

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE JUNCOS  
AUDITORÍA 2009-2010  
30 DE JUNIO DE 2010**

**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, 2010**

2011 JUN 21 PM 5:22

Report generated by: [illegible]

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, 2010

---

CONTENTS

Page

**BASIC FINANCIAL STATEMENTS**

|   |       |
|---|-------|
| Independent Auditors' Report  | 1-3   |
| Required Supplementary Information (Part 1)<br>Management's Discussion and Analysis                                       | 4-13  |
| Government-Wide Financial Statements:   |       |
| Statement of Net Assets   | 14    |
| Statement of Activities   | 15    |
| Fund Financial Statements:  |       |
| Governmental Funds:   |       |
| Balance Sheet   | 16    |
| Statement of Revenues, Expenditures and Changes in Fund Balances  | 17    |
| Reconciliation of the Balance Sheet- Governmental Funds to<br>Statement of Net Assets                                     | 18    |
| Reconciliation of the Statement of Revenues, Expenditures, and<br>Changes in Fund Balances to the Statement of Activities | 19    |
| Notes to Basic Financial Statements   | 20-46 |

**SUPPLEMENTARY INFORMATION**

|   |       |
|---|-------|
| Required Supplementary Information (Part II):       |       |
| Budgetary Comparison Schedule-General Fund          | 47    |
| Notes to Budgetary Comparison Schedule-General Fund | 48    |
| Schedule of expenditures of federal awards          | 49-51 |
| Notes to the schedule of federal awards             | 52    |

**INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS**

|   |       |
|---|-------|
| Report on internal control over financial reporting and on compliance<br>and other matters based on an audit of financial statements performed<br>in accordance with <i>Government Auditing Standards</i> | 53-55 |
|---|-------|

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

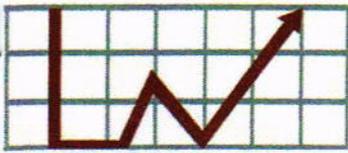
BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2010

---

CONTENTS

|   | Page  |
|---|-------|
| <b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b><br><b><u>(CONTINUED)</u></b>  |       |
| Independent Auditor's Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 | 56-58 |
| <b><u>FINDINGS AND QUESTIONED COSTS</u></b>   |       |
| Schedule of Findings and Questioned Costs   | 59-72 |
| Summary Schedule of Prior Year Audit Findings   | 73-79 |



*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, 2010, 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 an opinion 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 the *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 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 opinion.

As discussed in Note **10 (7)**, 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 effect of such adjustment, 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, 2010, 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, 2010, 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 January 31, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 52 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Junco's** financial statements, as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

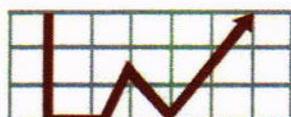
**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

The schedules of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 8, 2010

Stamp No. 2575442 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

---

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, 2010. 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, 2009. 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 2010 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 \$118,348,616 which represents an increase of 13% compared to prior fiscal year, as restated;
2. At the end of fiscal year 2010, total liabilities amounted to \$80,898,864. Out of said amount, \$64,524,682 corresponded to long-term liabilities of which \$40,794,963 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 \$37,449,752 which represents an decrease of 5% compared to prior fiscal year, as restated;
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$45,685,659, derived from the following sources: \$5,013,700 charges for services; \$5,154,438 from operating grants and contributions; \$3,418,770 from capital grants and contributions obtained from other sources, and \$32,098,751 from general revenues available;

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**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 \$47,812,736;
6. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$30,115,714;
7. As of the end of the current fiscal year the Municipality's General Fund balance amounted to \$3,485,023;
8. The actual General Fund budgetary activities resulted in an unfavorable balance of \$787,717.

**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 2010. 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, 2010

---

**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, 2010, shows total expenses incurred to afford the cost of all functions and programs amounted to \$47,812,736. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$13,586,908 was derived from the following sources: \$5,013,700 charges for services; \$5,154,438 from operating grants and contributions; and \$3,418,770 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$32,098,751. When such figure is added to the \$13,586,908 previously mentioned, total revenues available for the financing of activities amounted to \$45,685,659. There was a deficiency of revenues over expenses in the amount of \$(2,127,077) 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, 2010

---

**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

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

**INFRASTRUCTURE ASSETS**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)**

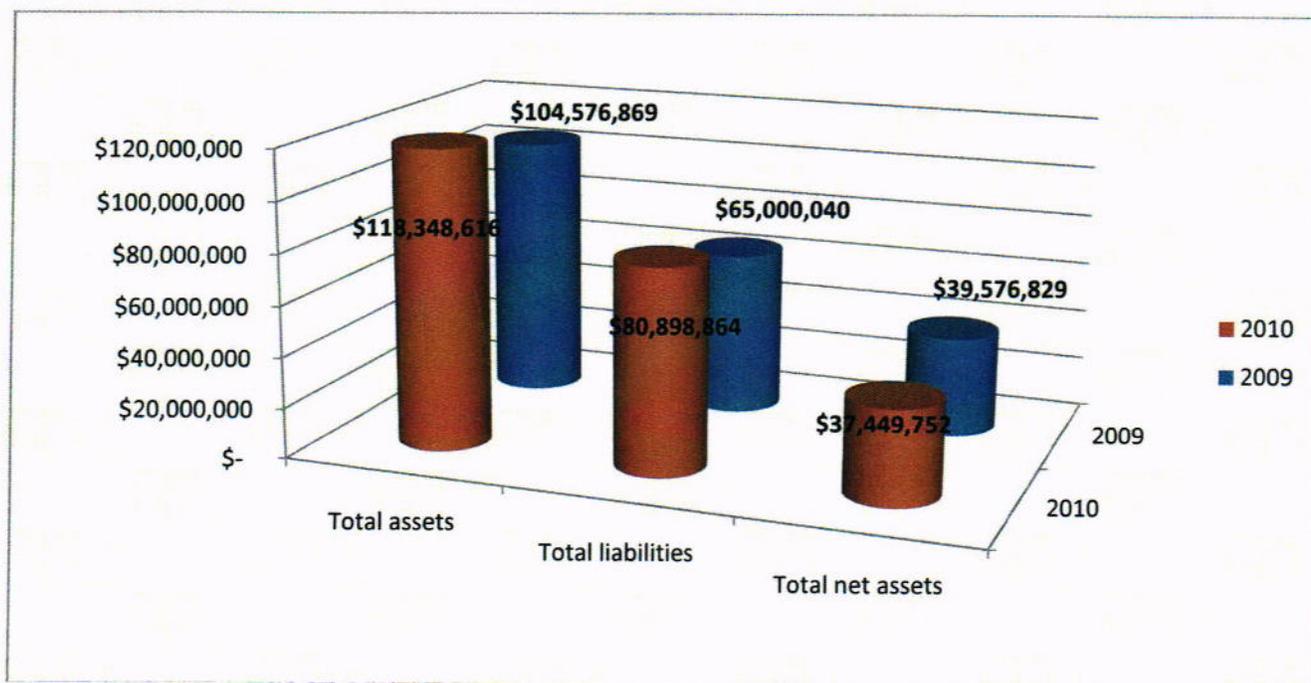
**YEAR ENDED JUNE 30, 2010**

**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 \$37,449,752 at the end of 2010, compared to \$39,576,828 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Assets of the Primary Government.

| Condensated Statement of Net Assets             | 2010                 | 2009                 | Change                | %           |
|---|----------------------|----------------------|-----------------------|-------------|
| Current and other assets                        | \$ 44,366,405        | \$ 38,102,924        | \$ 6,263,481          | 16%         |
| Capital Assets                                  | 73,982,211           | 66,473,945           | 7,508,266             | 11%         |
| <b>Total assets</b>                             | <b>118,348,616</b>   | <b>104,576,869</b>   | <b>13,771,747</b>     | <b>13%</b>  |
| Current and other liabilities                   | 16,374,182           | 17,512,961           | (1,138,779)           | (7)%        |
| Long Term liabilities                           | 64,524,682           | 47,487,079           | 17,037,603            | 36%         |
| <b>Total liabilities</b>                        | <b>80,898,864</b>    | <b>65,000,040</b>    | <b>15,898,824</b>     | <b>24%</b>  |
| Invested in capital assets, net of related debt | 73,982,211           | 42,108,732           | 31,873,479            | 76%         |
| Restricted                                      | 26,260,545           | 17,938,294           | 8,322,251             | 46%         |
| Unrestricted deficit                            | (62,793,004)         | (20,470,197)         | (42,322,807)          | 207%        |
| <b>Total net assets</b>                         | <b>\$ 37,449,752</b> | <b>\$ 39,576,829</b> | <b>\$ (2,127,077)</b> | <b>(5)%</b> |



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Changes in Net Assets**

The Statement of Activities reflects that for fiscal year 2010, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$45,685,659. Approximately 50 percent of the Municipality's total revenue came from taxes, while 31 percent resulted from grants and contributions, including federal aid. Charges for Services provide 11 percent of the total revenues. Interest and investment earnings and miscellaneous provide approximately 8 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.

