

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

MUNICIPIO DE JUNCOS
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

OFFICE OF THE COMPTROLLER
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2005

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of 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, 2005, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 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 respective financial position of the governmental activities of the Municipality of Juncos, Puerto Rico, as of June 30, 2005, 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 AUDITOR'S 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, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 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
December 22, 2005

Stamp No. 2106127 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, 2005

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, 2005. 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, 2004. 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. assess 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 2005 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 \$52,126,160 which represents an increase of 3% compared to prior fiscal year;
2. At the end of fiscal year 2005, total liabilities amounted to \$37,355,132. Out of said amount, \$25,866,681 corresponded to long-term liabilities of which \$16,036,463 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 \$14,771,028 which represents an increase of 11% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$32,636,543, derived from the following sources: \$3,423,823 charges for services; \$5,925,198 from operating grants and contributions; \$1,285,261 from capital grants and contributions obtained from other sources, and \$22,002,261 from general revenues available;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 \$31,222,901;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to the increase in the Net Assets Figure by \$1,413,642;
7. As of the close of the current fiscal, the Municipality's Governmental Funds reported combined ending fund balances of \$6,544,315;
8. As of the end of the current fiscal year the Municipality's General Fund Balance amounted to \$763,461.
9. The actual General Fund budgetary activities resulted in an unfavorable balance of \$523,314.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2005. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of 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, 2005, shows total expenses incurred to afford the cost of all functions and programs amounted to \$31,222,901. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$10,634,282 was derived from the following sources: \$3,423,823 charges for services; \$5,925,198 from operating grants and contributions; and \$1,285,261 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$22,002,261. When such figure is added to the \$10,634,282 previously mentioned, total revenues available for the financing of activities amounted to \$32,636,543. There was an excess of revenues over expenses in the amount of \$1,413,642 which contributed to the figure of net assets attained at the end of the fiscal year.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. As 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)

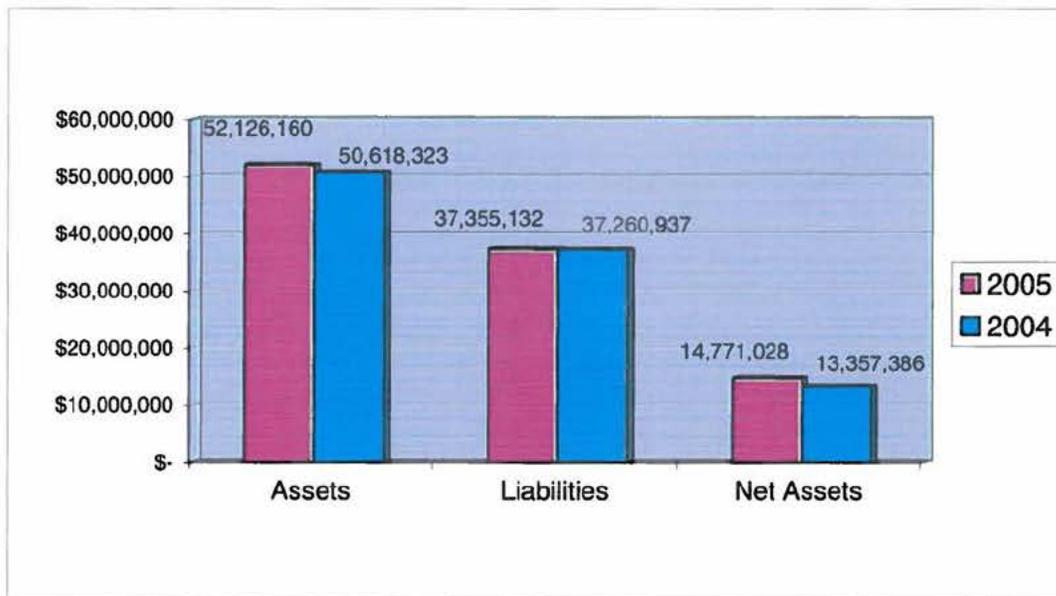
YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Juncos, primary government assets exceeded total liabilities by \$14,771,028 at the end of 2005, compared to \$13,357,386 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	2005	2004	Change	%
Current and other assets	\$ 17,304,333	\$ 19,330,179	\$ (2,025,846)	(10%)
Capital assets	34,821,827	31,288,144	3,533,683	11%
Total assets	52,126,160	50,618,323	1,507,837	3%
Current and other liabilities	11,488,451	11,286,098	202,353	2%
Long-term liabilities	25,866,681	25,974,839	(108,158)	-
Total liabilities	37,355,132	37,260,937	94,195	-
Invested in capital assets, net of related debt	19,716,614	15,112,931	4,603,683	30%
Restricted	5,628,219	7,551,833	(1,923,614)	(25%)
Unrestricted deficit	(10,573,805)	(9,307,378)	(1,266,427)	14%
Total net assets	\$ 14,771,028	\$ 13,357,386	\$ 1,413,642	11%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2005, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$1,413,642. Approximately 53 percent of the Municipality's total revenue came from taxes, while 36 percent resulted from grants and contributions, including federal aid. Charges for Services provide 10 percent of the total revenues. The largest expenses were for general government, health and welfare services, community development, 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.

