

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE JUNCOS

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS
BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2007

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MUNICIPALITY OF JUNCOS
BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2007

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
the Municipal 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, 2007, 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 and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the MSWLF closure and post closure care cost estimate been evaluated by the **Municipality**, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Juncos, Puerto Rico**, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Juncos, Puerto Rico**, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule-General Fund on page 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Juncos's** basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 27, 2007

Stamp No. 2312126 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



Certified Public Accountants / Management Advisors

López-Vega, CPA, PSC

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

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, 2007. 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, 2006. 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 2007 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 \$93,695,001 which represents an increase of 32% compared to prior fiscal year;
2. At the end of fiscal year 2007, total liabilities amounted to \$54,192,531. Out of said amount, \$37,325,237 corresponded to long-term liabilities of which \$16,950,963 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 \$39,502,470 which represents an increase of 28% compared to prior fiscal year;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$44,166,464, derived from the following sources: \$7,858,721 charges for services; \$5,794,273 from operating grants and contributions; \$4,221,622 from capital grants and contributions obtained from other sources, and \$26,291,848 from general revenues available;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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 \$35,482,744;
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to the increase in the Net Assets Figure by \$8,683,720;
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$19,118,723;
8. As of the end of the current fiscal year the Municipality's General Fund balance amounted to \$2,336,512;
9. The actual General Fund budgetary activities resulted in a favorable balance of \$1,627,602.

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 2007. 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, 2007

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, 2007, shows total expenses incurred to afford the cost of all functions and programs amounted to \$35,482,744. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$17,874,616 was derived from the following sources: \$7,858,721 charges for services; \$5,794,273 from operating grants and contributions; and \$4,221,622 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$26,291,848. When such figure is added to the \$17,874,616 previously mentioned, total revenues available for the financing of activities amounted to \$44,166,464. There was an excess of revenues over expenses in the amount of \$8,683,720 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, 2007

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, 2007.

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)

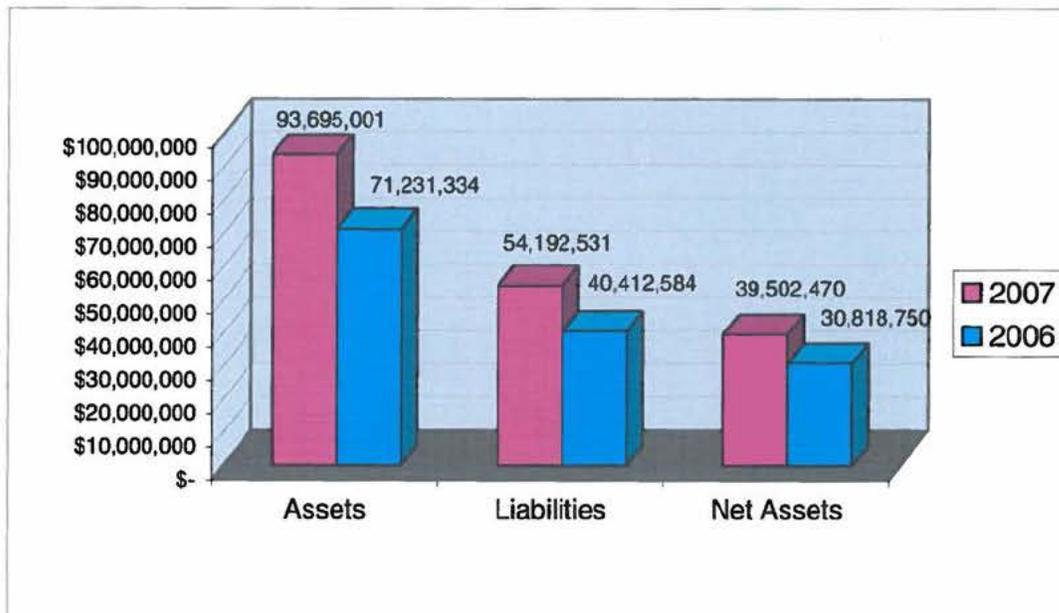
YEAR ENDED JUNE 30, 2007

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 \$39,502,470 at the end of 2007, compared to \$30,818,750 at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government. Such increase in the total assets is mainly due to the capitalization of infrastructure constructed before June 30, 2002.

Condensed Statement of Net Assets	2007	2006	Change	%
Current and other assets	\$ 35,422,559	\$ 18,248,811	\$ 17,173,748	94%
Capital assets	58,272,442	52,982,523	5,289,919	10%
Total assets	93,695,001	71,231,334	22,463,667	32%
Current and other liabilities	16,867,294	14,438,069	2,429,225	17%
Long-term liabilities	37,325,237	25,974,515	11,350,722	44%
Total liabilities	54,192,531	40,412,584	13,779,947	34%
Invested in capital assets, net of related debt	42,769,229	38,031,310	4,737,919	12%
Restricted	16,592,856	5,044,881	11,547,975	229%
Unrestricted deficit	(19,859,615)	(12,257,441)	(7,602,174)	62%
Total net assets	\$ 39,502,470	\$ 30,818,750	\$ 8,683,720	28%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2007, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$8,683,720. Approximately 36 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 18 percent of the total revenues. Interest and investment earnings and miscellaneous provide approximately 10 percent of the Municipality's total revenues. The largest expenses were for general government, health and welfare services, public works, public safety 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.