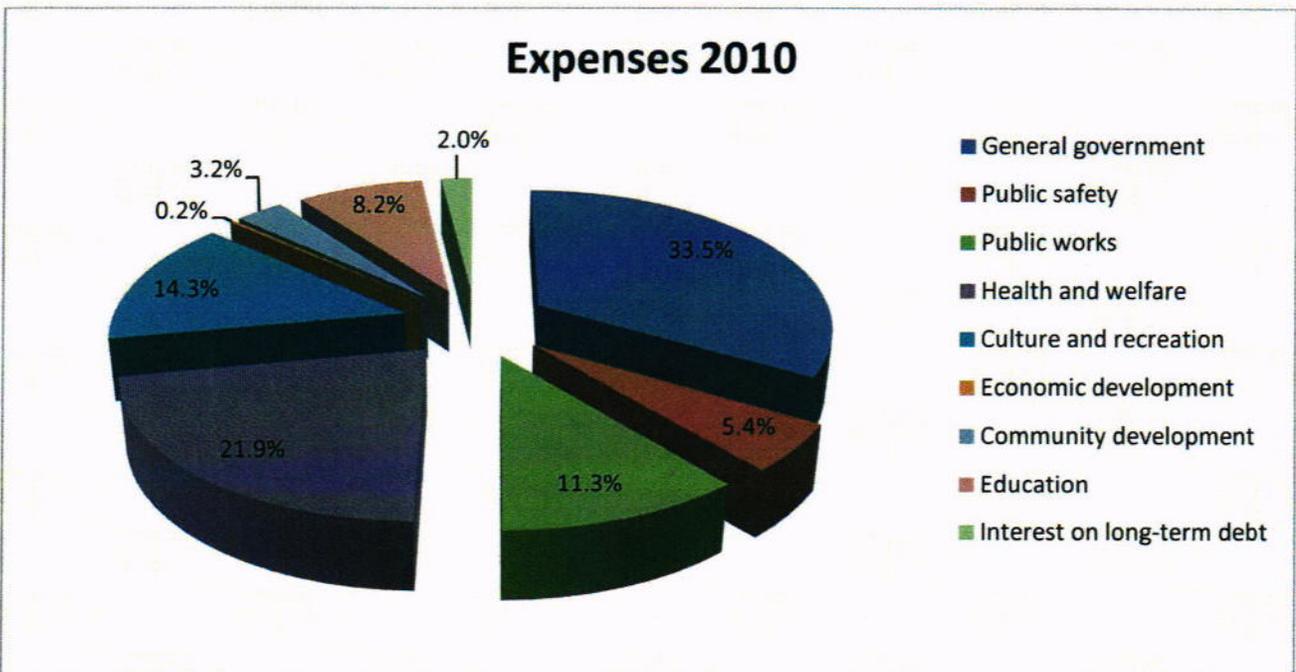
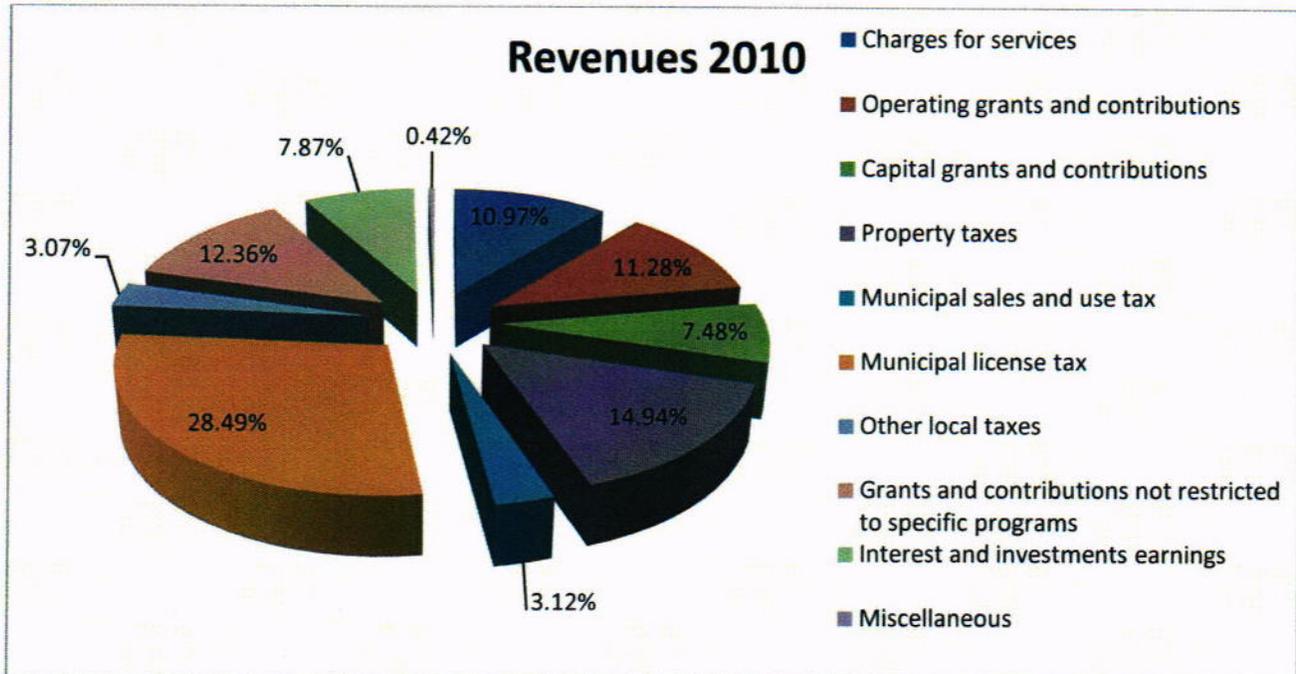
| <b>Condensed Statement of Activities</b>                     | <b>2010</b>          | <b>2009</b>          | <b>Change</b>         | <b>%</b>      |
|--|----------------------|----------------------|-----------------------|---------------|
| <b>Program revenues:</b>                                     |                      |                      |                       |               |
| Charges for services   | \$ 5,013,700         | \$ 6,006,143         | \$ (992,443)          | (17%)         |
| Operating grants and contributions                           | 5,154,438            | 4,678,478            | 475,960               | 10%           |
| Capital grants and contributions                             | 3,418,770            | 9,221,685            | (5,802,915)           | (63%)         |
| <b>General revenues:</b>                                     |                      |                      |                       |               |
| Property taxes   | 6,824,042            | 1,748,894            | 5,075,148             | 290%          |
| Municipal license tax  | 13,016,609           | 13,847,009           | (830,400)             | (6%)          |
| Municipal sales and use tax                                  | 1,424,375            | 953,309              | 471,066               | 49%           |
| Other local taxes  | 1,402,810            | 876,994              | 525,816               | 60%           |
| Grants and contributions not restricted to specific programs | 5,646,818            | 6,350,453            | (703,635)             | (11%)         |
| Interest and investment earnings                             | 3,593,847            | 520,940              | 3,072,907             | 590%          |
| Miscellaneous  | 190,250              | 6,246,708            | (6,056,458)           | (97%)         |
| <b>Total revenues</b>  | <b>45,685,659</b>    | <b>50,450,613</b>    | <b>(4,764,954)</b>    | <b>(9%)</b>   |
| <b>Expenses:</b>   |                      |                      |                       |               |
| General government   | 15,994,181           | 15,139,347           | 854,834               | 6%            |
| Public safety  | 2,581,524            | 2,569,797            | 11,727                | -             |
| Public works   | 5,402,112            | 7,993,813            | (2,591,701)           | (32%)         |
| Culture and recreation                                       | 6,856,233            | 10,257,613           | (3,401,380)           | (33%)         |
| Health and welfare   | 10,487,847           | 9,308,592            | 1,179,255             | 13%           |
| Economic development   | 112,116              | 281,875              | (169,759)             | (60%)         |
| Community development  | 1,515,019            | 1,323,178            | 191,841               | 14%           |
| Education  | 3,904,037            | 1,073,935            | 2,830,102             | 264%          |
| Urban development  | -                    | 8,629                | (8,629)               | (100%)        |
| Interest on long-term debt                                   | 959,667              | 1,102,288            | (142,621)             | (13%)         |
| <b>Total expenses</b>  | <b>47,812,736</b>    | <b>49,059,067</b>    | <b>(1,246,331)</b>    | <b>(3%)</b>   |
| <b>Change in net assets</b>                                  | <b>(2,127,077)</b>   | <b>1,391,546</b>     | <b>(3,518,623)</b>    | <b>(253%)</b> |
| <b>Net assets, beginning of year, as restated</b>            | <b>39,576,829</b>    | <b>38,185,283</b>    | <b>1,391,546</b>      | <b>4%</b>     |
| <b>Net assets, end of year</b>                               | <b>\$ 37,449,752</b> | <b>\$ 39,576,829</b> | <b>\$ (2,127,077)</b> | <b>(5%)</b>   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010**