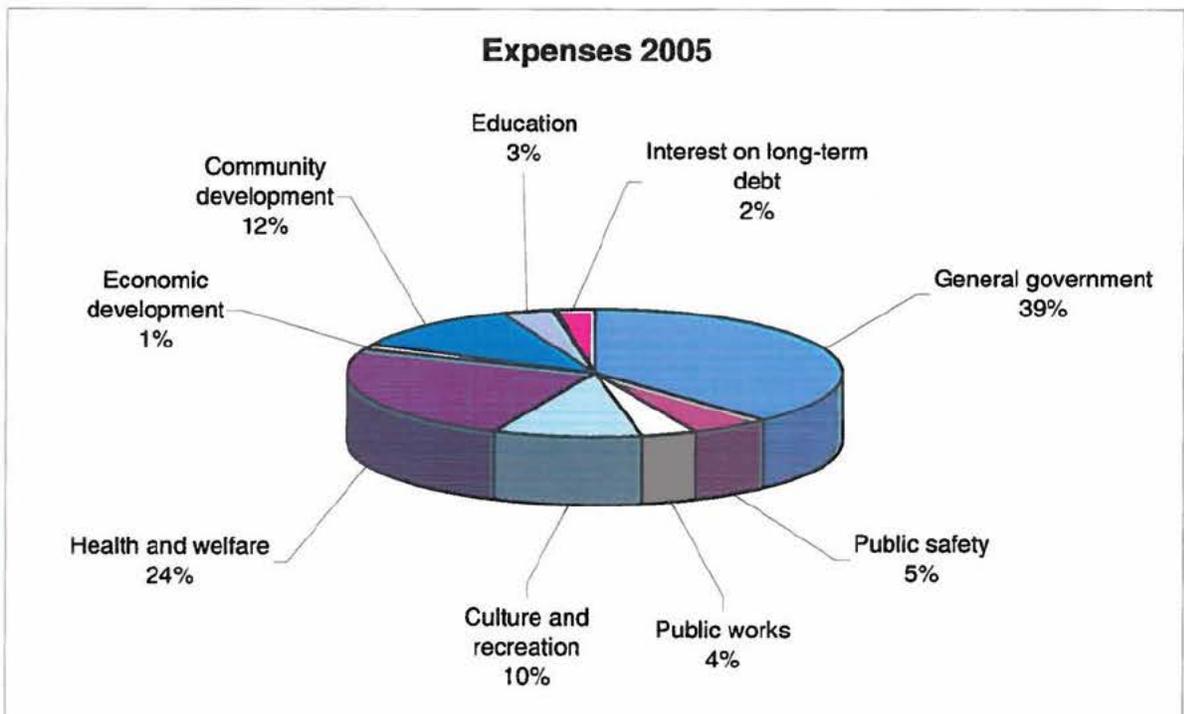
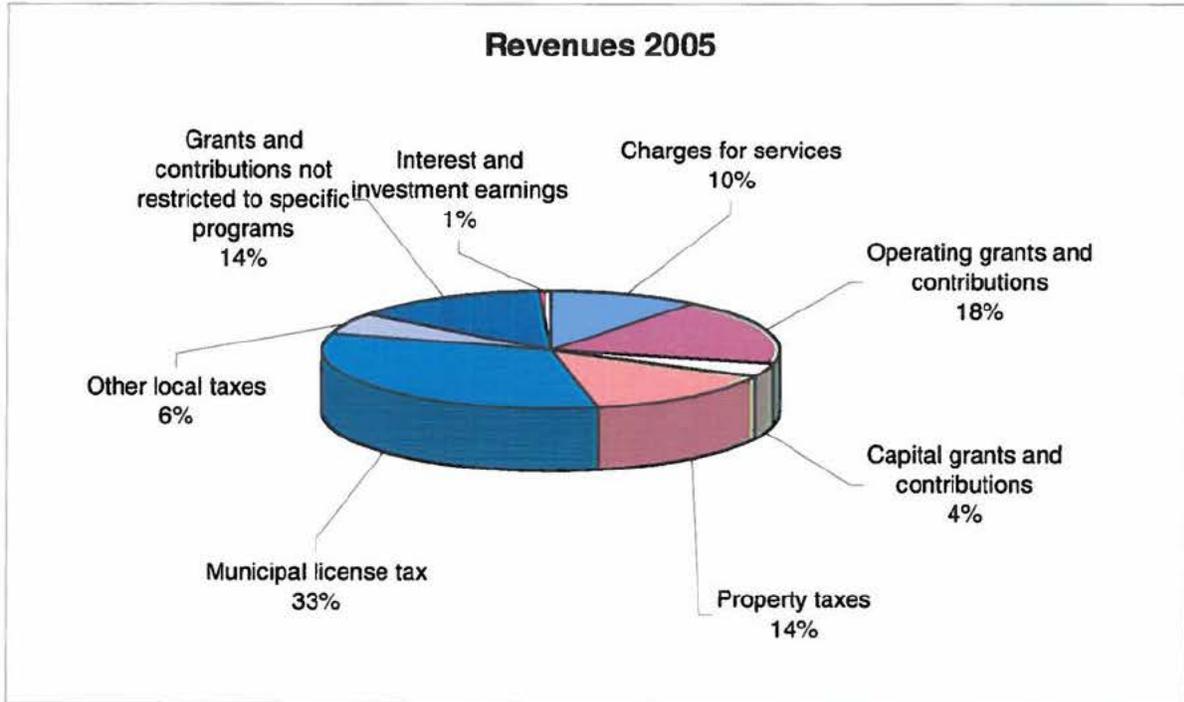
Condensed Statement of Activities	2005	2004	Change	%
Program revenues:				
Charges for services	\$ 3,423,823	\$ 2,748,977	\$ 674,846	25%
Operating grants and contributions	5,925,198	5,835,529	89,669	2%
Capital grants and contributions	1,285,261	2,307,317	(1,022,056)	(44%)
General revenues:				
Property taxes	4,623,275	4,578,702	44,573	1%
Municipal license tax	10,680,955	6,927,137	3,753,818	54%
Other local taxes	1,874,102	989,308	884,794	89%
Grants and contributions not restricted to specific programs	4,527,001	5,080,149	(553,148)	(11%)
Interest and investment earnings	265,219	254,970	10,249	4%
Gain (loss) on sale/retirement of capital assets	-	5,953	(5,953)	(100%)
Miscellaneous	31,709	55,769	(24,060)	(43%)
Total revenues	32,636,543	28,783,811	3,852,732	13%
Expenses:				
General government	11,894,553	9,648,471	2,246,082	23%
Public safety	1,665,307	1,406,602	258,705	18%
Public works	1,096,681	1,795,821	(699,140)	(39%)
Culture and recreation	3,052,881	1,731,029	1,321,852	76%
Health and welfare	7,486,232	5,133,186	2,353,046	46%
Economic development	443,289	478,109	(34,820)	(7%)
Community development	3,703,655	198,460	3,505,195	1766%
Education	1,003,209	723,234	279,975	39%
Urban development	110,570	6,463	104,107	1611%
Interest on long-term debt	766,524	761,270	5,254	1%
Total expenses	31,222,901	21,882,645	9,340,256	43%
Change in net assets	1,413,642	6,901,166	(5,487,524)	(80%)
Net assets, beginning of year, as restated	13,357,386	6,456,220	6,901,166	107%
Net assets, end of year	\$ 14,771,028	\$13,357,386	\$ 1,413,642	11%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$6,544,315, a decrease of \$1,647,187 in comparison with the prior year. There are reservations of fund balance amounting to \$7,452,905. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$1,085,835), 2) to pay debt service (\$1,766,584), 3) to pay for capital projects (\$3,337,068), 4) for other purposes (\$677,202) and 5) for reserve for long-term advances (\$586,216).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has an undesignated fund balance (Deficit) of (\$908,590).