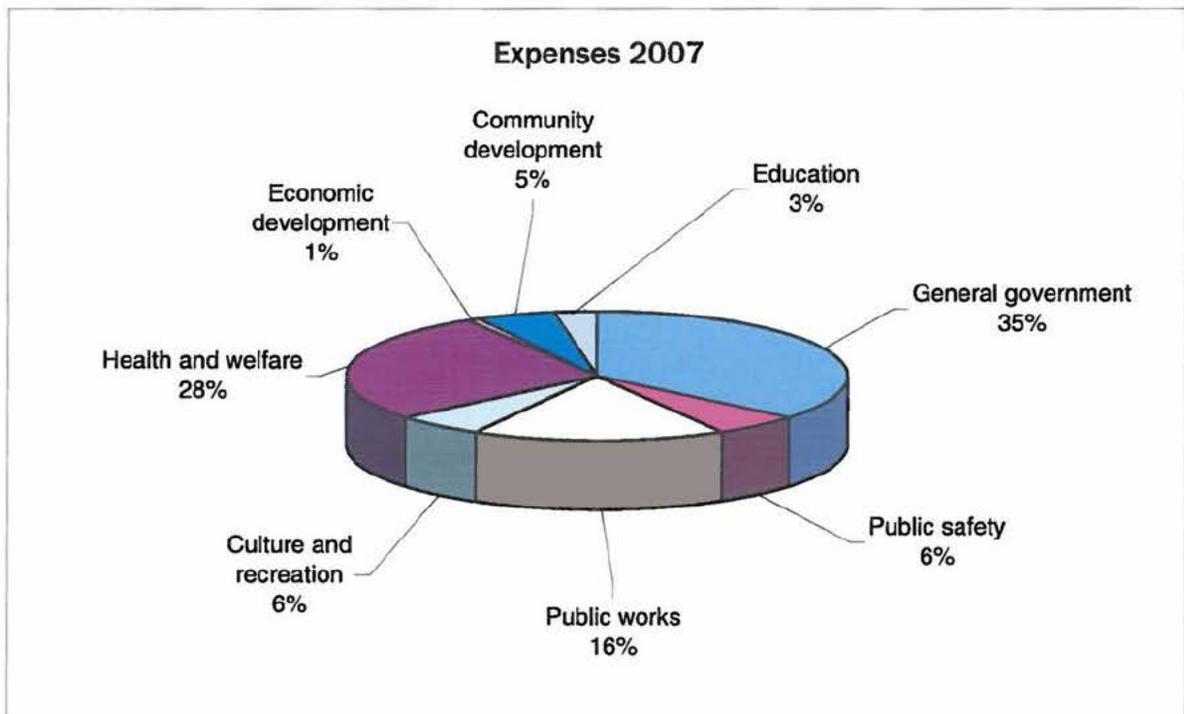
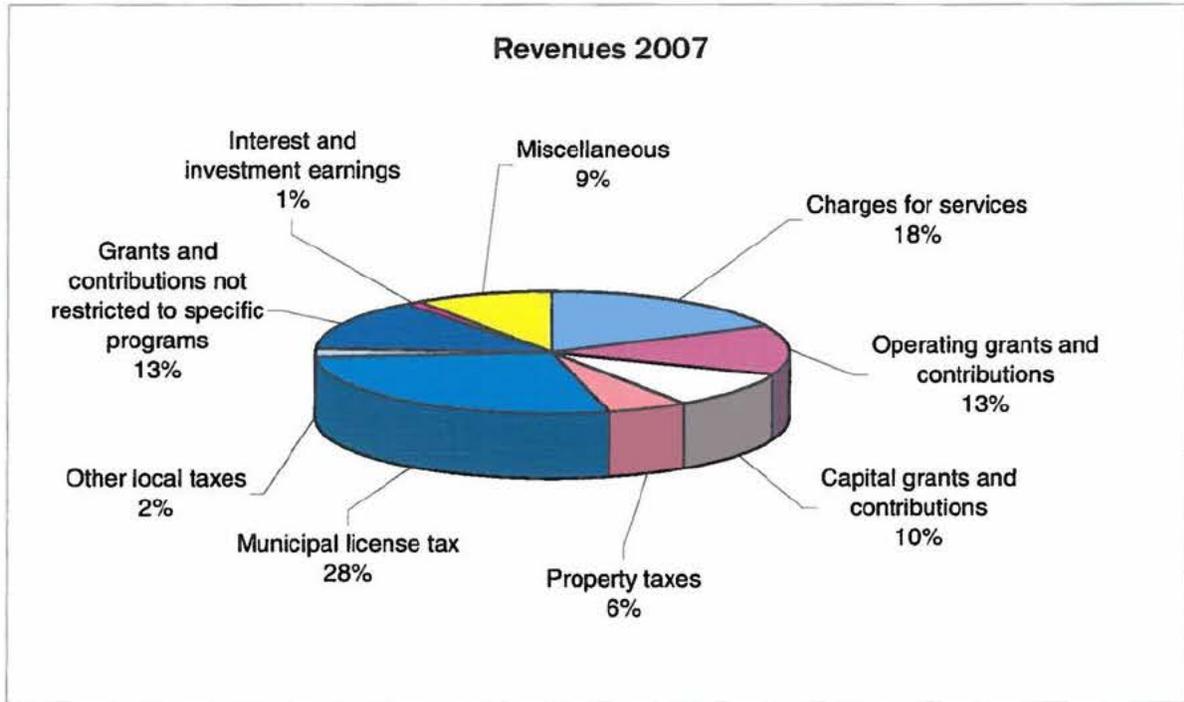
Condensed Statement of Activities	2007	2006	Change	%
Program revenues:				
Charges for services	\$ 7,858,721	\$ 4,797,308	\$ 3,061,413	64%
Operating grants and contributions	5,794,273	4,513,682	1,280,591	28%
Capital grants and contributions	4,221,622	2,375,593	1,846,029	78%
General revenues:				
Property taxes	2,532,789	5,837,000	(3,304,211)	(57%)
Municipal license tax	12,186,880	9,056,660	3,130,220	35%
Other local taxes	1,046,044	1,265,955	(219,911)	(17%)
Grants and contributions not restricted to specific programs	5,907,098	5,336,012	571,086	11%
Interest and investment earnings	426,293	187,070	239,223	128%
Miscellaneous	4,192,744	104,931	4,087,813	3896%
Total revenues	44,166,464	33,474,211	10,692,253	32%
Expenses:				
General government	12,447,355	11,373,786	1,073,569	9%
Public safety	1,918,793	2,082,888	(164,095)	(8%)
Public works	5,638,018	4,300,563	1,337,455	31%
Culture and recreation	2,036,659	2,106,295	(69,636)	(3%)
Health and welfare	9,499,358	8,467,837	1,031,521	12%
Economic development	267,374	767,943	(500,569)	(65%)
Community development	1,746,168	1,143,835	602,333	53%
Education	944,170	883,956	60,214	7%
Urban development	19,421	26,622	(7,201)	(27%)
Interest on long-term debt	965,428	814,643	150,785	19%
Total expenses	35,482,744	31,968,368	3,514,376	11%
Change in net assets	8,683,720	1,505,843	7,177,877	477%
Net assets, beginning of year	30,818,750	29,312,907	1,505,843	5%
Net assets, end of year	\$ 39,502,470	\$30,818,750	\$ 8,683,720	28%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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, 2007

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 \$19,118,723, an increase of \$14,364,098 in comparison with the prior year. There are reservations of fund balance amounting to \$18,749,690. 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 (\$1,368,943), 2) to pay debt service (\$3,194,230), 3) to pay for capital projects (\$12,838,220), 4) for other purposes (\$749,761) and 5) for reserve for long-term advances (\$598,536).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has an undesignated fund balance of \$369,033.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2007, amounted to \$72,781,990, which upon deduction of accumulated depreciation of \$14,509,548, produced a net book value of \$58,272,442. 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. During this fiscal year the Municipality elected to capitalize those assets retroactively. The restatement for this concept was \$14,816. Depreciation charges for the year totaled \$1,862,610.