---

**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 \$30,115,714, an increase of \$7,680,026 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$29,269,862. 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 (\$1,096,318), 2) to pay debt service (\$4,413,867), 3) to pay for capital projects (\$19,738,580), 4) for other purposes (\$2,478,244) and 5) for reserve for long-term advances (\$1,542,853).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2010, the general fund has an undesignated fund balance of \$845,852.

**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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2010, amounted to \$95,032,427, which upon deduction of accumulated depreciation of \$21,050,216, produced a net book value of \$73,982,211. Depreciation charges for the year totaled \$2,461,013.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

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, 2010, the Municipality has \$23,396,664 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.

**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 2010-2011.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

**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 PO 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, 2010

|  | <b>Governmental<br/>Activities</b> |
|--|------------------------------------|
| <b>Assets</b>                                    |                                    |
| Cash and cash equivalents                        | \$ 13,001,326                      |
| Cash with fiscal agent                           | 28,461,274                         |
| Accounts receivable:                             |                                    |
| Municipal license tax                            | 2,614                              |
| Municipal sales and use tax                      | 299,662                            |
| Intergovernmental                                | 167,767                            |
| Landfill users                                   | 328,136                            |
| Federal grants                                   | 1,986,880                          |
| Others   | 118,746                            |
| Capital assets                                   |                                    |
| Land, improvements, and construction in progress | 37,438,209                         |
| Other capital assets, net of depreciation        | 36,544,002                         |
| Total capital assets                             | 73,982,211                         |
| <b>Total assets</b>                              | 118,348,616                        |
| <b>Liabilities</b>                               |                                    |
| Accounts payable and accrued liabilities         | 3,221,291                          |
| Due to other governmental entities               | 272,779                            |
| Deferred revenues:                               |                                    |
| Municipal license tax                            | 11,339,199                         |
| Federal grant revenues                           | 1,170,767                          |
| Interest payable                                 | 370,146                            |
| Noncurrent liabilities:                          |                                    |
| Due within one year                              | 3,689,886                          |
| Due in more than one year                        | 60,834,796                         |
| <b>Total liabilities</b>                         | 80,898,864                         |
| <b>Net Assets</b>                                |                                    |
| Invested in capital assets, net of related debt  | 73,982,211                         |
| Restricted for:                                  |                                    |
| Capital projects                                 | 19,738,580                         |
| Debt service                                     | 4,043,721                          |
| Other purposes                                   | 2,478,244                          |
| Unrestricted (deficit)                           | (62,793,004)                       |
| <b>Total net assets</b>                          | \$ 37,449,752                      |

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

| 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                   | \$15,994,181        | \$ -                | \$ 132,511          | \$ -                | \$ (15,861,670)           |
| Public safety                        | 2,581,524           | 19,994              | 298,934             |                     | (2,262,596)               |
| Public works                         | 5,402,112           | 2,345,347           | 410,618             | 1,369,981           | (1,276,166)               |
| Health and welfare                   | 10,487,847          | 2,526,355           | 3,978,120           |                     | (3,983,372)               |
| Culture and recreation               | 6,856,233           | 122,004             | 54,405              | 1,805,241           | (4,874,583)               |
| Economic development                 | 112,116             |                     | 45,482              |                     | (66,634)                  |
| Community development                | 1,515,019           |                     | 234,101             | 243,548             | (1,037,370)               |
| Urban development                    |                     |                     | 267                 |                     | 267                       |
| Education                            | 3,904,037           |                     |                     |                     | (3,904,037)               |
| Interest on long-term debt           | 959,667             |                     |                     |                     | (959,667)                 |
| <b>Total governmental activities</b> | <b>\$47,812,736</b> | <b>\$ 5,013,700</b> | <b>\$ 5,154,438</b> | <b>\$ 3,418,770</b> | <b>(34,225,828)</b>       |
| General revenues:                    |                     |                     |                     |                     |                           |
|                                      |                     |                     |                     |                     | 6,824,042                 |
|                                      |                     |                     |                     |                     | 13,016,609                |
|                                      |                     |                     |                     |                     | 1,424,375                 |
|                                      |                     |                     |                     |                     | 1,402,810                 |
|                                      |                     |                     |                     |                     | 5,646,818                 |
|                                      |                     |                     |                     |                     | 3,593,847                 |
|                                      |                     |                     |                     |                     | 190,250                   |
|                                      |                     |                     |                     |                     | <u>32,098,751</u>         |
|                                      |                     |                     |                     |                     | (2,127,077)               |
|                                      |                     |                     |                     |                     | <u>39,576,829</u>         |
|                                      |                     |                     |                     |                     | <u>\$ 37,449,752</u>      |

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

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

|   | General<br>Fund      | Special Revenue<br>Fund - State &<br>Local Grants | Special<br>Revenue Fund<br>Other Federal Grants | Capital Projects<br>Fund - State &<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|---|---|--|--------------------------------|--------------------------------|
| <b>Assets</b>                               |                      |   |   |  |                                |                                |
| Cash and cash equivalents                   | \$ 7,780,240         | \$ 2,711,662                                      | \$ 1,212,000                                    | \$ 1,146,521                                       | \$ 150,903                     | \$ 13,001,326                  |
| Cash with fiscal agent                      | 52,907               | 429,481   | 165,969   | 23,424,567   | 4,388,350                      | 28,461,274                     |
| Accounts receivable:                        |                      |   |   |  |                                |                                |
| Municipal license tax                       | 2,614                |   |   |  |                                | 2,614                          |
| Municipal sales and use tax                 | 299,662              |   |   |  |                                | 299,662                        |
| Intergovernmental                           |                      | 142,250   |   |  | 25,517                         | 167,767                        |
| Landfill users                              | 328,136              |   |   |  |                                | 328,136                        |
| Federal grants                              |                      |   | 1,957,577                                       |  | 29,303                         | 1,986,880                      |
| Others                                      | 118,746              |   |   |  |                                | 118,746                        |
| Advance from other funds                    | 1,542,853            |   |   |  |                                | 1,542,853                      |
| Due from other funds                        | 5,785,147            |   | 54,154  |  |                                | 5,839,301                      |
| <b>Total assets</b>                         | <b>\$ 15,910,305</b> | <b>\$ 3,283,393</b>                               | <b>\$ 3,389,700</b>                             | <b>\$ 24,571,088</b>                               | <b>\$ 4,594,073</b>            | <b>\$ 51,748,559</b>           |
| <b>Liabilities and Fund Balances</b>        |                      |   |   |  |                                |                                |
| <b>Liabilities :</b>                        |                      |   |   |  |                                |                                |
| Accounts payable and accrued liabilities    | \$ 759,150           | \$ 113,511  | \$ 71,177                                       | \$ 524,108   | \$ -                           | \$ 1,467,946                   |
| Due to other governmental entities          | 272,779              |   |   |  |                                | 272,779                        |
| Advance to other funds                      |                      | 125,560   | 924,087   | 455,623  | 37,583                         | 1,542,853                      |
| Due to other funds                          | 54,154               | 654,782   | 1,255,881                                       | 3,852,777  | 21,707                         | 5,839,301                      |
| Deferred revenues:                          |                      |   |   |  |                                |                                |
| Municipal license tax                       | 11,339,199           |   |   |  |                                | 11,339,199                     |
| Federal grant revenues                      |                      |   | 1,138,555                                       |  | 32,212                         | 1,170,767                      |
| <b>Total liabilities</b>                    | <b>12,425,282</b>    | <b>893,853</b>                                    | <b>3,389,700</b>                                | <b>4,832,508</b>                                   | <b>91,502</b>                  | <b>21,632,845</b>              |
| <b>Fund balances:</b>                       |                      |   |   |  |                                |                                |
| <b>Reserved for:</b>                        |                      |   |   |  |                                |                                |
| Encumbrances                                | 1,096,318            |   |   |  |                                | 1,096,318                      |
| Capital projects                            |                      |   |   | 19,738,580   |                                | 19,738,580                     |
| Other purposes                              |                      | 2,389,540   |   |  |                                | 2,389,540                      |
| Long-term advances                          | 1,542,853            |   |   |  |                                | 1,542,853                      |
| <b>Reserved reported in nonmajor funds:</b> |                      |   |   |  |                                |                                |
| Debt service fund                           |                      |   |   |  | 4,413,867                      | 4,413,867                      |
| Other purposes                              |                      |   |   |  | 88,704                         | 88,704                         |
| <b>Unreserved:</b>                          |                      |   |   |  |                                |                                |
| Undesignated                                | 845,852              |   |   |  |                                | 845,852                        |
| <b>Total fund balances</b>                  | <b>3,485,023</b>     | <b>2,389,540</b>                                  | <b>-</b>  | <b>19,738,580</b>                                  | <b>4,502,571</b>               | <b>30,115,714</b>              |
| <b>Total liabilities and fund balances</b>  | <b>\$ 15,910,305</b> | <b>\$ 3,283,393</b>                               | <b>\$ 3,389,700</b>                             | <b>\$ 24,571,088</b>                               | <b>\$ 4,594,073</b>            |                                |

