	<u>The Municipality did not maintain a set of accounting records that present the financial position of the program</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-12	93.575	<u>Failures related with the disbursement process</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-13	14.228	<u>Failures related to housing rehabilitation participant files</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-15	93.575	<u>The Municipality did not maintain adequate cash management procedures.</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-19	93.575	<u>Inadequate Property Records</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
01-23	14.228	<u>Reporting Failures</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		submitted to the Federal clearinghouse.
01-25	93.575	<u>Reporting Failures</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-19	93.575	<u>Inadequate Property Records</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-21	93.575	<u>Cash Management</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-22	10.770	<u>Records Retention Requirement</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
00-26	83.544	<u>Activities Allowed or Unallowed – Allowable Cost</u> The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.