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 2005, the Municipality used \$450,024 available in the General Fund - Fund Balance Account of previous year for further increases in capital assets and for the extension of several municipal services to Juncos's communities.

The Municipal Legislature approved a revision to the General Fund Budget for fiscal year 2005 which amounted to \$130,065. 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, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2005, amounts to \$42,564,336, net of accumulated depreciation of \$7,742,509, leaving a net book value of \$34,821,827. 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, 2005, the Municipality has \$1,925,234 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, 2005

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 2005-2006.

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 August 8, 2005, the Government Development Bank for Puerto Rico (GDB) authorized the issuance of a General Obligation Bond for the amount of \$833,000, for judiciary settlement. Repayment of the general obligation bond is schedule from July, 2006 through July, 2015 with a variable interest rate of 5.00% to 6.50%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINAL COMMENTS (CONTINUED)

On August 8, 2005, the Government Development Bank for Puerto Rico (GDB) authorized a general obligation bond to the Municipality for approximately \$508,000. The bond proceeds were used to complete costs of specific construction in progress (sanitary and sewer system in "Comunidad Las Piñas") The bond repayment is schedule from January 2006 through January 2030, 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. 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. 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, 2005**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,005,147
Cash with fiscal agent	3,720,789
Accounts receivable:	
Municipal license tax	2,048
Intergovernmental	2,901,944
Landfill users	613,144
Construction taxes	59,130
Interest	2,131
Capital assets:	
Land, improvements, and construction in progress	16,488,001
Other capital assets, net of depreciation	18,333,826
Total capital assets	<u>34,821,827</u>
Total assets	<u>52,126,160</u>
Liabilities	
Accounts payable and accrued liabilities	1,689,631
Due to other governmental entities	298,736
Deferred revenues:	
Municipal license tax	8,607,067
Federal grant revenues	740,382
Interest payable	152,635
Noncurrent liabilities:	
Due within one year	2,303,254
Due in more than one year	<u>23,563,427</u>
Total liabilities	<u>37,355,132</u>
Net Assets	
Invested in capital assets, net of related debt	19,716,614
Restricted for:	
Capital projects	3,337,068
Debt service	1,613,949
Other purposes	677,202
Unrestricted (deficit)	<u>(10,573,805)</u>
Total net assets	<u>\$ 14,771,028</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, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 11,894,553	\$ 46	\$ 299,536	\$ 200,000	\$ (11,394,971)
Public safety	1,665,307	16,292	284,573	53,887	(1,310,555)
Public works	1,096,681	2,649,979	589,353	96,078	2,238,729
Health and welfare	7,486,232	710,268	2,213,820	2,277	(4,559,867)
Culture and recreation	3,052,881	46,654	153,161	720,374	(2,132,692)
Economic development	443,289		443,216		(73)
Community development	3,703,655		1,460,194	212,645	(2,030,816)
Urban development	110,570		76,308		(34,262)
Education	1,003,209	584	405,037		(597,588)
Interest on long-term debt	766,524				(766,524)
Total governmental activities	\$ 31,222,901	\$ 3,423,823	\$ 5,925,198	\$ 1,285,261	(20,588,619)
General revenues:					
Property taxes					4,623,275
Municipal license tax					10,680,955
Other local taxes					1,874,102
Grants and contributions not restricted to specific programs					4,527,001
Interest and investment earnings					265,219
Miscellaneous					31,709
Total general revenues					22,002,261
Change in net assets					1,413,642
Net assets - beginning					13,357,386
Net assets - ending					\$ 14,771,028

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

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 5,905,911	\$ 816,057	\$ 2,220,980	\$ 1,082,199	\$ 10,005,147
Cash with fiscal agent	4,909	654,033	1,925,234	1,136,613	3,720,789
Accounts receivable:					
Municipal license tax	2,048				2,048
Intergovernmental		1,290,664		1,611,280	2,901,944
Landfill users	613,144				613,144
Construction taxes	59,130				59,130
Interest				2,131	2,131
Advances from other funds	586,216				586,216
Due from other funds	3,525,348	54,154			3,579,502
Total assets	\$ 10,696,706	\$ 2,814,908	\$ 4,146,214	\$ 3,812,223	\$ 21,470,051
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 973,288	\$ 43,658	\$ -	\$ 96,887	\$ 1,113,833
Due to other governmental entities	298,736				298,736
Advances to other funds		586,216			586,216
Due to other funds	54,154	1,454,981	829,230	1,241,137	3,579,502
Deferred revenues:					
Municipal license tax	8,607,067				8,607,067
Federal grant revenues		639,206		101,176	740,382
Total liabilities	9,933,245	2,724,061	829,230	1,439,200	14,925,736
Fund balances:					
Reserved for:					
Encumbrances	1,085,835				1,085,835
Capital projects			3,316,984		3,316,984
Other purposes		90,847			90,847
Long-term advances	586,216				586,216
Reserved reported in nonmajor funds:					
Debt service fund				1,766,584	1,766,584
Capital projects				20,084	20,084
Other Purposes				586,355	586,355
Unreserved:					
Undesignated (deficit)	(908,590)				(908,590)
Total fund balances	763,461	90,847	3,316,984	2,373,023	6,544,315
Total liabilities and fund balances	\$ 10,696,706	\$ 2,814,908	\$ 4,146,214	\$ 3,812,223	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	34,821,827
Long-term liabilities, including non current accounts payable and accrued interests payable, are not due and payable in the current period, and therefore, are not reported in the funds	(26,595,114)
Net assets of governmental activities	\$ 14,771,028

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,405,599	\$ -	\$ -	\$ 1,217,676	\$ 4,623,275
Municipal license taxes	10,492,481			188,474	10,680,955
Licenses, permits and other local taxes	1,792,142			81,960	1,874,102
Charges for services	301,815			115,492	417,307
Intergovernmental	4,998,274	59,623	1,110,258	1,839,273	8,007,428
Rent of property	43,454			82,200	125,654
Fines and forfeitures	16,292				16,292
Interest	153,843			111,376	265,219
Users fees on landfill facilities	2,617,028				2,617,028
Federal grants		3,341,897		489,526	3,831,423
Miscellaneous	34,086	567	196	86,837	121,686
Total revenues	23,855,014	3,402,087	1,110,454	4,212,814	32,580,369
Expenditures					
Current:					
General government	9,933,311		210,835	353,751	10,497,897
Public safety	1,382,251	62,891	4,690	168,762	1,618,594
Public works	4,286,462	173,691	953,531	649,191	6,062,875
Health and welfare	4,789,572	1,481,156		1,347,392	7,618,120
Culture and recreation	1,847,636		1,047,884	184,445	3,079,965
Economic development				443,289	443,289
Community development		1,460,194	56	436,955	1,897,205
Urban development			52,919	57,651	110,570
Education	735,538	224,137		24,306	983,981
Debt service:					
Principal				1,153,750	1,153,750
Interest				761,310	761,310
Total expenditures	22,974,770	3,402,069	2,269,915	5,580,802	34,227,556
Excess (deficiency) of revenues over (under) expenditures	880,244	18	(1,159,461)	(1,367,988)	(1,647,187)
Other financing sources (uses)					
Transfers in	143,123			936,509	1,079,632
Transfers out	(899,575)		(36,934)	(143,123)	(1,079,632)
Total other financing sources (uses)	(756,452)	-	(36,934)	793,386	-
Net change in fund balances	123,792	18	(1,196,395)	(574,602)	(1,647,187)
Fund balance, beginning	639,669	90,829	4,513,379	2,947,625	8,191,502
Fund balance, ending	763,461	90,847	3,316,984	2,373,023	6,544,315