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, 2007, the Municipality has \$1,452,340 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").

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

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 2007-2008.

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.

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, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 13,065,456
Cash with fiscal agent	16,504,245
Accounts receivable:	
Intergovernmental	4,488,514
Landfill users	950,851
Interest	11,878
Others	401,615
Capital assets	
Land, improvements, and construction in progress	35,447,080
Other capital assets, net of depreciation	22,825,362
Total capital assets	<u>58,272,442</u>
Total assets	<u>93,695,001</u>
 Liabilities	
Accounts payable and accrued liabilities	2,457,474
Due to other governmental entities	173,483
Deferred revenues:	
Municipal license tax	13,146,705
Federal grant revenues	900,277
Interest payable	189,355
Noncurrent liabilities:	
Due within one year	1,785,670
Due in more than one year	35,539,567
Total liabilities	<u>54,192,531</u>
 Net Assets	
Invested in capital assets, net of related debt	42,769,229
Restricted for:	
Capital projects	12,838,220
Debt service	3,004,875
Other purposes	749,761
Unrestricted (deficit)	<u>(19,859,615)</u>
Total net assets	<u>\$ 39,502,470</u>

**Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Activities
For the Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 12,447,355	\$ -	\$ 24,489	\$ -	\$ (12,422,866)
Public safety	1,918,793	21,625	402,434		(1,494,734)
Public works	5,638,018	5,221,523	531,537	3,349,852	3,464,894
Health and welfare	9,499,358	2,467,115	2,843,435		(4,188,808)
Culture and recreation	2,036,659	145,673	82,575		(1,808,411)
Economic development	267,374		199,233		(68,141)
Community development	1,746,168		1,710,570	871,770	836,172
Urban development	19,421				(19,421)
Education	944,170	2,785			(941,385)
Interest on long-term debt	965,428				(965,428)
Total governmental activities	\$ 35,482,744	\$ 7,858,721	\$ 5,794,273	\$ 4,221,622	(17,608,128)

General revenues:

Property taxes	2,532,789
Municipal license tax	12,186,880
Other local taxes	1,046,044
Grants and contributions not restricted to specific programs	5,907,098
Interest and investment earnings	426,293
Miscellaneous	4,192,744
Total general revenues	26,291,848
Change in net assets	8,683,720
Net assets - beginning, as restated	30,818,750
Net assets - ending	\$ 39,502,470

Commonwealth of Puerto Rico
Municipality of Juncos
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 9,900,828	\$ 298,509	\$ 1,574,376	\$ 1,291,743	\$ 13,065,456
Cash with fiscal agent		165,969	13,130,488	3,207,788	16,504,245
Accounts receivable:					
Intergovernmental	264,735	3,493,886		729,893	4,488,514
Landfill users	950,851				950,851
Interest				11,878	11,878
Others	401,615				401,615
Advance from other funds	598,536				598,536
Due from other funds	4,598,631	54,154			4,652,785
Total assets	\$ 16,715,196	\$ 4,012,518	\$ 14,704,864	\$ 5,241,302	\$ 40,673,880
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 739,607	\$ 185,412	\$ 417,397	\$ 476,220	\$ 1,818,636
Due to other governmental entities	173,483				173,483
Advance to other funds		583,730	14,806		598,536
Due to other funds	54,154	2,361,238	1,445,608	791,785	4,652,785
Deferred revenues:					
Municipal license tax	13,146,705				13,146,705
Intergovernmental	264,735				264,735
Federal grant revenues		791,255		109,022	900,277
Total liabilities	14,378,684	3,921,635	1,877,811	1,377,027	21,555,157
Fund balances:					
Reserved for:					
Encumbrances	1,368,943				1,368,943
Capital projects			12,827,053		12,827,053
Debt service fund				3,194,230	3,194,230
Other purposes		90,883		45,994	136,877
Long-term advances	598,536				598,536
Reserved reported in nonmajor funds:					
Capital projects				11,167	11,167
Other purposes				612,884	612,884
Unreserved:					
Undesignated	369,033				369,033
Total fund balances	2,336,512	90,883	12,827,053	3,864,275	19,118,723
Total liabilities and fund balances	\$ 16,715,196	\$ 4,012,518	\$ 14,704,864	\$ 5,241,302	

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

Accrual basis of accounting accounts receivable recognized in government-wide financial statements	264,735
Accrual basis of accounting accounts payable recognized in government-wide financial statements	(638,838)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	58,272,442
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(37,514,592)
Net assets of governmental activities	\$ 39,502,470

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 4,125,705	\$ -	\$ -	\$ 1,821,684	\$ 5,947,389
Municipal license taxes	12,186,880				12,186,880
Licenses, permits and other local taxes	1,046,044				1,046,044
Charges for services	1,569,920			43,874	1,613,794
Intergovernmental	5,907,098	67,157	3,282,096	2,432,966	11,689,317
Fines and forfeitures	21,625				21,625
Rent of property	145,673			42,575	188,248
Interest	309,243			117,050	426,293
Users fees on landfill facilities	4,887,251				4,887,251
Federal grants		3,938,451		1,298,541	5,236,992
Miscellaneous	452,366	18	4,913	200,600	657,897
Total revenues	30,651,805	4,005,626	3,287,009	5,957,290	43,901,730
Expenditures					
Current:					
General government	11,916,334		49,510	208,581	12,174,425
Public safety	1,660,544	156,182		109,665	1,926,391
Public works	4,155,157	735,878	3,925,337	785,946	9,602,318
Health and welfare	6,115,499	1,226,404		1,965,319	9,307,222
Culture and recreation	2,050,955		507,445	44,315	2,602,715
Economic development				267,373	267,373
Community development		1,887,144		880,697	2,767,841
Urban development				19,421	19,421
Education	949,662			5,275	954,937
Debt service:					
Principal				1,136,945	1,136,945
Interest				881,762	881,762
Total expenditures	26,848,151	4,005,608	4,482,292	6,305,299	41,641,350
Excess (deficiency) of revenues over (under) expenditures	3,803,654	18	(1,195,283)	(348,008)	2,260,381
Other financing sources (uses)					
Transfers in				1,020,003	1,020,003
Transfers out	(1,020,003)				(1,020,003)
Long-term debt issued			12,061,000		12,061,000
Total other financing sources (uses)	(1,020,003)	-	12,061,000	1,020,003	12,061,000
Net change in fund balances	2,783,651	18	10,865,717	671,995	14,321,381
Fund balance, beginning, as restated	(447,139)	90,865	1,961,336	3,192,280	4,797,343
Fund balance, ending	\$ 2,336,512	\$ 90,883	\$ 12,827,053	\$ 3,864,275	\$ 19,118,723