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2010**

|  | General<br>Fund     | Special Revenue<br>Fund - State &<br>Local Grants | Special<br>Revenue Fund<br>Other Federal Grants | Capital Projects<br>Fund - State &<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---|---|--|--------------------------------|--------------------------------|
| <b>Revenues</b>  |                     |   |   |  |                                |                                |
| Property taxes   | \$ 6,237,220        | \$ -  | \$ -  | \$ -   | \$ 586,822                     | \$ 6,824,042                   |
| Municipal license taxes                                      | 13,016,609          |   |   |  |                                | 13,016,609                     |
| Municipal sales and use tax                                  | 1,120,419           |   |   |  | 303,956                        | 1,424,375                      |
| Licenses, permits and other local taxes                      | 1,402,810           |   |   |  |                                | 1,402,810                      |
| Charges for services   | 1,944,355           | 20,951  |   |  |                                | 1,965,306                      |
| Intergovernmental  | 5,646,818           | 1,773,299   |   | 3,483,980  |                                | 10,904,097                     |
| Fines and forfeitures  | 19,994              |   |   |  |                                | 19,994                         |
| Rent of property   | 122,003             | 54,300  |   |  |                                | 176,303                        |
| Interest   | 87,595              | 3,506,252   |   |  |                                | 3,593,847                      |
| Users fees on landfill facilities                            | 2,191,661           |   |   |  |                                | 2,191,661                      |
| Federal grants   |                     |   | 3,118,155                                       |  | 647,093                        | 3,765,248                      |
| Miscellaneous  | 80,964              | 219,554   |   | 86,479   | 14,370                         | 401,367                        |
| <b>Total revenues</b>  | <b>31,870,448</b>   | <b>5,574,356</b>                                  | <b>3,118,155</b>                                | <b>3,570,459</b>                                   | <b>1,552,241</b>               | <b>45,685,659</b>              |
| <b>Expenditures</b>  |                     |   |   |  |                                |                                |
| <b>Current:</b>  |                     |   |   |  |                                |                                |
| General government   | 15,105,889          | 2,422,210   |   | 19,665   |                                | 17,547,764                     |
| Public safety  | 2,273,783           | 76,848  | 127,086   |  |                                | 2,477,717                      |
| Public works   | 5,079,775           | 87,405  | 68,929  | 2,452,178  |                                | 7,688,287                      |
| Health and welfare   | 6,564,555           | 1,784,625   | 1,713,939                                       |  | 408,841                        | 10,471,960                     |
| Culture and recreation                                       | 2,494,000           | 200,865   |   | 5,852,199  |                                | 8,547,064                      |
| Economic development   |                     | 116,048   |   |  |                                | 116,048                        |
| Community development  |                     |   | 1,207,356                                       | 210,257  | 243,548                        | 1,661,161                      |
| Education  | 1,090,758           | 2,882,040   |   |  |                                | 3,972,798                      |
| <b>Debt service:</b>   |                     |   |   |  |                                |                                |
| Principal  |                     |   |   |  | 1,588,750                      | 1,588,750                      |
| Interest   |                     |   |   |  | 864,084                        | 864,084                        |
| <b>Total expenditures</b>                                    | <b>32,608,760</b>   | <b>7,570,041</b>                                  | <b>3,117,310</b>                                | <b>8,534,299</b>                                   | <b>3,105,223</b>               | <b>54,935,633</b>              |
| Excess (deficiency) of revenues over<br>(under) expenditures | (738,312)           | (1,995,685)                                       | 845   | (4,963,840)  | (1,552,982)                    | (9,249,974)                    |
| <b>Other financing sources (uses)</b>                        |                     |   |   |  |                                |                                |
| Transfers in   | 16,546              | 247,412   | 9,648   |  | 855,664                        | 1,129,270                      |
| Transfers out  | (1,112,724)         |   | (10,493)  | (6,053)  |                                | (1,129,270)                    |
| Long-term debt issued  | 155,000             | 3,115,000   |   | 13,660,000   |                                | 16,930,000                     |
| <b>Total other financing sources (uses)</b>                  | <b>(941,178)</b>    | <b>3,362,412</b>                                  | <b>(845)</b>                                    | <b>13,653,947</b>                                  | <b>855,664</b>                 | <b>16,930,000</b>              |
| <b>Net change in fund balances</b>                           | <b>(1,679,490)</b>  | <b>1,366,727</b>                                  | <b>-</b>  | <b>8,690,107</b>                                   | <b>(697,318)</b>               | <b>7,680,026</b>               |
| Fund balance, beginning, as restated                         | 5,164,513           | 1,022,813   | -   | 11,048,473   | 5,199,889                      | 22,435,688                     |
| Fund balance, ending   | <u>\$ 3,485,023</u> | <u>\$ 2,389,540</u>                               | <u>\$ -</u>                                     | <u>\$ 19,738,580</u>                               | <u>\$ 4,502,571</u>            | <u>\$ 30,115,714</u>           |

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

Commonwealth of Puerto Rico  
Municipality of Juncos  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
For the Year Ended June 30, 2010

---

Total Fund Balances - Governmental Funds \$ 30,115,714

Amounts reported for Governmental Activities in the Statement of Net Assets  
are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore,  
are not reported in the funds. In the current period, these amounts are:

|                                |                     |            |
|--------------------------------|---------------------|------------|
| Non Depreciable Capital Assets | \$ 37,438,209       |            |
| Depreciable Capital Assets     | 57,594,218          |            |
| Accumulated Depreciation       | <u>(21,050,216)</u> |            |
| Total Capital Assets           |                     | 73,982,211 |

Accounts payable accumulated according to the accrual basis of accounting. In the current  
period, those amounts are: (1,753,345)

Some liabilities are not due and payable in the current period and therefore, are not  
reported in the funds. Those liabilities consist of:

|  |                  |                     |
|--|------------------|---------------------|
| General Bonds and Notes Payable            | 40,794,963       |                     |
| Line of credit-Landfill expansion          | 10,821,000       |                     |
| State Insurance Fund Corporation           | 26,220           |                     |
| LIMS Repayment Plan                        | 72,825           |                     |
| Property Taxes Debt                        | 4,096,735        |                     |
| Compensated Absences                       | 2,828,864        |                     |
| Claims and Judgments                       | 358,594          |                     |
| Interest Payable of Noncurrent liabilities | 370,146          |                     |
| Landfill Obligation                        | <u>5,525,481</u> |                     |
| Total Long-Term Liabilities                |                  | <u>(64,894,828)</u> |

Total Net Assets of Governmental Activities \$ 37,449,752

**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, 2010**

|   |                              |
|---|------------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | <b>\$ 7,680,026</b>          |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>   |                              |
| <p>Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>  | 9,969,279                    |
| <p>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.</p>   | (2,461,013)                  |
| <p>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.</p>   | (182,184)                    |
| <p>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.</p>  | (95,583)                     |
| <p>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.</p> | (15,341,250)                 |
| <p>Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represented the change in long-term property tax advanced from prior year.</p>   | (1,631,365)                  |
| <p>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.</p>  | 45,111                       |
| <p>Long-term debt owed to the State Insurance Fund Corporation is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, the addition was not reported as expenditures in Governmental Funds. The following amount represented the addition for the current period:</p>  | (26,220)                     |
| <p>Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represented the change in long-term compensated absences from prior year.</p>  | (293,411)                    |
| <p>Long-term claims and judgments are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represents the change in claims and judgments from prior year.</p>  | 209,533                      |
| <b>Change in Net Assets of Governmental Activities</b>  | <b>\$ <u>(2,127,077)</u></b> |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

---

**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, 2010**

---

**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, 2010

---

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 - State & Local Grants**- is the accounting entity in which revenues derived from local funds and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

**Special Revenue Fund - Other 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, 2010

---

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 – Other 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, 2010**

---

**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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

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.