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, 2005

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the Statement of Activities are different because:	\$ (1,647,187)
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	4,963,844
Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period.	60,283
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(1,486,335)
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 loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets.	(4,109)
Account Payables reported in the Government-Wide Statement of Activities and Change in Net Assets, but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.	(575,798)
Interest Payable 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 Payable was not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.	(5,214)
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.	1,153,750
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.	41,590
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.	74,270
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.	11,559
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.	(269,777)
Long-term claims and judgments 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, claims and judgments are not reported as expenditures in Government Funds. The following amount represents the increase in long-term claims and judgments.	(903,234)
Change in Net Assets of Governmental Activities	\$ 1,413,642

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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, 2005

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

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

A. Component Units

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

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, 2005

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

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

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

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

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

Capital 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, 2005

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

Special Revenue Fund – Section 8 – Special Revenue Funds are used to account for revenues derived from Section 8 Housing 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, 2005

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, 2005

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 represent mostly charge for services rendered to other governmental entities. Intergovernmental receivables in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2005 amounted to \$322,313. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$484,900 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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

11. Reconciliation of Government-wide and Fund Financial Statements

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

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 34,821,827	
Deduct:		
Bonds Payable	(10,865,213)	
Notes Payable	<u>(4,240,000)</u>	\$ 19,716,614
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		3,337,068
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	1,766,584	
Deduct:		
Interest Payable	<u>(152,635)</u>	1,613,949
<u>Net assets restricted for other purposes</u>		
Fund balance restricted for other purpose		677,202
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	763,461	
Deduct:		
Accounts Payable	(575,798)	
Bond and Notes	(931,250)	
Compensated absences debt	(1,591,462)	
Advances Property Tax Debt	(1,810,041)	
Landfill Closure Costs	(4,055,481)	
Landfill Post closure Cost	(1,470,000)	
Landfill Post closure Cost	<u>(903,234)</u>	(10,573,805)
Total net assets - governmental activities		<u>\$ 14,771,028</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

2. DEPOSITS

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

The Municipality's bank balances in commercial banks of approximately \$5,905,911 in the general fund, the \$816,057 in the special revenue fund - federal grants, and the \$2,220,980 in the capital projects fund - state and local grants, were fully collateralized at June 30, 2005. In the other governmental funds there were deposits with commercial banks of approximately \$1,062,199 that were fully collateralized.

The deposits at GDB of approximately \$4,909 in the general fund, the \$654,033 in the special revenue fund - federal grants, the \$1,925,234 in the capital projects fund - state and local grants and the \$1,136,613 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, 2005, 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, 2005, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

3. RECEIVABLES (CONTINUED)

- B. *Intergovernmental Receivable* - Intergovernmental receivables 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	\$ 764,438
Community Development Block Grant - State's Program	237,190
Safe and Drug-Free Schools and Communities-State's Grant	224,137
Child and Adult Care Food Program	<u>64,899</u>
Total	<u>\$ 1,290,664</u>

Intergovernmental receivables in the other governmental funds represent the debt service fund amount due from the CRIM resulting from the excess of current year property tax collections over current year advances. Also, this amount represents expenditures incurred not yet reimbursed by the other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ 635,945
Health Department	481,698
Department of Labor and Human Resources (Law 52 Grant)	244,796
Police Department ("Codigo de Orden Público")	185,836
Department of Agriculture (WWDL&G)	<u>63,005</u>
Total	<u>\$ 1,611,280</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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2005, and interfund transfers during the fiscal year ended at June 30, 2005, are summarized as follows:

a. Due from/to other fund and advances from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Federal Grants	Payrolls, accruals, and other expenditures not reimbursed	\$ 2,041,197
General Fund	Capital Projects Fund - State and Local Grants	Reimbursable expenditures	829,230
General Fund	Other governmental funds	Payrolls, accruals, and other expenditures not reimbursed	1,235,114
General Fund	Other governmental funds	Interest not transferred	6,023
Other Governmental Fund	General Fund	Reimbursable expenditures	<u>54,154</u>
Total			<u>\$ 4,165,718</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other governmental funds	Debt retirement	\$ 826,810
General Fund	Other governmental funds	To match special grant funds	72,765
Capital Projects Fund - State and Local Grants	Other governmental funds	Reimbursable expenditures	36,934
Special Revenue Fund - State and Local Grants	General Fund	Interest Revenues	<u>143,123</u>
Total			<u>\$ 1,079,632</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2005, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital asset, not being depreciated:				
Land	\$ 11,495,895	\$ 286,212	\$ (4,109)	\$ 11,777,998
Construction in progress	<u>6,520,774</u>	<u>1,826,611</u>	<u>(3,637,382)</u>	<u>4,710,003</u>
Total capital assets not being depreciated	<u>18,016,669</u>	<u>2,112,823</u>	<u>(3,641,491)</u>	<u>16,488,001</u>
Capital assets, being depreciated:				
Buildings	8,569,123	3,005,666		11,574,789
Buildings improvements	3,094,524	433,784		3,528,308
Infrastructure	1,339,784	1,003,968		2,343,752
Infrastructure improvements	659,488	1,028,871		1,688,359
Equipment	2,287,400	727,538		3,014,938
Furnishing	554,042	69,172		623,214
Works of art	7,900	1,000		8,900
Computers	333,233	57,533		390,766
Vehicles	<u>2,682,155</u>	<u>221,154</u>	<u>-</u>	<u>2,903,309</u>
Total capital assets being depreciated	<u>19,527,649</u>	<u>6,548,686</u>	<u>-</u>	<u>26,076,335</u>
Less accumulated depreciation for:				
Buildings	(2,515,772)	(218,682)		(2,734,454)
Buildings improvements	(132,596)	(84,638)		(217,234)
Infrastructure	(33,172)	(47,340)		(80,512)
Infrastructure improvements	(38,796)	(66,408)		(105,204)
Equipment	(1,158,500)	(555,948)		(1,714,448)
Furnishing	(306,693)	(105,026)		(411,719)
Works of art	(1,376)	(1,143)		(2,519)
Computers	(221,369)	(72,937)		(294,306)
Vehicles	<u>(1,847,900)</u>	<u>(334,213)</u>	<u>-</u>	<u>(2,182,113)</u>
Total accumulated depreciation	<u>(6,256,174)</u>	<u>(1,486,335)</u>	<u>-</u>	<u>(7,742,509)</u>
Total capital assets being depreciated, net	<u>13,271,475</u>	<u>5,062,351</u>	<u>-</u>	<u>18,333,826</u>
Governmental activities capital assets, net	<u>\$ 31,288,144</u>	<u>\$ 7,175,174</u>	<u>(\$ 3,641,491)</u>	<u>\$ 34,821,827</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	<u>Amount</u>
Community Development	\$ 93,026
Culture and Recreation	45,815
Education	23,511
General Governmental	429,364
Health and Welfare	456,673
Public Safety	154,479
Public Work	<u>283,467</u>
Total depreciation expense-governmental activities	<u>\$ 1,486,335</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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$315,648 and is payable as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2006	\$ 74,270
2007	74,270
2008	74,270
2009	74,270
Thereafter	<u>18,569</u>
Total	<u>\$ 315,649</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, 2005, 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, 2005