Handwritten notes:
 2,336,114
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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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 14,321,381
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Accounts Receivable reported in Government-Wide Statement of Net Assets collected after year end, but not available soon enough to pay current liabilities, and therefore are not reported in the Governmental Funds.	264,735
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.	7,152,816
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(1,862,610)
Governmental Funds report capital assets sold as revenues. However, in the Government-Wide Statement of Activities and Changes in Net Assets, capital assets sold require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets.	(287)
Accounts Payable reported in the Government-Wide Statement of Activities and Changes in Net Assets, but not reported as in the Governmental Funds because they do not require the use of current financial resources. The following amount represents the change in accounts payable from prior year.	190,880
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.	(32,472)
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(10,975,250)
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 Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.	37,835
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.	(185,897)
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 change in claims and judgments from prior year.	(301,681)
Change in Net Assets of Governmental Activities	\$ 8,683,720

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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 ("USGAAP") 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 implemented the capitalization of infrastructure since July 1, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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. USGAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

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, 2007

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 others.

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, 2007

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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 ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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

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

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 expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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 service 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. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

- 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.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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, and 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. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.
- 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 when the liability is incurred.
- 8. Reservations 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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

- a. **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.
- b. **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.
- c. **Debt Service Fund** - Represents net assets available to finance future debt service payments.
- d. **Other Purposes** - Represents net assets available for specific use and/or legally segregated for other specific future use.

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, 2007 amounted to \$295,156. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$599,214 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, 2007

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 Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 58,272,442	
Deduct:		
Bonds Payable	(10,741,213)	
Notes Payable	<u>(4,762,000)</u>	\$ 42,769,229
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		12,838,220
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	3,194,230	
Deduct:		
Interest Payable	<u>(189,355)</u>	3,004,875
<u>Net assets restricted for other purposes</u>		
Fund balance restricted for other purpose		749,761
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	2,336,512	
Add:		
Accrual Basis accounts receivable	264,735	
Deduct:		
Accounts Payable	(638,838)	
Bond and Notes Payable	(1,447,750)	
Line of credit-Landfill	(10,586,000)	
Compensated absences debt	(2,020,204)	
Advances Property Tax Debt	(1,661,500)	
LIMS Repayment Plan	(200,597)	
Landfill Closure Costs	(4,055,481)	
Landfill Post closure Cost	(1,470,000)	
Claims and Judgments	<u>(380,492)</u>	<u>(19,859,615)</u>
Total net assets - governmental activities		<u>\$ 39,502,470</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

2. DEPOSITS

Under Commonwealth of 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 \$9,900,828 in the General Fund, the \$298,509 in the Special Revenue Fund - Federal Grants, and the \$1,574,376 in the Capital Projects Fund - State and Local Grants, were fully collateralized at June 30, 2007. In the Other Governmental Funds there were deposits with commercial banks of \$1,291,741 that were fully collateralized.

The deposits at GDB of \$165,969 in the Special Revenue Fund - Federal Grants, the \$13,130,488 in the Capital Projects Fund - State and Local Grants, and the \$3,207,788 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, 2007, 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, 2007, 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, 2007

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivable - Intergovernmental receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) at June 30, 2007, as described in Note 9. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM")	\$ <u>264,735</u>
Total	\$ <u>264,735</u>

Intergovernmental receivable in the Special Revenue Fund - Federal Grants represent expenditures incurred not yet reimbursed by the Federal Government or the pass-through grantors. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant - State's Program	\$ 1,727,111
Child Care and Development Block Grant	1,205,043
Safe and Drug-Free Schools and Communities-State's Grant	126,264
Temporary Assistance for Needy Families	115,971
Title III-B - And Nutrition Program for the Elderly	70,068
Public Assistance Grant	55,584
Homeland Security Grant Program	49,515
Edward Byrne Memorial Justice Assistance Grant Program	42,037
Federal Transit Administration	37,944
Child and Adult Care food Program	35,631
Others	<u>28,718</u>
Total	\$ <u>3,493,886</u>

Intergovernmental receivables in the Other Governmental Funds represents expenditures incurred not yet reimbursed by the other local and federal governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Labor and Human Resources (Law 52 & 82 Grants)	\$ 150,603
Public Housing Department	127,000
Municipal Revenue Collection Center ("CRIM")	31,834
Department of Agriculture (WWDL&G)	<u>420,456</u>
Total	\$ <u>729,893</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

3. RECEIVABLES (CONTINUED)

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

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2007, and interfund transfers during the fiscal year ended at June 30, 2007, 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	\$ 2,944,968
General Fund	Capital Projects Fund - State and Local Grants	Reimbursable expenditures	1,460,414
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	791,785
Special Revenue Fund - Federal Grants	General Fund	Reimbursable expenditures	<u>54,154</u>
Total			<u>\$ 5,251,321</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	<u>\$ 1,020,003</u>
Total			<u>\$ 1,020,003</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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 2007, 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 July 1, 2006, as restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>
Capital asset, not being depreciated:				
Land	\$ 26,290,641	\$ 462,600	\$ -	\$ 26,753,241
Construction in progress	<u>7,136,892</u>	<u>2,575,680</u>	<u>(1,018,733)</u>	<u>8,693,839</u>
Total capital assets not being depreciated	<u>33,427,533</u>	<u>3,038,280</u>	<u>(1,018,733)</u>	<u>35,447,080</u>
Capital assets, being depreciated:				
Buildings	11,574,789	185,341		11,760,130
Buildings improvements	4,733,337	1,249,287		5,982,624
Infrastructure	5,857,584	493,731		6,351,315
Infrastructure improvements	2,448,888	1,197,000		3,645,888
Equipment	3,353,358	286,906	(2,420)	3,637,844
Furnishing	688,224	66,837	(9,206)	745,855
Works of art	15,000	160		15,160
Computers	447,044	141,905	(13,402)	575,547
Vehicles	<u>3,108,445</u>	<u>1,512,102</u>	<u>-</u>	<u>4,620,547</u>
Total capital assets being depreciated	<u>32,226,669</u>	<u>5,133,269</u>	<u>(25,028)</u>	<u>37,334,910</u>
Less accumulated depreciation for:				
Buildings	(3,023,824)	(293,270)		(3,317,094)
Buildings improvements	(321,881)	(141,622)		(463,503)
Infrastructure	(3,301,555)	(155,874)		(3,457,429)
Infrastructure improvements	(249,607)	(221,220)		(470,827)
Equipment	(2,339,963)	(440,906)	2,347	(2,778,522)
Furnishing	(521,128)	(83,888)	9,107	(595,909)
Works of art	(4,082)	(1,649)		(5,731)
Computers	(352,201)	(74,861)	13,287	(413,775)
Vehicles	<u>(2,557,438)</u>	<u>(449,320)</u>	<u>-</u>	<u>(3,006,758)</u>
Total accumulated depreciation	<u>(12,671,679)</u>	<u>(1,862,610)</u>	<u>24,741</u>	<u>(14,509,548)</u>
Total capital assets being depreciated, net	<u>19,554,990</u>	<u>3,270,659</u>	<u>(287)</u>	<u>22,825,362</u>
Governmental activities capital assets, net	<u>\$ 52,982,523</u>	<u>\$ 6,308,939</u>	<u>(\$ 1,019,020)</u>	<u>\$ 58,272,442</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	<u>Amount</u>
Community Development	\$ 190,109
Culture and Recreation	77,821
Education	8,832
General Governmental	406,346
Health and Welfare	311,752
Public Safety	162,388
Public Work	<u>705,362</u>
Total depreciation expense-governmental activities	<u>\$ 1,862,610</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007 are summarized as follows:

Description	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Fund	Total
Accounts payable	\$ 303,392	\$ 185,412	\$ 417,397	\$ 476,220	\$ 1,382,421
Accrued liabilities	<u>436,215</u>	-	-	-	<u>436,215</u>
Total	<u>\$ 739,607</u>	<u>\$ 185,412</u>	<u>\$ 417,397</u>	<u>\$ 476,220</u>	<u>\$ 1,818,636</u>

7. 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. PROPERTY TAXES (CONTINUED)

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.

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico Treasury Department for the repayment of excess property tax advances. As of June 30, 2007, the related unpaid property tax advances presented in the Statement of Net Assets amounted to approximately \$167,108 and is payable as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2008	74,270
2009	74,270
Thereafter	<u>18,568</u>
Total	<u>\$ 167,108</u>

On June 26 1997, Public Law No. 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 No. 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, 2007, 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, 2007

7 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.

8. 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>
Puerto Rico Aqueduct and Sewer Authority	\$ 36,078
Commonwealth of Puerto Rico - Department of Labor - Unemployment tax	47,140
Commonwealth of Puerto Rico - General Services Administration	44,755
Puerto Rico Telephone Company	24,987
Commonwealth of Puerto Rico - Treasury Department - Income Tax	<u>20,523</u>
Total	<u>\$173,483</u>

9. DEFERRED REVENUES

- A. Municipal License Tax** - The deferred revenues of approximately \$13,146,705 in the General Fund relates to municipal license tax collected in fiscal year 2006-2007 that will be earned in fiscal year 2007-2008.
- 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, 2007

9. DEFERRED REVENUES (CONTINUED)

Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant - State Program	\$ 412,080
Public Assistance Grants	152,682
State and Community Highway Safety Programs	64,736
Special Programs for the Aging - Title III, Part B	67,532
Local Law & Enforcement Block Grant	38,687
Child and Adult Care Food Program	20,354
Emergency Management Performance Grant	8,654
Rural Housing Preservation Grants	17,377
Child Care and Development Block Grant	1,167
Juvenile Justice and Delinquency Prevention	1,354
Others	<u>6,632</u>
Total	<u>\$ 791,255</u>

The deferred revenue presented in the Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Housing Opportunities for Persons with Aids	15,757
Water and Waste Disposal Loans and Grants	<u>93,265</u>
Total	<u>\$ 109,022</u>

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions and Adjustments</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 11,461,213	\$ 395,000	\$ (416,000)	\$ 11,440,213	\$ 456,000
Notes Payable	5,100,500	1,080,000	(669,750)	5,510,750	836,500
Property Tax Debt	1,735,771	-	(74,270)	1,661,501	74,270
Municipal Revenue Collection Center - LIMS Repayment Plan	238,432	-	(37,835)	200,597	40,119
Landfill Closure Costs	4,055,481	-	-	4,055,481	-
Landfill Obligation Post Closure Costs	1,470,000	-	-	1,470,000	-
Line of credit- Landfill expansion	-	10,586,000	-	10,586,000	-
Compensated Absences	1,834,308	309,089	(123,193)	2,020,204	142,000
Claims and Judgments	<u>78,810</u>	<u>331,241</u>	<u>(29,560)</u>	<u>380,491</u>	<u>236,779</u>
Total	<u>\$ 25,974,515</u>	<u>\$ 12,701,330</u>	<u>\$(1,350,608)</u>	<u>\$ 37,325,237</u>	<u>\$ 1,785,668</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

10. 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 principally to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2007 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2007
1984 Series	1-1-08	\$ 700,000	5.00%	\$ 48,000
1993 Series	1-1-17	264,000	4.50%	152,000
1994 Series	1-1-18	650,000	5.25%	427,000
1996 Series	1-1-21	525,000	4.50%	389,213
1996 Series	1-1-21	551,000	4.50%	421,000
1998 Series	1-1-22	520,000	4.50%	443,000
2002 Series	7-1-26	305,000	2.70% to 5.60%	280,000
2002 Series	7-1-26	1,955,000	2.70% to 5.60%	1,775,000
2003 Series	7-1-27	1,060,000	4.17% to 5.31%	985,000
2004 Series	7-1-28	305,000	2.36% to 5.31%	285,000
2004 Series	7-1-18	405,000	2.36% to 4.80%	345,000
2004 Series	7-1-28	1,860,000	4.17% to 5.31%	1,760,000
2004 Series	7-1-28	3,115,000	5.00% to 7.50%	2,885,000
2004 Series	1-1-31	155,000	4.25%	151,000
2006 Series	7-1-15	833,000	5.00% to 7.50%	699,000
2006 Series	7-1-31	395,000	6.62% to 7.25%	395,000
Total general obligation bonds				<u>\$ 11,440,213</u>

These bonds, except the 2004 Series \$3,115,000 bond, and the 2006 Series \$833,000 bond, are payable from the special 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, and the 2006 Series \$833,000 bonds are payable with the General Fund resources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