- 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

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

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.

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

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

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

**9. Net Assets** - In the government-wide statements, net assets are segregated into three categories:

- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

**10. Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

**11. 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.

**12. 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, 2010 amounted to \$240,944. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$586,548 for workers compensation insurance covering all municipal employees.

**2. CASH AND CASH EQUIVALENTS**

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it’s custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers’ acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2010.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2010, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2010, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2010, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully secured by securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

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 \$7,780,240 in the General Fund, the \$2,711,662 in the Special Revenue Fund – State and Local Grants, the \$1,212,000 in the Special Revenue Fund – Federal Grants, and the \$1,146,521 in the Capital Projects Fund – State and Local Grants, were fully collateralized at June 30, 2010. In the Other Governmental Funds there were deposits with commercial banks of \$150,903 that were fully collateralized.

The deposits at GDB of \$52,907 in the General Fund, \$429,481 in the Special Revenue Fund – State and Local Grants, \$165,969 in the Special Revenue Fund – Federal Grants, the \$23,424,567 in the Capital Projects Fund – State and Local Grants and the \$4,388,350 in the Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

- A. *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 (.1%), the Municipal Redemption Fund (.3%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$299,662 represents filed municipal sales and use tax returns that were uncollected as of June 30, 2010, net of allowance for uncollectible accounts.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**3. RECEIVABLES**

**B. Intergovernmental Receivables** – Intergovernmental receivables in the Special Revenue Fund – State and Local Grants represent expenditures incurred not yet reimbursed by governmental entities. Following is a detail of the intergovernmental receivables:

| <u>Governmental Entities</u> | <u>Amount</u>            |
|------------------------------|--------------------------|
| Health Department            | \$ 120,000               |
| Department of Labor          | <u>22,250</u>            |
| <b>Total</b>                 | <b>\$ <u>142,250</u></b> |

Intergovernmental receivable in the Other Governmental Fund represents the amounts due from the CRIM related to current year advances and delinquent debts. Following is a detail of the property taxes receivable:

| <u>Governmental Entity</u>                   | <u>Amount</u>           |
|--|-------------------------|
| Municipal Revenue Collection Center ("CRIM") | \$ 25,517               |
| <b>Total</b>                                 | <b>\$ <u>25,517</u></b> |

**C. Federal Grants Receivable** – Federal grants receivable in the Special Revenue Fund – Other Federal Grants represent expenditures incurred not yet reimbursed by the Federal Government or the pass-through grantors. Following is a detail of the federal grants receivable:

| <u>Program Description</u>                               | <u>Amount</u>              |
|--|----------------------------|
| Community Development Block Grant – State's Program      | \$ 913,768                 |
| Child Care and Development Block Grant                   | 548,411                    |
| Safe and Drug-Free Schools and Communities-State's Grant | 126,264                    |
| Temporary Assistance for Needy Families                  | 115,971                    |
| Local Law & Enforcement Block Grant                      | 77,143                     |
| Public Assistance Grant                                  | 64,277                     |
| Edward Byrne Memorial Justice Assistance Grant Program   | 42,037                     |
| Community Service Block Grant                            | 18,405                     |
| Juvenile Justice and Delinquency                         | 19,228                     |
| Others   | <u>32,073</u>              |
| <b>Total</b>   | <b>\$ <u>1,957,577</u></b> |

Federal Grants receivable in the Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal governmental entities. Following is a detail of the federal grant receivable:

| <u>Governmental Entity</u>         | <u>Amount</u>           |
|------------------------------------|-------------------------|
| Department of Agriculture (WWDL&G) | \$ 29,303               |
| <b>Total</b>                       | <b>\$ <u>29,303</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**3. RECEIVABLES (CONTINUED)**

**D. 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. At June 30, 2010, the landfill users receivable amounted \$328,136.

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, 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 -<br>Federal Grants          | Payrolls, accruals, and other<br>expenditures not reimbursed | \$ 2,179,968               |
| General Fund                             | Capital Projects Fund -<br>State and Local Grants | Reimbursable expenditures                                    | 4,308,400                  |
| General Fund                             | Other Governmental Funds                          | Payrolls, accruals, and other<br>expenditures not reimbursed | 59,290                     |
| General Fund                             | Special Revenue Fund -<br>State and Local Grants  | Payrolls, accruals, and other<br>expenditures not reimbursed | 780,342                    |
| Special Revenue Fund<br>- Federal Grants | General Fund                                      | Reimbursable expenditures                                    | <u>54,154</u>              |
| <b>Total</b>                             |   |  | <b><u>\$ 7,382,154</u></b> |

**b. Transfer in/out to other fund**

| <u>Transfer out</u>                             | <u>Transfer in</u>                             | <u>Purpose</u>                           | <u>Amount</u>              |
|---|--|--|----------------------------|
| General Fund                                    | Other Governmental Funds                       | Debt retirement                          | \$ 424,088                 |
| General Fund                                    | Other Governmental Funds                       | Section 108 Loan                         | 431,576                    |
| General Fund                                    | Special Revenue Fund - State &<br>Local Grants | Special Revenue                          | 247,412                    |
| General Fund                                    | Special Revenue Fund - Other<br>Federal Grants | Special Revenue                          | 9,648                      |
| Special Revenue Fund -<br>Other Federal Grants  | General Fund                                   | Reimbursable expenditures                | 10,493                     |
| Capital Projects Fund -<br>State & Local Grants | General Fund                                   | Transfer of funds for general<br>purpose | <u>6,053</u>               |
| <b>Total</b>                                    |  |  | <b><u>\$ 1,129,270</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**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 2010, 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<br/>June 30, 2009</u> | <u>Additions</u>    | <u>Retirements</u>    | <u>Balance<br/>June 30, 2010</u> |
|--|----------------------------------|---------------------|-----------------------|----------------------------------|
| <b>Capital asset, not being depreciated:</b>       |                                  |                     |                       |                                  |
| Land   | \$ 26,753,241                    | \$ 1,201,688        | \$ -                  | \$ 27,954,929                    |
| Construction in progress                           | <u>8,632,063</u>                 | <u>3,238,759</u>    | <u>(2,387,542)</u>    | <u>9,483,280</u>                 |
| <b>Total capital assets not being depreciated</b>  | <u>35,385,304</u>                | <u>4,440,447</u>    | <u>(2,387,542)</u>    | <u>37,438,209</u>                |
| <b>Capital assets, being depreciated:</b>          |                                  |                     |                       |                                  |
| Buildings  | 12,332,830                       | 2,084,071           |                       | 14,416,901                       |
| Buildings improvements                             | 9,608,321                        | 1,710,795           |                       | 11,319,116                       |
| Infrastructure                                     | 9,671,081                        | 2,545,226           |                       | 12,216,307                       |
| Infrastructure improvements                        | 6,842,299                        | 873,639             |                       | 7,715,938                        |
| Equipment  | 4,859,436                        | 333,636             |                       | 5,193,072                        |
| Furnishing   | 850,979                          | 79,405              |                       | 930,384                          |
| Works of art                                       | 15,420                           | 7,656               |                       | 23,076                           |
| Computers  | 702,692                          | 232,500             |                       | 935,192                          |
| Vehicles   | <u>4,794,786</u>                 | <u>49,446</u>       | <u>-</u>              | <u>4,844,232</u>                 |
| <b>Total capital assets being depreciated</b>      | <u>49,677,844</u>                | <u>7,916,374</u>    | <u>-</u>              | <u>57,594,218</u>                |
| <b>Less accumulated depreciation for:</b>          |                                  |                     |                       |                                  |
| Buildings  | (3,918,319)                      | (328,774)           |                       | (4,247,093)                      |
| Buildings improvements                             | (848,051)                        | (268,159)           |                       | (1,116,210)                      |
| Infrastructure                                     | (3,889,244)                      | (299,240)           |                       | (4,188,484)                      |
| Infrastructure improvements                        | (1,236,873)                      | (495,518)           |                       | (1,732,391)                      |
| Equipment  | (3,572,707)                      | (473,731)           |                       | (4,046,438)                      |
| Furnishing   | (709,664)                        | (67,379)            |                       | (777,043)                        |
| Works of art                                       | (8,568)                          | (2,058)             |                       | (10,626)                         |
| Computers  | (577,369)                        | (114,455)           |                       | (691,824)                        |
| Vehicles   | <u>(3,828,408)</u>               | <u>(411,699)</u>    | <u>-</u>              | <u>(4,240,107)</u>               |
| <b>Total accumulated depreciation</b>              | <u>(18,589,203)</u>              | <u>(2,461,013)</u>  | <u>-</u>              | <u>(21,050,216)</u>              |
| <b>Total capital assets being depreciated, net</b> | <u>31,088,641</u>                | <u>5,455,361</u>    | <u>-</u>              | <u>36,544,002</u>                |
| <b>Governmental activities capital assets, net</b> | <u>\$ 66,473,945</u>             | <u>\$ 9,895,808</u> | <u>\$ (2,387,542)</u> | <u>\$ 73,982,211</u>             |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**5. CAPITAL ASSETS (CONTINUED)**