6. PROPERTY TAXES (CONTINUED)

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

The annual tax rate is 8.83% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 201,505
Internal Revenue Service (Social Security)	80,501
General Services Administration	11,775
Puerto Rico Aqueduct and Sewer Authority	<u>4,955</u>
Total	<u>\$ 298,736</u>

8. DEFERRED REVENUES

A. **Municipal License Tax** - The deferred revenues of approximately \$8,607,067 in the general fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

B. **Federal Government** - The deferred revenues presented in the special revenue fund - federal grants represents the portion of federal grants received for which qualifying expenditures have not been incurred.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

8. DEFERRED REVENUES (CONTINUED)

Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Public Assistance Grants	\$ 487,019
Local Law & Enforcement Block Grant	60,002
Safety Community Project Implementation – Incentive Grant	36,340
Title III-B – Nutrition Program for the Elderly	23,102
Emergency Management Performance Grant	15,855
Community Services Block Grant	7,679
Citizen Corps	4,101
Child Care and Development Block Grant	3,711
Juvenile Justice and Delinquency Prevention	1,352
Others	<u>45</u>
Total	<u>\$ 639,206</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>
Water and Waste Disposal Loans and Grants	\$ 57,868
Section 8 Housing Choice Voucher Program	26,137
Housing Opportunities for Persons with Aids	17,164
Community Development Block Grant	<u>7</u>
Total	<u>\$ 101,176</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 11,171,213	\$ -	\$ 306,000	\$ 10,865,213	\$ 327,000
Notes Payable	6,019,000		847,750	5,171,250	875,750
Property Tax Debt	1,884,311		74,270	1,810,041	74,270
Department of Labor	41,590		41,590	-	-
Puerto Rico Electric Power Authority	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	1,321,685	388,325	118,548	1,591,462	123,000
Claims and Judgments	<u>-</u>	<u>903,234</u>	<u>-</u>	<u>903,234</u>	<u>903,234</u>
Total	<u>\$ 25,974,839</u>	<u>\$ 1,291,559</u>	<u>\$ 1,399,717</u>	<u>\$ 25,866,681</u>	<u>\$ 2,303,254</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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. Bonds payable outstanding at June 30, 2005 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2005</u>
1984 Series	1-1-08	\$ 700,000	5.00%	\$ 138,000
1993 Series	1-1-17	264,000	4.50%	175,000
1994 Series	1-1-18	650,000	5.25%	484,000
1996 Series	1-1-21	525,000	4.50%	428,213
1996 Series	1-1-21	551,000	4.50%	462,000
1998 Series	1-1-22	520,000	4.50%	483,000
2002 Series	7-1-26	305,000	5.00% to 6.75%	290,000
2002 Series	7-1-26	1,955,000	5.00% to 6.75%	1,855,000
2003 Series	7-1-27	1,060,000	5.00% to 6.50%	1,025,000
2004 Series	7-1-28	305,000	2.36% to 4.00%	300,000
2004 Series	7-1-18	405,000	2.36% to 4.00%	385,000
2004 Series	7-1-28	1,860,000	5.00% to 6.50%	1,830,000
2004 Series	7-1-28	3,115,000	5.00% to 6.50%	3,010,000
Total general obligation bonds				<u>\$ 10,865,213</u>

These bonds, except the 2004 Series \$3,115,000 bond, are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 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, 2005

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>
2006	\$ 327,000	\$ 594,186
2007	343,000	598,505
2008	375,000	580,365
2009	331,000	560,888
2010	356,000	543,115
2011-2015	2,109,000	2,363,499
2016-2020	2,574,000	1,760,225
2021-2025	2,590,213	1,010,913
2026-2030	<u>1,860,000</u>	<u>211,157</u>
Total	<u>\$ 10,865,213</u>	<u>\$ 8,222,853</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. Notes payable outstanding at June 30, 2005 are 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, 2005</u>
1994 Series	4-1-13	\$ 1,680,000	5.00% to 8.00%	\$ 931,250
2001 Series	7-1-05	1,365,000	2.70% to 6.13%	315,000
2002 Series	1-1-10	510,000	4.75%	381,000
2004 Series	7-1-10	405,000	5.00% to 6.50%	355,000
Section 108 Loan	8-1-13	1,510,000	1.75% to 5.29%	1,236,000
Section 108 Loan	8-1-13	2,385,000	1.75% to 5.29%	<u>1,953,000</u>
Total notes payable				<u>\$ 5,171,250</u>

Except for the Section 108 Notes, and the 1994 Series \$1,680,000 note, which are payable with the General Fund resources, the notes are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

9. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 875,750	\$ 218,080
2007	574,750	193,603
2008	586,500	168,936
2009	601,750	142,274
2010	614,750	113,718
2011-2015	<u>1,917,750</u>	<u>184,205</u>
Total	<u>\$ 5,171,250</u>	<u>\$ 1,020,816</u>

- Property Tax Debt** – These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2005, as described in Note 6, from property tax advances in excess of actual collections and other property tax debts.
- Compensated absences** – The government-wide statement of net assets includes approximately \$506,434 of accrued sick leave benefits, and approximately \$1,085,028 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 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, 2005. Such estimate was determined in the prior fiscal years. 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.
- Claims and Judgments** – These amounts represent the balance related to legal claims at June 30, 2005, as described in Note 12.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

10. PENSION PLAN

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

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

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2005 amounted to approximately \$353,522 and \$396,244 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, 2005

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, 2005, 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.