10. 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>
2008	456,000	643,414
2009	416,000	586,042
2010	446,000	565,318
2011	475,000	542,821
2012	507,000	518,724
2013-2017	2,714,000	2,184,341
2018-2022	2,696,213	1,474,235
2023-2027	2,908,000	712,736
2028-2032	<u>822,000</u>	<u>63,827</u>
Total	<u>\$ 11,440,213</u>	<u>\$ 7,291,458</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 special events. Notes payable outstanding at June 30, 2007 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, 2007</u>
1994 Series	4-1-13	\$ 1,680,000	5.00% to 7.50%	\$ 748,750
2002 Series	1-1-10	510,000	4.75%	239,000
2004 Series	7-1-10	405,000	4.17% to 5.00%	250,000
2006 Series	7-1-12	805,000	6.25% to 7.25%	710,000
2007 Series	7-1-13	1,080,000	6.60% to 7.50%	1,080,000
Section 108 Loan	8-1-13	1,510,000	1.75% to 5.29%	962,000
Section 108 Loan	8-1-13	2,385,000	1.75% to 5.29%	<u>1,521,000</u>
Total notes payable				<u>\$ 5,510,750</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 special 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.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	836,500	270,687
2009	866,750	238,805
2010	899,750	192,092
2011	850,500	142,311
2012	811,750	95,105
2013-2017	<u>1,245,500</u>	<u>55,164</u>
Total	<u>\$ 5,510,750</u>	<u>\$ 994,164</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

10. LONG-TERM LIABILITIES (CONTINUED)

4. **Property Tax Debt** - These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2007, as described in Note 7, from property tax advances in excess of actual collections and other property tax debts.
5. **Municipal Revenue Collection Center - LIMS Repayment Plan** - During the fiscal year 2001-2002 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System - LIMS, contracted by the CRIM. A total of \$383,735 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2007 the outstanding debt balance is \$200,597. This amount will be presented in the government wide Statement of Net Assets.
6. **Compensated absences** - The government-wide Statement of Net Assets includes approximately \$884,209 of accrued sick leave benefits, and \$1,135,995 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
7. **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, and \$1,470,000 for landfill post-closure as of June 30, 2007. 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.
8. **Claims and Judgments** - These amounts represent the balance related to legal claims at June 30, 2007, as described in Note 13.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

11. 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 Municipality contributions to the above-mentioned plan during the year ended June 30, 2007 recorded as pension expenditures were approximately \$382,305. This amount represented 100% of the required contribution.

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, 2007

11. 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, 2007, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.

12. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to Area of the Public Insurance at the Treasury Department of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settle claims have not exceeded commercial coverage in any of the past three fiscal years.

13. 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 litigation, the Municipality has reported liabilities of approximately \$380,491 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

13. 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.

14. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Other Governmental Fund	Total
Fund balance, beginning	(\$ 447,139)	\$ 90,865	\$ 1,961,336	\$ 3,149,563	\$ 4,754,625
To corrected prior year federal grants receivable				42,718	42,718
Fund balance, beginning as restated	<u>(\$ 447,139)</u>	<u>\$ 90,865</u>	<u>\$ 1,961,336</u>	<u>\$ 3,192,281</u>	<u>\$ 4,797,343</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 15,960,041
To correct prior year federal grants receivable	42,718
Capital assets restatement	<u>14,815,991</u>
Net assets, beginning as restated	<u>\$ 30,818,750</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

15. SUBSEQUENT EVENTS

1. Municipal sales and use tax

On July 29, 2007, an amendment to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal level. The municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

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

YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 4,125,705	\$ 4,125,705	\$ 4,125,705	\$ -
Municipal license tax	11,620,000	11,620,000	12,186,880	566,880
Licenses, permits and other local taxes	2,011,000	2,011,000	1,046,044	(964,956)
Charges for services	1,004,000	1,004,000	962,680	(41,320)
Intergovernmental	5,525,104	5,525,104	5,695,020	169,916
Rent of property	100,200	100,200	140,673	40,473
Fines and forfeitures	15,000	15,000	21,625	6,625
Interest	100,000	100,000	309,243	209,243
Users Fees on Landfill Facilities	3,500,000	3,500,000	3,936,399	436,399
Miscellaneous	<u>556,000</u>	<u>556,000</u>	<u>662,992</u>	<u>106,992</u>
Total revenues and other financing sources	<u>28,557,009</u>	<u>28,557,009</u>	<u>29,087,261</u>	<u>530,252</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,112,400	11,722,510	11,582,813	139,697
Public safety	1,811,110	1,701,789	1,664,336	37,453
Public works	4,807,273	4,422,065	4,065,856	356,209
Health and welfare	6,737,930	6,643,850	6,139,563	504,287
Culture and recreation	2,135,762	2,080,872	2,058,008	22,864
Education	980,888	965,918	929,080	36,838
Operating transfer to other fund	<u>971,646</u>	<u>1,020,005</u>	<u>1,020,003</u>	<u>2</u>
Total expenditures, encumbrances and other financing uses	<u>28,557,009</u>	<u>28,557,009</u>	<u>27,459,659</u>	<u>1,097,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,627,602</u>	<u>\$ 1,627,602</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)*available for appropriation* from the budgetary comparison schedule				\$ 29,087,261
Differences-budget to USGAAP:				
USGAAP adjustments to revenues				1,352,466
Non-Budgeted PREPA revenues				<u>212,078</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 30,651,805</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)*total charges to appropriations* from the budgetary comparison schedule				\$ 27,459,659
Differences-budget to USGAAP:				
USGAAP adjustments to expenditures				20,528
Prior year encumbrances recorded as current year expenditures for USGAAP basis				929,917
Current year encumbrances recorded as expenditures for budgetary purposes				(762,352)
Non-budgeted PREPA expenditures				<u>220,402</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 27,868,154</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2007

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 USGAAP, 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 USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program: Rural Housing Preservation Grants	10.433		\$ 30,627
Direct Program: Water and Waste Disposal Loans and Grants	10.770		753,696
Pass-through the Commonwealth of Puerto Rico-Department of Education: Child and Adult Care Food Program	10.558	Not Available	139,811
Total U.S. Department of Agriculture			924,134
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: Section 8 Housing Choice Vouchers	14.871		252,565
Pass-through the Commonwealth of Puerto Rico P.R. Housing Authority: Public Housing Capital Fund	14.872		127,000
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Community Development Block Grants - State's Program	14.228	06-FC, AB-35 05-FC, AB-35 04-FC, AB-35 03-FC, AB-35 02-FC, AB-35 01-FD-35 00-FD-35 98-FD-35 97-FD-35	1,887,144
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan: Housing Opportunities for Persons with AIDS	14.241	Not Available	116,162