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

| <b>Governmental activities:</b>                           | <b>Amount</b>              |
|---|----------------------------|
| Community Development                                     | \$ 336,343                 |
| Culture and Recreation                                    | 198,270                    |
| Education   | 12,356                     |
| General Governmental                                      | 484,907                    |
| Health and Welfare  | 244,512                    |
| Public Safety   | 155,282                    |
| Public Work   | 1,028,572                  |
| Economic Development                                      | 771                        |
| <b>Total depreciation expense-governmental activities</b> | <b><u>\$ 2,461,013</u></b> |

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

| <b>Description</b>  | <b>General Fund</b>      | <b>Special Revenue<br/>Fund - State &amp;<br/>Local Grant</b> | <b>Special Revenue<br/>Fund – Other<br/>Federal Grants</b> | <b>Capital<br/>Projects Fund<br/>– State &amp;<br/>Local Grants</b> | <b>Other<br/>Governmental<br/>Fund</b> | <b>Total</b>               |
|---------------------|--------------------------|---|--|---|--|----------------------------|
| Accounts payable    | \$ 416,806               | \$ 113,511  | \$ 71,177  | \$ 524,108  | \$ -                                   | \$ 1,125,602               |
| Accrued liabilities | <u>342,344</u>           | -   | -  | -   | -                                      | 342,344                    |
| <b>Total</b>        | <b><u>\$ 759,150</u></b> | <b><u>\$ 113,511</u></b>                                      | <b><u>\$ 71,177</u></b>                                    | <b><u>\$ 524,108</u></b>  | <b><u>\$ -</u></b>                     | <b><u>\$ 1,467,946</u></b> |

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

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

| <b>Governmental Entity</b>                                     | <b>Amount</b>            |
|--|--------------------------|
| Puerto Rico Aqueduct and Sewer Authority                       | \$ 32,930                |
| Retirement System Administration                               | 82,729                   |
| Commonwealth of Puerto Rico – General Services Administration  | 9,169                    |
| Commonwealth of Puerto Rico – Treasury Department – Income Tax | <u>147,951</u>           |
| <b>Total</b>   | <b><u>\$ 272,779</u></b> |

**8. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**8. PROPERTY TAXES (CONTINUED)**

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 settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a long term debt to the CRIM is recorded at June 30. The CRIM issued the preliminary liquidation noting that the advances exceeded collections by \$1,666,425.

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 o 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, 2010, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$921,883.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**8. 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.

**9. DEFERRED REVENUES**

**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, 2010, 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, 2010, net of allowance for uncollectible.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**9. DEFERRED REVENUES (CONTINUED)**

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

The deferred revenues of \$11,399,199 in the General Fund relates to municipal license tax collected in fiscal year 2009-2010 that will be earned in fiscal year 2010-2011.

**B. Federal Government** – The deferred revenues presented in the Special Revenue Fund – Federal Grants represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

| <u>Program Description</u>                         | <u>Amount</u>              |
|--|----------------------------|
| Child and Adult Care Food Program                  | \$ 113,429                 |
| Public Assistance Grants                           | 493,898                    |
| Loan for Equipment Acquisition                     | 90,939                     |
| State and Community Highway Safety Programs        | 107,325                    |
| Special Programs for the Aging – Title III, Part B | 22,335                     |
| Emergency Management Performance Grant             | 1,680                      |
| Child Care and Development Block Grant             | 1,168                      |
| Juvenile Justice and Delinquency Prevention        | 1,354                      |
| Federal Transit Administration                     | 4,390                      |
| Child Care and Development Block Grant – ARRA      | 41,709                     |
| Department of Justice - ARRA                       | 75,003                     |
| COPS - ARRA  | 94,380                     |
| Homeland Security Grant Program                    | 77,043                     |
| Others   | <u>13,902</u>              |
| <b>Total</b>                                       | <b><u>\$ 1,138,555</u></b> |

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

| <u>Program Description</u>                | <u>Amount</u>           |
|---|-------------------------|
| Water and Waste Disposal Loans and Grants | \$ 32,105               |
| Others                                    | <u>107</u>              |
| <b>Total</b>                              | <b><u>\$ 32,212</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**10. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2010, was as follows:

| <u>Description</u>  | <u>Beginning<br/>Balance</u> | <u>Additions</u>            | <u>Payments or<br/>Deductions</u> | <u>Ending<br/>Balance</u>   | <u>Due Within<br/>One Year</u> |
|---|------------------------------|-----------------------------|-----------------------------------|-----------------------------|--------------------------------|
| Bonds Payable   | \$ 21,646,213                | \$ 16,930,000               | \$ (689,000)                      | \$ 37,887,213               | \$ 975,000                     |
| Notes Payable   | 3,807,500                    |                             | (899,750)                         | 2,907,750                   | 850,500                        |
| Property Tax Debt   | 2,465,369                    | 1,691,838                   | (60,472)                          | 4,096,735                   | 1,550,331                      |
| Municipal Revenue<br>Collection Center – LIMS<br>Repayment Plan | 117,936                      |                             | (45,111)                          | 72,825                      | 47,835                         |
| State Insurance Fund Corp.                                      |                              | 26,220                      |                                   | 26,220                      | 26,220                         |
| Landfill Closure Costs  | 4,055,481                    |                             |                                   | 4,055,481                   |                                |
| Landfill Obligation Post<br>Closure Costs                       | 1,470,000                    |                             |                                   | 1,470,000                   |                                |
| Line of credit- Landfill<br>expansion                           | 10,821,000                   |                             |                                   | 10,821,000                  |                                |
| Compensated Absences  | 2,535,453                    | 532,246                     | (238,835)                         | 2,828,864                   | 240,000                        |
| Claims and Judgments  | <u>568,127</u>               | <u>52,541</u>               | <u>(262,074)</u>                  | <u>358,594</u>              | <u>-</u>                       |
| <b>Total</b>  | <b><u>\$ 47,487,079</u></b>  | <b><u>\$ 19,232,845</u></b> | <b><u>\$ (2,195,242)</u></b>      | <b><u>\$ 64,524,682</u></b> | <b><u>\$ 3,689,886</u></b>     |