With respect to pending and threatened litigations, the Municipality has reported liabilities of \$903,234 in the Government-Wide Financial Statements for awarded and anticipated unfavorable judgments. The Municipality settled with the employees dismissed in year 2000 for the amount of \$828,000. The liquidation of this debt will be realized with the proceeds of a special obligation bond of \$833,000 approved on August 3, 2005. In addition, on December 19, 2005, the Municipality liquidated a \$75,234 of Claims and Judgments, related to a case settled with a supplier in May 2005 corresponding to an unpaid services provided to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

12. CONTINGENCIES (CONTINUED)

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.

13. SUBSEQUENT EVENTS

On August 8, 2005, the Government Development Bank for Puerto Rico (GDB) authorized the issuance of a General Obligation Bond for the amount of \$833,000, for judiciary settlement. Repayment of the general obligation bond is schedule from July, 2006 through July, 2015 with a variable interest rate of 5.00% to 6.50%.

On August 8, 2005, the Government Development Bank for Puerto Rico (GDB) authorized a general obligation bond to the Municipality for approximately \$508,000. The bond proceeds were used to complete costs of specific construction in progress (sanitary and sewer system in "Comunidad Las Piñas") The bond repayment is schedule from January 2006 through January 2030, and is guaranteed by the United State Department of Agriculture - Rural Development ("USDA - Rural Development").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

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

YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note 1)	Positive Negative
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 3,189,608	\$ 3,319,674	\$ 3,405,599	\$ 85,925
Municipal license tax	9,720,000	9,720,000	10,492,481	772,481
Licenses, permits and other local taxes	1,387,885	1,387,885	1,733,012	345,127
Intergovernmental	4,985,204	4,985,204	4,998,274	13,070
Rent of property	115,300	115,300	63,914	(51,386)
Fines and forfeitures	2,000	2,000	16,292	14,292
Charges for services	1,521,000	1,521,000	301,815	(1, 219,185)
Interest	240,000	240,000	296,966	56,966
Users Fees on Landfill Facilities	3,500,000	3,500,000	2,337,046	(1,162,954)
Miscellaneous	<u>50,000</u>	<u>50,000</u>	<u>34,086</u>	<u>(15,914)</u>
Total revenues and other financing sources	<u>24,710,997</u>	<u>24,841,063</u>	<u>23,679,485</u>	<u>(1,161,578)</u>
Budget carryover (1)		<u>450,024</u>	<u>450,024</u>	
Total revenues and other financing sources after carryover	<u>24,710,997</u>	<u>25,291,087</u>	<u>24,129,509</u>	<u>(1,161,578)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	9,467,183	10,278,905	10,117,868	161,037
Public safety	1,553,776	1,400,902	1,391,582	9,320
Public works	4,661,596	4,675,231	4,430,838	244,393
Health and welfare	5,674,667	5,206,499	5,074,842	131,657
Culture and recreation	1,745,691	1,904,998	1,900,787	4,211
Education	991,384	834,823	747,557	87,266
Operating transfer to other fund	<u>616,700</u>	<u>989,729</u>	<u>989,349</u>	<u>380</u>
Total expenditures, encumbrances and other financing uses	<u>24,710,997</u>	<u>25,291,087</u>	<u>24,652,823</u>	<u>638,264</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 523,314)</u>	<u>(\$523,314)</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 24,129,509
Differences-budget to GAAP:				
Budget carryover				(450,024)
GAAP adjustments to revenues				<u>318,652</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,998,137</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 24,652,823
Differences-budget to GAAP:				
GAAP adjustments to expenditures				50,388
Prior year encumbrances recorded as current year expenditures for GAAP basis				156,346
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(985,212)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,874,345</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, 2005

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2005 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2005.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL FUNDS

YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Numbr		
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program: Nutrition Program for the Elderly	10.570		
Direct Program: Water and Waste Disposal Loans and Grants	10.770		
Pass-through the Commonwealth of Puerto Rico-Department of Education: Child and Adult Care Food Program	10.558	Not Available	209,869
Total U.S. Department of Agriculture			342,044
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		322,235
Direct Program: Section 8 Housing Choice Vouchers	14.871		274,159
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants - State's Program	14.228	04-FC, AB-35 03-FC, AB-35 02-FC, AB-35 01-FD-35 00-FD-35 99-FD-35 98-FD-35 97-FD-35	1,460,194

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

<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>100,647</u>
Total U.S. Department of Housing and Urban Development			<u>2,157,235</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law Enforcement Block Grants Program	16.592	2003-LB-MJ-01	<u>24,078</u>
Total U.S. Department of Justice			<u>24,078</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission State and Community Highway Safety	20.600	04-03-53	<u>33,574</u>
Total U.S. Department of Transportation			<u>33,574</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the Commonwealth of Puerto Rico - Department of Education Safe and Drug-Free Schools and Communities - State Grants	84.186	Not Available	<u>224,137</u>
Total U.S. Department of Education			<u>224,137</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

<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 HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office)			
Special Programs for Aging - Title III, Part B - Grant for Supportive Services and Senior Center	93.044	Not Available	30,928
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045	Not Available	61,859
Pass-through the Commonwealth of Puerto Rico - Family Department (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	<u>990,756</u>
Total U.S. Department of Health and Human Services			<u>1,083,543</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grants	97.036	1247-DR-PR 1501-DR-PR 1552-DR-PR	282,513
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency			
Emergency Management Performance Grant	97.042	Not Available	5,239
Homeland Security Grant Program	97.067	Not Available	<u>4,295</u>
Total U.S. Department of Homeland Security			<u>292,047</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,156,658</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, 2005

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	\$ 3,344,897	\$ 811,761	\$ 4,156,658
Non federal programs Expenditures	57,172	4,769,041	4,826,213
Total expenditures in the general purpose financial statements	<u>\$ 3,402,069</u>	<u>\$ 5,580,802</u>	<u>\$ 8,982,871</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, 2005, and have issued our report thereon dated December 22, 2005, which was qualified 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 **05-01** and **05-02**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 **05-02** 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 December 22, 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
December 22, 2005

Stamp No. 2106128 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, 2005. The **Municipality of Juncos's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Juncos's** management. Our responsibility is to express an opinion on the **Municipality of Juncos's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Juncos's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Juncos's** compliance with those requirements.