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

<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>
Total U.S. Department of Housing and Urban Development			<u>2,382,871</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law Enforcement Block Grant Program	16.592	2003-LB-MJ-01	11,642
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-ECPMJ-01	<u>38,645</u>
Total U.S. Department of Justice			<u>50,287</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program: Federal Transit-Formula Grants	20.507		541,276
Pass-through the Commonwealth of Puerto Rico - Traffic Safety Commission State and Community Highway Safety	20.600	03-06-02	<u>27,911</u>
Total U.S. Department of Transportation			<u>569,187</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the Commonwealth of Puerto Rico-Department of Education Safe and Drug-Free Schools and Communities - States Grants	84.186	Not Available	<u>28,469</u>
Total U.S. Department of Education			<u>28,469</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office) Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	103,032

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	Not Available	28,118
Special Programs for the Aging-Title III, Part E - National Family Caregiver Support	93.052	Not Available	11,411
Nutrition Services Incentive Program	93.053	Not Available	46,041
Pass-through the Commonwealth of Puerto Rico - Family Department: Temporary Assistance for Needy Families	93.558	Not Available	3,650
Community Service Block Grant	93.569	Not Available	30,967
Child Care and Development Block Grant	93.575	Not Available	<u>826,378</u>
Total U.S. Department of Health and Human Services			<u>1,049,597</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Disaster Grants - Public Assistance	97.036	1247-DR-PR 1501-DR-PR 1552-DR-PR	139,890
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency			
Homeland Security Grant Program	97.067	Not Available	<u>49,515</u>
Total U.S. Department of Homeland Security			<u>189,405</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,193,950</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, 2007

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 expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue Fund Federal Grants</u>	<u>Capital Projects Fund & Local Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 3,944,516	\$ -	\$ 1,249,434	\$ 5,193,950
Non federal programs Expenditures	<u>61,092</u>	<u>4,482,292</u>	<u>5,055,865</u>	<u>9,599,249</u>
Total expenditures in the general purpose financial statements	<u>\$ 4,005,608</u>	<u>\$ 4,482,292</u>	<u>\$ 6,305,299</u>	<u>\$ 14,793,199</u>



López-Vega, CPA, PSC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 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, 2007, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 27, 2007, which was unqualified at the fund financial statements level, but qualify at the government-wide financial statements level 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Juncos's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Juncos's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Juncos's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Juncos's** ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Juncos's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Juncos's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items **07-01** and **07-02**.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Juncos's** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we considered item **07-02** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Juncos's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **07-02**.

We noted certain other matters that we reported to management of the **Municipality of Juncos** in a separate letter dated November 27, 2007.

The **Municipality of Juncos's** response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Juncos's** response and, accordingly, we express no opinion on it.



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

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


LOPEZ-VEGA, CPA, PSC

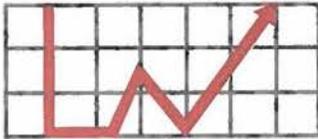
San Juan, Puerto Rico
November 27, 2007

Stamp No. 2312127 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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**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, 2007. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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 of 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, 2007. 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, **07-03** through **07-08**.

**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 the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Juncos's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **07-06** through **07-08** to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weakness.

The **Municipality of Juncos's** response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Juncos's** response and, accordingly, we express no opinion on it.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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 17, 2008.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 17, 2008

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López-Vega, CPA, PSC

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

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 X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported

<u>Type of auditor’s report issued on compliance for major programs:</u>	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.770	Water and Waste Disposal Loans and Grants
14.228	Community Development Block Grants – State’s Program
20.507	Federal Transit – Formula Grants
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section II – Financial Statements Findings

Finding Reference	07-01
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 updated 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 maintains two set of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section II - Financial Statements Findings

Finding Reference 07-01 (Continued)

Nevertheless, as part of the corrective action plan, the Commissioner of Municipal Affairs ("OCAM") consider alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: January 2009

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, 2007

Section II - Financial Statements Findings

Finding Reference	07-02
Requirement	Financial Reporting - Accounting Records
Statement of Condition	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2007.
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 2008-2009 government-wide financial statements.

Implementation Date: July 2008

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, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-03
Program	Water and Waste Disposal Loans and Grants (CFDA. No. 10.760) ; U.S. Department of Agriculture
Requirement	Cash Management
Statement of Condition	<p>We performed a Cash Management test and examined five (5) cash advances received by the Municipality during the fiscal year 2006-2007 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. Three (3) fund requests were not disbursed on a reasonable lapse of time. Also, the program cash account maintained a monthly average cash balance in books of \$32,349.b. The Program maintained an cash balance of \$639 related to one (1) request made in May 2007. The cash requested was not consistent with realistic cash needs.
Criteria	<p>Code of Common Rule Subpart C_.20 (7) 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. Also cash advance must be consistent with realistic cash needs.</p>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>The Municipality is not in compliance with Common Rule Subpart C_.20 (7).</p>
Recommendation	<p>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. Also, cash advances must be consistent with realistic cash needs.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 07-03 (continued)

Questioned Costs None

**Management Response
and Corrective Action** The Municipality concurs with the finding. Management instructed the Program accounting staff to strengthen control procedures to assure that the condition observed by the auditors does not occur again. Cash will be requested to the federal agency only when needed, and disbursed promptly.

Implementation Date: April, 2008

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, 2007

Section III - Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	07-04
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	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) Ten (10) participant's files did not include evidence of the application approval notice (OCAM-AH-004A).b) One (1) participant's file did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.c) For ten (10) participants, the Service Coordinator did not made an adequate number of monitoring visits; as stated in the procedures manual.
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>
Cause of Condition	<p>The Municipality's controls and procedures failed to assure that the participant files include all the required documents to comply with the program requirements.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **07-04 (continued)**

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 "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 any condition observed in each file to assure compliance with the Program's regulations. Also, the Municipality will instruct the Program staff to follow the procedures guide titled "Guía Operacional de Servicio de Auxiliares del Hogar".

Implementation Date: July 2008

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, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-05
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)
Requirement	Cash Management
Statement of Condition	<p>We performed a Cash Management test and examined thirteen (13) cash advances received by the Municipality during the fiscal year 2006-2007, 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. In eight (8) 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 \$23,736 during the fiscal year 2006-2007.
Criteria	<p>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.</p>
Cause of Condition	<p>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.</p>
Effect of Condition	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).</p>
Recommendation	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 07-05 (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 are submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds are transferred by the Pass-through Grantor, the Program will disburse it immediately.