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, 2010 are as follows:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**10. LONG-TERM LIABILITIES (CONTINUED)**

| Type of bonds                  | Maturity Date | Original Amount | Range of Interest Rates | Balance at June 30, 2010 |
|--------------------------------|---------------|-----------------|-------------------------|--------------------------|
| 1993 Series                    | 1-1-17        | 264,000         | 4.50%                   | \$ 114,000               |
| 1994 Series                    | 1-1-18        | 650,000         | 5.25%                   | 330,000                  |
| 1996 Series                    | 1-1-21        | 525,000         | 4.50%                   | 325,213                  |
| 1996 Series                    | 1-1-21        | 551,000         | 4.50%                   | 352,000                  |
| 1998 Series                    | 1-1-22        | 520,000         | 4.50%                   | 377,000                  |
| 2002 Series                    | 7-1-26        | 305,000         | 2.70% to 5.60%          | 260,000                  |
| 2002 Series                    | 7-1-26        | 1,955,000       | 2.70% to 5.60%          | 1,635,000                |
| 2003 Series                    | 7-1-27        | 1,060,000       | 4.17% to 5.31%          | 910,000                  |
| 2004 Series                    | 7-1-28        | 305,000         | 2.36% to 5.31%          | 255,000                  |
| 2004 Series                    | 7-1-18        | 405,000         | 2.36% to 4.80%          | 270,000                  |
| 2004 Series                    | 7-1-28        | 1,860,000       | 4.17% to 5.31%          | 1,635,000                |
| 2004 Series                    | 7-1-28        | 3,115,000       | 5.00% to 7.50%          | 2,670,000                |
| 2004 Series                    | 1-1-31        | 155,000         | 4.25%                   | 139,000                  |
| 2006 Series                    | 7-1-15        | 833,000         | 5.00% to 7.50%          | 470,000                  |
| 2006 Series                    | 7-1-31        | 395,000         | 6.62% to 7.25%          | 380,000                  |
| 2006 Series                    | 1-1-32        | 508,000         | 4.25%                   | 473,000                  |
| 2007 Series                    | 1-1-24        | 375,000         | 4.50%                   | 317,000                  |
| 2007 Series                    | 7-1-32        | 1,020,000       | 3.93% to 7.50%          | 995,000                  |
| 2008 Series                    | 7-1-32        | 8,215,000       | 3.93% to 7.00%          | 7,865,000                |
| 2009 Series                    | 7-1-33        | 505,000         | 2.43 to 7.50%           | 500,000                  |
| 2009 Series                    | 7-1-32        | 700,000         | 4.75% to 7.50%          | 685,000                  |
| 2010 Series                    | 7-1-34        | 5,860,000       | 6.00% to 7.50%          | 5,860,000                |
| 2010 Series                    | 7-1-34        | 7,800,000       | 6.00% to 7.50%          | 7,800,000                |
| 2010 Series                    | 7-1-34        | 505,000         | 6.00% to 7.50%          | 505,000                  |
| 2010 Series                    | 7-1-34        | 2,535,000       | 6.00% to 7.50%          | 2,535,000                |
| 2010 Series                    | 7-1-24        | 75,000          | 5.00% to 7.50%          | 75,000                   |
| 2010 Series                    | 7-1-34        | 155,000         | 4.75% to 7.50%          | <u>155,000</u>           |
| Total general obligation bonds |               |                 |                         | <u>\$ 37,887,213</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, 2010**

**10. LONG-TERM LIABILITIES (CONTINUED)**

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

| <u>Year Ending<br/>June 30.</u> | <u>Principal</u>            | <u>Interest</u>             |
|---------------------------------|-----------------------------|-----------------------------|
| 2011                            | \$ 975,000                  | \$ 1,430,853                |
| 2012                            | 1,068,000                   | 2,481,899                   |
| 2013                            | 1,120,000                   | 2,414,822                   |
| 2014                            | 1,178,000                   | 2,344,477                   |
| 2015                            | 1,249,000                   | 2,270,126                   |
| 2016-2020                       | 6,655,000                   | 10,125,718                  |
| 2021-2025                       | 8,151,213                   | 7,710,484                   |
| 2026-2030                       | 9,250,000                   | 4,634,088                   |
| 2031-2035                       | <u>8,241,000</u>            | <u>1,445,888</u>            |
| <b>Total</b>                    | <b><u>\$ 37,887,213</u></b> | <b><u>\$ 34,858,355</u></b> |

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, 2010 are as follows:

| <u>Type of notes</u>       | <u>Maturity<br/>Date</u> | <u>Original<br/>Amount</u> | <u>Range of<br/>Interest rates</u> | <u>Balance at<br/>June 30, 2010</u> |
|----------------------------|--------------------------|----------------------------|------------------------------------|-------------------------------------|
| 1994 Series                | 4-1-13                   | \$ 1,680,000               | 5.00% to 7.50%                     | \$ 423,750                          |
| 2004 Series                | 7-1-10                   | 405,000                    | 4.17% to 5.00%                     | 70,000                              |
| 2006 Series                | 7-1-12                   | 805,000                    | 6.25% to 7.25%                     | 390,000                             |
| 2007 Series                | 7-1-13                   | 1,080,000                  | 6.60% to 7.50%                     | 600,000                             |
| Section 108 Loan           | 8-1-13                   | 1,510,000                  | 1.75% to 5.29%                     | 551,000                             |
| Section 108 Loan           | 8-1-13                   | 2,385,000                  | 1.75% to 5.29%                     | <u>873,000</u>                      |
| <b>Total notes payable</b> |                          |                            |                                    | <b><u>\$ 2,907,750</u></b>          |

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**10. LONG-TERM LIABILITIES (CONTINUED)**

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

| <u>Year Ending<br/>June 30,</u> | <u>Principal</u>           | <u>Interest</u>          |
|---------------------------------|----------------------------|--------------------------|
| 2011                            | \$ 850,500                 | \$ 98,546                |
| 2012                            | 811,750                    | 95,105                   |
| 2013                            | 880,500                    | 45,510                   |
| 2014                            | <u>365,000</u>             | <u>9,654</u>             |
| <b>Total</b>                    | <b><u>\$ 2,907,750</u></b> | <b><u>\$ 248,815</u></b> |

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, 2010, 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, 2010 the outstanding debt balance is \$72,825. This amount will be presented in the government wide Statement of Net Assets.
6. **Compensated absences** – The government-wide Statement of Net Assets includes \$1,257,167 of accrued sick leave benefits, and \$1,571,697 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, 2010. 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

**10. LONG-TERM LIABILITIES (CONTINUED)**

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, 2010, as described in Note 13.

**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 OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**11. PENSION PLAN (CONTINUED)**

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, 2010 recorded as pension expenditures were \$370,336. 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.

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, 2010, 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

---

**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 \$358,594 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.

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. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010, with early implementation encouraged.
- b. GASB Concepts Statement No. 5, Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB: CS-2

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

**15. 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 – State & Local Grants | Special Revenue Fund – Other Federal Grants | Capital Projects Fund – State & Local Grants | Other Governmental Fund | Total               |
|---|---------------------|---|---|--|-------------------------|---------------------|
| Fund balance, beginning                   | \$ 5,164,513        | \$ 1,245,995                                | \$ -  | \$ 11,766,973                                | \$ 5,199,889            | \$23,377,370        |
| To correct prior year accounts payable    |                     |   |   | 99,500                                       |                         | 99,500              |
| To correct prior year accounts receivable |                     | (223,182)                                   |   |  |                         | (223,182)           |
| To correct prior year debt issuance       | -                   | -   | -   | (818,000)                                    | -                       | (818,000)           |
| Fund balance, beginning as restated       | <u>\$ 5,164,513</u> | <u>\$ 1,022,813</u>                         | <u>\$ -</u>                                 | <u>\$ 11,048,473</u>                         | <u>\$ 5,199,889</u>     | <u>\$22,435,688</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:

| Description                              | Total                |
|--|----------------------|
| Net assets, beginning                    | \$ 40,518,511        |
| To correct prior year account payable    | 99,500               |
| To correct prior year account receivable | (223,182)            |
| To correct prior year long term debt     | (818,000)            |
| Net assets, beginning as restated        | <u>\$ 39,576,829</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