In our opinion, the **Municipality of Juncos** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, 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, **05-03** through **05-09**.

**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)**

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 **05-03** through **05-09**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **05-03**, **05-05** through **05-07** and **05-09** 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 28, 2006.

**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 28, 2006

Stamp No. 2106129 of the Puerto Rico
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified, except for qualify for government-wide financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported

<u>Type of auditor's report issued on compliance for major programs:</u>	Unqualified
--	--------------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.248	Community Development Block Grants - 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 <input checked="" type="checkbox"/>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTIN'
YEAR ENDED JUNE 30, 2005

Section II - Financial Statements Findings

Finding Reference	05-01
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 Management concurs with the finding. The Office of Commissioner of Municipal Affairs will acquire a new accounting software during the fiscal year 2005-2006 and the Municipality expects that the implementation will resolve this situation.

Implementation Date: July 2006

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, 2005

Section II - Financial Statements Findings

Finding Reference	05-02
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, 2005.
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 2005-2006 government-wide financial statements.

Implementation Date: December 2006

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, 2005

Section III – Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	05-03
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 – Housekeepers Activities
Statement of Condition	<p>We performed a housekeeper activities test of ten (10) participant’s files and found the following exceptions:</p> <ul style="list-style-type: none">a) Two (2) 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) Four (4) participant’s files did not have the Eligibility Determination form (OCAM-AH-003) completed in all its parts.c) One (1) participant’s files did not have copy of the Social Security card.d) Two (2) participant’s files did not have the Eligibility Approval form (OCAM-AH-004A) completed in all its parts.e) Two (2) participant’s files did not have the Participation Contract (OCAM-AH-005) completed in all its parts.f) 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	<p>Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality have an operational manual for housekeepers activities titled “Guía Operacional de Servicio de Auxiliares del Hogar”.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 05-03 (continued)

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 issued by the Office of Commissioner of Municipal Affairs (OCAM).

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 will instruct Program staff to review the participant's files to correct, if possible, any condition observed in each file to assure compliance with the Program regulations. Also, the Municipality will instruct the 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: June 30, 2006

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-04
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	Cash Management
Statement of Condition	<p>We performed a Cash Management test and examined twelve (12) cash advances received by the Municipality during the fiscal year 2004-2005 and also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. For seven (7) cash advances we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.b. The Municipality maintains an average cash balance of \$52,993 during the fiscal year 2004-2005.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality's disbursements procedures failed to assure that the funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen it's disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-04 (continued)

Questioned Costs None

**Management Response
and Corrective Action** The Municipality's Management will instruct Program accountant to begin the disbursement process when the requisitions of funds were submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds were transferred by the Pass-through Grantor we will disburse its immediately.

Implementation Date: April, 2006

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-05**

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

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

Requirement **Davis-Bacon Act**

Statement of Condition During our Davis-Bacon Act test, for the Community Development Block Grants - State's Program, we verified the construction projects 01-FD-35-010, 03-FC-35-004, and 04-FC-35-001. The following summarizes the situations found:

- a. For the construction projects 01-FD-35-010, 03-FC-35-004 and 04-FC-35-001 the Program did not monitor the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates.
- b. For the construction project 01-FD-35-010 the Program did not request all the weekly payrolls for the period of activity of the project to be reviewed by the municipal employee responsible of applying monitoring procedures.
- c. For the construction projects 01-FD-35-010, 03-FC-35-004, and 04-FC-35-001 the Municipality did not perform interviews to the contractor's and subcontractor's laborers.

Also, during our Davis-Bacon Act test, for the Community Development Block Grants - Section 108 Loan Guarantees, we verified the construction project of the Athletic Track on the Valenciano Sport Complex. We noted that the Program did not monitor the weekly payrolls submitted by the contractor to assure the compliance with prevailing wage rates, and the Program did not perform interviews to the contractor's and subcontractor's laborers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	05-05 (continued)
Criteria	Davis-Bacon Act, as amended, DOL (40 USC 276a - 276a-7).
Cause of Condition	The Municipality's internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a -276a-7).
Recommendation	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then communicate promptly to the contractors any failure in the payroll process.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's Management instructed Program staff to follow the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees, and to assure that conditions observed by the auditors do not occur again.</p> <p>Implementation Date: April, 2006</p> <p>Responsible Person: Mrs. Gladys M. Marcano Díaz Federal Programs Department Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 05-06

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

Requirement **Reporting**

Statement of Condition Our examination of the reporting requirements of the Community Development Block Grants - State's Program revealed the following:

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

Program Year	Amount per Quarterly Report	Amount per General Ledger	Difference
97-FD-35	\$ 21,463	\$ 19,975	\$ 1,488
99-FD-35	4,712	4,762	(50)
00-FD-35	1,547	1,701	(154)
01-FD-35	258,565	221,693	36,872
02-AB-35	162,155	131,279	30,876
02-FC-35	45,756	41,851	3,905
03-AB-35	190,015	50,249	139,766
03-FC-35	342,128	168,870	173,258
04-FC-35	303,393	224,168	79,225

- b. The Financial Quarterly Reports for the period ended March 31, 2005 and June 30, 2005, were submitted to the Office of Commissioner of Municipal Affairs after the deadline.
- c. Program year reports 2000, 2001, 2002 and 2003, included as part of the Financial Quarterly Report ended on June 30, 2005, have mathematical differences in the total amount column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	05-06 (continued)
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality accounting controls and procedures failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1).
Recommendation	We recommend to the Municipality's Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the pass-through grantor. Also, we recommend that the Municipality should strengthen it's procedures in order to assure that all financial and programmatic reports are submitted on time to agencies.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 05-06 (continued)

**Management Response
and Corrective Action**

The Municipality's Management instructed the Program Accountant to reconcile each quarterly report to the Accounting Records prior to submission of final report to the Office of the Commissioner of Municipal Affairs (OCAM). Also, the Municipality's Management instructed the Program Accountant to assure that all the financial and programmatic reports required by the pass through agency will be submitted on a timely basis.