Implementation Date: April 2008

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, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-06
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	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, we verified the construction projects 06-AB-35-001, 04-AB-35-001, 05-AB-35-001 and 05-FC-35-001. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. There is no evidence that the Program requested and obtained the weekly payrolls from the contractors.b. No evidence of monitoring (including on-site visits) procedures are maintained by the Municipality to verify contractor's compliance with Davis Bacon Act.
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 extent of violations, if any, and then communicate promptly to the contractors any failure in the payroll process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 07-06 (continued)

Questioned Costs None

**Management Response
and Corrective Action**

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.

Implementation Date: April, 2008

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, 2007

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-07
Program	Federal Transit – Formula Grants (CFDA No. 20.507); U.S. Department of Transportation
Requirement	Reporting
Statement of Condition	The last three (3) financial quarterly reports (due in December, 2006, March, and June, 2007) were not available for our verification.
Criteria	Code of Federal Regulation 49, Subpart C, Sec.18.20 (b) (1) (2): (1) Financial Reporting. 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. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identified the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
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 49, Subpart C, Sec.18.20 (b) (1) (2).
Recommendation	We recommend to the Municipality’s Management to maintain the financial quarterly reports and the evidence of its submission to the federal agency.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **07-07 (continued)**

**Management Response
and Corrective Action**

The Municipality's Management instructed the Program Accountant to maintain the file with the quarterly reports, and evidence of its submission to the federal agency.

Implementation Date: July, 2008

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, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-08
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	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>The Program did not submit the Equipment Inventory Schedule to the Grantee as part of the annual reports due at annual closing date.</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, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-08 (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 with sufficient detail to permit an easily audit trial of financial reports to the accounting records. Also, the program will submit all required reports, completely and timely, at the annual closing date Implementation Date: July, 2008 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, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-03	10.760	<p><u>During the audit, the auditors noted that the Municipality did not maintain for the Water and Waste Disposal Loans and Grants program a set of accounting records that present the financial position of the program and the results of its operations.</u></p> <p>Corrective action was taken.</p>
06-04	10.760	<p><u>The auditors performed a Cash Management test and examined five (5) cash advances received by the Municipality during the fiscal year 2005-2006. Also, the auditors verified the bank statements and cash reconciliations for that period. The following summarizes the situations found: (a) The Program maintained and excessive cash balance of \$11,279 related to two (2) requests made in February 2006. The cash requested was not consistent with realistic cash needs.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-03.</p>
06-05	14.228	<p><u>The auditors performed a housekeeper activities test of ten (10) participant's files and found the following exceptions: (a) Two (2) participant's files did not have the Eligibility Determination form (OCAM-AH-003) completed in all its parts; (b) One (1) participant's files did not have copy of the Social Security card; (c) One (1) participant's files did not have original birth certificate; (d) Ten (10) participant's files did not have the health certificate; (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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-04.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-06	14.228	<p><u>The auditors performed a Cash Management test and examined six (6) cash advances received by the Municipality during the fiscal year 2005-2006. Also, the auditors verified the bank statements and cash reconciliations for that period. The following summarizes the situations found: (a) For six (6) cash advances, the auditors 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 \$65,445 during the fiscal year 2005-2006.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-05.</p>
06-07	14.228	<p><u>During the Davis-Bacon Act test, the auditors verified the construction projects 04-AB-35-002 and 05-FE-35-001. The following summarizes the situations found: (a) For the construction projects 04-AB-35-002 and 05-FE-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 05-FE-35-001 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 04-AB-35-002 and 05-FE-35-001 the Municipality did not perform interviews to the contractor's and subcontractor's laborers.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-06.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-08	14.228	<p><u>The examination of the reporting requirements of the Community Development Block Grants – State’s Program revealed the following: (a) For the Financial Quarterly Report ended on June 30, 2006, the auditors found differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program’s General Ledger; (b) Program year reports 1999, 2000 and 2001, included as part of the Financial Quarterly Report ended on June 30, 2006, have mathematical differences in the total amount column; (c) Program years General Ledger 2002, 2004 and 2005 were not updated at June 30, 2006.</u></p> <p>Corrective action was taken.</p>
06-09	20.507	<p><u>The auditors examined four (4) cash advances received by the Municipality during the fiscal year 2005-2006 and also, the auditors verified the bank statements and cash reconciliations for that period. The following summarizes the situations found: (a) In three (3) cash advances, the auditors noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time; (b) The Program maintained and excessive cash balance of \$4,700 related to one (1) request made in March 2006. The cash requested was not consistent with realistic cash needs.</u></p> <p>Corrective action was taken.</p>
06-10	20.507	<p><u>In the Reporting Test, the auditors identified differences between the amounts reported as federal expenditures in the Quarterly Financial Status Report (April to June 2006) and in the General Ledger for the Fiscal Year 2006 submitted to the federal agency.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-07.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-11	93.575	<p><u>During the examinations, the auditors 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-08.</p>
05-03	14.228	<p><u>The housekeepers activities test of ten (10) participant's files revealed the following exceptions: 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-04.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-04	14.228	<p><u>The Cash Management test of twelve (12) cash advances received by the Municipality during the fiscal year 2004-2005 and the examination of the bank statements and cash reconciliation for that period, revealed the following situations: a) for seven (7) cash advances 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-05.</p>
05-05	14.228 14.248	<p><u>The Davis-Bacon Act test, for the Community Development Block Grant Program - State's Program, for the construction projects 01-FD-35-010, 03-FC-35-004, and 04-FC-35-001, revealed the following situations: 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.</u></p> <p><u>The Davis-Bacon Act test, for the Community Development Block Grants - Section 108 Loan Guarantees, for the construction project of the Athletic Track on the Valenciano Sport Complex, revealed 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-06.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-06	14.228	<p><u>The reporting requirements test, for the Community Development Block Grants - State's Program revealed the following: a) differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program's General Ledger; 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.</u></p> <p>Corrective action was taken.</p>
05-07	93.575	<p><u>For the fiscal year 2005-2006, 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. Also, the reporting test revealed 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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-08.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-09	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 location, (e) and use and condition of the property.</u></p> <p>Partial corrective action was taken. Management included the required specifications of the source of property, who holds the title, and percentage of Federal participation in the cost of the property, in the subsidiary ledger.</p>
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>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>
04-10	14.228	<p><u>The housekeepers activities test of ten (10) participant's files revealed the following exceptions: 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>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>

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

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-11	14.228	<p><u>The Davis-Bacon Act test, for 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 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>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>
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>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>
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 location; e) and, use and condition of the property.</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>

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

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
04-15	93.575	<p>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.</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>