Implementation Date: June 30, 2006

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-07
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 and Reporting Requirements
Statement of Condition	<p>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 and the results of operations. The accounting records maintained by the Program were not in sufficient detail which adequately identifies the use of funds at the budgetary level authorized by the pass-through grantor, and therefore, the quarterly reports and the fund requisitions could not be prepared and submitted promptly to the pass-through grantor, and could not permit an easily audit trial of such reports to the accounting records.</p> <p>Also, during our reporting test we noted that three (3) fund requisitions and two (2) quarterly expenditures reports related with the program year ended September 30, 2005 were submitted to the pass through agency after the deadline.</p>
Criteria	<p>Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1) and (2) states that accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-07 (continued)
Cause of Condition	The Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. Also, the Program has several accountant position turnovers over the last fiscal years.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (1) and (2). Also, such condition did not permit a timely submission of financial reports to the pass-through grantor.
Recommendation	We recommend to the Municipality management to instruct, and if necessary, to provide technical support to the program accountant to develop a full set of accounting records adapted to the pass-through grantor budgetary level and reporting requirements. The Municipality must develop a chart of accounts (including real and nominal accounts) based on reporting requirements established by the pass-through grantor. Also, 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 update on a timely basis the Purchase Order and Contracts Register.
Questioned Cost	None.
Management Response and Corrective Actions	To correct the condition reported by the external auditors, we are going to modify our Program accounting records in order to assure that they present the financial position and the results of operation in sufficient detail to permit an easily audit trial of financial reports to the accounting records.

Implementation Date: June 30, 2006

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-08
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	<p>We performed an eligibility test and examined a sample of fifteen (15) participant's files. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. One (1) participant's file was not available for our examination.b. On one (1) participant's file we noted that the Municipality did not require evidence of family composition and evidence of income for one of the family members. Also, in this participant's file we noted that the eligibility determination was computed using incorrect income amounts.c. On one (1) participant's file we noted that the Municipality considers one of the parents eligible since it was in an education program, but according with the University's enrollment transcript, the hours of study of the parent begin at 6:00 PM. This caused that the Municipality accepted in the day care program, a family who does not meet with all eligibility requirements.d. On one (1) participant's file we noted that the Municipality did not used updated educational program evidence.
Criteria	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-08 (continued)
Cause of Condition	The Municipality's controls and procedures related to the record retention system failed to assure that all participant's files selected for testing purpose were available for our examination. Also, the Municipality's internal controls and procedures failed to assure that the eligibility and the parent's contribution were determined using appropriate evidence.
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 98.20.
Recommendation	We recommend that the Municipality should improve its record retention controls and procedures. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **05-08 (continued)**

**Management Response
and Corrective Action**

The Municipality's Management assigned four (4) employees to be responsible of the proper management of the participant's files. Also, the Program's Coordinator will review 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.

Implementation Date: April 2006

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-09
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: June 30, 2006 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, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-04	10.770	<p><u>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.</u></p> <p>No corrective action has been taken. The Municipality's Management instructed Program accountant to develop a full set of accounting records as recommended by the auditors.</p>
04-05	14.871	<p><u>The examination of the Housing Assistance Payment Register for the fiscal year 2003-2004 revealed the following situations: 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) the examination of fifteen (15) participant's files revealed 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.</u></p> <p>Full corrective action has been taken.</p>
04-06	14.871	<p><u>The examination of fifteen (15) participant's files revealed the following situations: 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.</u></p> <p>Partial corrective action was taken. The Municipality's Management will give instructions to the Program staff to include in every participant's file the required release forms and the Value of Assets certifications.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-07	14.871	<p><u>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, 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.</u></p> <p><u>The verification of fifteen (15) participant's files revealed the following exceptions related to the Housing Assistance Payment (HAP) calculations: a) in six (6) participant's files the PHA miscomputed 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.</u></p> <p>Full corrective action was taken.</p>
04-08	14.871	<p><u>The verification of the preliminary HUD-52681, Voucher for Payment of Annual Contributions and Operating Statements (OMB No. 2577-0169), revealed the following differences between the amounts presented in the Annual Closing Report and the program's accounting records: 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-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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.</u></p> <p>Full corrective action was taken.</p>
04-09	14.871	<p><u>The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2004. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten percent or more in a utility rate.</u></p> <p>Full corrective action was taken.</p>
04-10	14.228	<p><u>The examination of ten (10) housekeeping assistance project participant's files, revealed the following situations: 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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-03.</p>
04-11	14.228	<p><u>The Davis-Bacon Act test, of the Community Development Block Grant Program - State's Program, for the construction projects 01-FD-35-003, 01-FD-35-010, 02-FC-35-001 and 03-AB-35-001, revealed the following situations: 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</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>01-FD-35-003, 02-FC-35-001 and 03-AB-35-001 the Municipality interviewed the contractor's laborers only once.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-05.</p>
04-12	93.575	<p><u>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.</u></p> <p><u>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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-07.</p>
04-13	93.575	<p><u>The eligibility test, of the Child Care and Development Block Grant Program, for twenty five (25) participant's files, revealed the following situations: a) on one (1) participant's file 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 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 the Municipality did not verify the eligibility of the participants during the fiscal year 2003-2004.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-08.</p>
04-14	93.575	<p><u>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</u></p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>location; e) and, use and condition of the property.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-09.</p>
04-15	93.575	<p><u>The reporting test, of the Child Care and Development Block Grant Program, revealed 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.</u></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-07.</p>
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. The Municipality's Management instructed Program accountant to develop a full set of accounting records as recommended by the auditors.</p>
03-05	10.770	<p><u>The test of the construction contract of the Sanitary Sewer System at Piñas Community, for \$1,307,900, revealed 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>Full corrective action was taken.</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>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</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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>Partial corrective action was taken. The Municipality's Management will give instructions to the Program staff to include in every participant's file the required release forms and the Value of Assets certifications.</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 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>Full corrective action was taken.</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</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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>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> <p>Full corrective action was taken.</p>
03-15	14.228	<p><u>The Davis-Bacon Act test, of the CDBG-State's Program: for the projects 99-FD-35-001 and 02-FC-35-002, revealed that 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>No corrective action has been taken. See corrective action planned on Finding Reference 05-05.</p>
03-18	93.575	<p><u>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></p> <p>No corrective action has been taken. See corrective action planned on Finding Reference 05-07.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
03-21	93.575	<p><u>On one (1) participant's file 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 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 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 the Municipality did not verify the eligibility of the participants during the fiscal year 2002-2003. On one (1) participant's file did not has 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 05-08.</p>
03-22	93.575	<p><u>The examination of equipment and real property management requirement shows 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 05-09</p>
03-23	93.575	<p><u>The Municipality did not maintain evidence of the submission 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, to assure 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 05-07</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse</p>
02-12	93.575	<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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
02-13	93.575	<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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>
02-18	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>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>