|   | <u>Budgeted Amounts</u> |                   | Actual Amounts<br>(Budgetary Basis)<br>(See Note 1) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------------|-------------------|---|---|
|   | Original                | Final             |   |   |
| <b>REVENUES AND OTHER FINANCING SOURCES:</b>  |                         |                   |   |   |
| Property taxes  | \$ 5,631,069            | \$6,231,069       | \$ 6,237,219  | 6,150   |
| Municipal license tax   | 13,020,000              | 13,020,000        | 13,013,994  | (6,006)   |
| Municipal sales and use tax   | 500,000                 | 500,000           | 820,757   | 320,757   |
| Licenses, permits and other local taxes   | 3,011,000               | 3,011,000         | 1,402,810   | (1,608,190)   |
| Charges for services  | 1,600,000               | 1,600,000         | 1,825,609   | 225,609   |
| Intergovernmental   | 4,674,517               | 4,674,517         | 4,823,473   | 148,956   |
| Rent of property  | 100,200                 | 100,200           | 122,003   | 21,803  |
| Fines and forfeitures   | 20,000                  | 20,000            | 19,994  | (6)   |
| Interest  | 200,000                 | 200,000           | 87,240  | (112,760)   |
| Users fees on landfill facilities   | 3,700,000               | 3,700,000         | 2,091,583   | (1,608,417)   |
| Miscellaneous   | <u>170,000</u>          | <u>170,000</u>    | <u>80,964</u>                                       | <u>(89,036)</u>   |
| <b>Total revenues and other financing sources</b>   | <u>32,626,786</u>       | <u>32,226,786</u> | <u>30,525,646</u>                                   | <u>(2,701,140)</u>                                      |
| <b>Budget carryover (1)</b>   | -                       | 500,000           | 500,000   | -   |
| <b>Total revenues after carryover</b>   | <u>32,626,786</u>       | <u>33,726,786</u> | <u>31,025,646</u>                                   | <u>(2,701,140)</u>                                      |
| <b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>   |                         |                   |   |   |
| Current:  |                         |                   |   |   |
| General government  | 13,482,377              | 13,811,508        | 13,172,692  | 638,816   |
| Public safety   | 2,535,168               | 2,592,596         | 2,380,609   | 211,987   |
| Public works  | 4,725,753               | 5,471,874         | 5,202,418   | 269,456   |
| Health and welfare  | 7,334,593               | 7,137,249         | 6,585,433   | 551,816   |
| Culture and recreation  | 2,487,576               | 2,648,419         | 2,498,703   | 149,716   |
| Education   | 1,198,011               | 1,201,832         | 1,117,844   | 83,988  |
| Operating transfer to other fund  | <u>863,308</u>          | <u>863,308</u>    | <u>855,664</u>                                      | <u>7,644</u>  |
| <b>Total expenditures, encumbrances and other financing uses</b>  | <u>32,626,786</u>       | <u>33,726,786</u> | <u>31,813,363</u>                                   | <u>1,913,423</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>                       | <u>\$ -</u>             | <u>\$ -</u>       | <u>\$ (787,717)</u>                                 | <u>\$ (787,717)</u>                                     |
| <b>Explanation of Differences:</b>  |                         |                   |   |   |
| <b>Sources/inflows of resources:</b>  |                         |                   |   |   |
| Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule                                    |                         |                   |   | \$ 31,025,646   |
| Differences-budget to USGAAP:   |                         |                   |   |   |
| Budgeted carryover  |                         |                   |   | (500,000)   |
| Non-budgeted transfer in  |                         |                   |   | 16,546  |
| GAAP adjustments to revenues  |                         |                   |   | <u>1,344,802</u>  |
| <b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>  |                         |                   |   | <u>\$ 31,886,994</u>                                    |
| <b>Uses/outflows of resources:</b>  |                         |                   |   |   |
| Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule                                |                         |                   |   | \$ 31,813,363   |
| Differences-budget to USGAAP:   |                         |                   |   |   |
| Prior year encumbrances recorded as current year expenditures for USGAAP basis  |                         |                   |   | 798,531   |
| Current year encumbrances recorded as expenditures for budgetary purposes   |                         |                   |   | (632,986)   |
| Non-budgeted transfer out   |                         |                   |   | 257,060   |
| Non-budgeted expenditures   |                         |                   |   | <u>1,485,516</u>  |
| <b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b> |                         |                   |   | <u>\$ 33,721,484</u>                                    |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2010

---

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, 2010**

| <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> |
|---|----------------------------|--|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE:</b>  |                            |  |                     |
| Direct Program:   |                            |  |                     |
| Water and Waste Disposal Loans and Grants   | 10.770                     |  | 243,548             |
| Pass-through the Commonwealth of Puerto Rico-Department of Education:                           |                            |  |                     |
| Child and Adult Care Food Program   | 10.558                     | Not Available  | 240,606             |
| Summer Food Service Program   | 10.559                     | Not Available  | 33,132              |
| <b>Total U.S. Department of Agriculture</b>   |                            |  | <b>517,286</b>      |
| <b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>  |                            |  |                     |
| Direct Program:   |                            |  |                     |
| Section 8 Housing Choice Vouchers   | 14.871                     |  | 280,993             |
| Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: |                            |  |                     |
| Community Development Block Grants - State's Program  | 14.228                     | 09-FC, AB-35<br>08-FC, AB-35<br>07-FC, AB-35<br>06-FC, AB-35<br>05-FC, AB-35<br>04-FC, AB-35<br>03-FC, AB-35<br>02-FC, AB-35<br>01-FD-35<br>00-FD-35 | 1,207,356           |
| Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:                        |                            |  |                     |
| Housing Opportunities for Persons with AIDS   | 14.241                     | Not Available  | 93,837              |
| <b>Total U.S. Department of Housing and Urban Development</b>                                   |                            |  | <b>1,582,186</b>    |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

| Federal Grantor/Pass-through<br>Grantor/Program or Cluster Title   | Federal<br>CFDA<br>Number | Pass-through<br>Entity<br>Identifying<br>Number | Expenditures   |
|--|---------------------------|---|----------------|
| <b>U.S. DEPARTMENT OF INTERIOR:</b>  |                           |   |                |
| Direct Program   |                           |   |                |
| Fish and Wild Life Service   | 15.630                    |   | 6,279          |
| <b>Total U.S. Department of Interior</b>   |                           |   | <b>6,279</b>   |
| <b>U.S. DEPARTMENT OF JUSTICE:</b>   |                           |   |                |
| Pass-through the Commonwealth of<br>Puerto Rico - Department of Justice:<br>Local Law Enforcement Block Grant<br>Program                             | 16.592                    | 2003-LB-MJ-01                                   | 50,318         |
| Pass-through the Commonwealth of<br>Puerto Rico - Office of the<br>Commissioner of Municipal Affairs:<br>Juvenile Justice and Delinquency<br>Program | 16.540                    | 2005JPFX4027                                    | 57,332         |
| <b>Total U.S. Department of Justice</b>  |                           |   | <b>107,650</b> |
| <b>U.S. DEPARTMENT OF TRANSPORTATION:</b>  |                           |   |                |
| Direct Program:  |                           |   |                |
| Federal Transit-Formula Grants   | 20.507                    |   | 18,255         |
| Pass-through the Commonwealth of<br>Puerto Rico - Traffic Safety<br>Commission   |                           |   |                |
| State and Community Highway<br>Safety  | 20.600                    | 07-06-02  | 1,216          |
| <b>Total U.S. Department of Transportation</b>   |                           |   | <b>19,471</b>  |
| <b>U.S. DEPARTMENT OF HEALTH AND<br/>HUMAN SERVICES:</b>   |                           |   |                |
| Pass-through the Commonwealth of<br>Puerto Rico - Governor's Office<br>(Elderly Office)  |                           |   |                |
| Special Programs for the Aging-Title<br>III, Part B - Grants for Supportive<br>Services and Senior Centers   | 93.044                    | Not Available                                   | 1,973          |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| <b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>                     | <b>Federal CFDA Number</b> | <b>Pass-through Entity Identifying Number</b> | <b>Expenditures</b> |
|--|----------------------------|---|---------------------|
| Special Programs for the Aging–Title III, Part C – Nutrition Services                    | 93.045                     | Not Available                                 | 64,724              |
| Special Programs for the Aging–Title III, Part E – National Family Caregiver Support     | 93.052                     | Not Available                                 | 29,681              |
| Nutrition Services Incentive Program   | 93.053                     | Not Available                                 | 24,004              |
| Child Care and Development Block Grant   | 93.575                     | Not Available                                 | 1,109,985           |
| ARRA-Child Care and Development Block Grant (Recovery Act funded)                        | 93.713                     |   | 50,056              |
| <b>Total U.S. Department of Health and Human Services</b>                                |                            |   | <b>1,280,423</b>    |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>   |                            |   |                     |
| Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR): |                            |   |                     |
| Disaster Grants – Public Assistance  | 97.036                     |   | 50,673              |
| Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:                |                            |   |                     |
| Homeland Security Grant Program  | 97.067                     | Not Available                                 | 18,220              |
| <b>Total U.S. Department of Homeland Security</b>  |                            |   | <b>68,893</b>       |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>  |                            |   | <b>\$ 3,582,188</b> |

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, 2010**

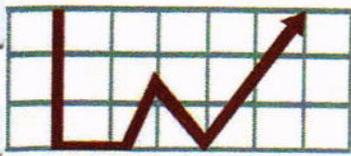
**1. BASIS OF PRESENTATION:**

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 Other 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:

| Description  | Special<br>Revenue Fund<br>Other Federal<br>Grants | Other<br>Governmental<br>Funds | Total               |
|--|--|--------------------------------|---------------------|
| Per Schedule of Expenditures of Federal Awards       | \$ 2,963,810                                       | \$ 618,378                     | \$ 3,582,188        |
| Non federal programs Expenditures                    | 153,500  | 2,486,845                      | 2,640,345           |
| Total expenditures in the basic financial statements | <u>\$ 3,117,310</u>                                | <u>\$ 3,105,223</u>            | <u>\$ 6,222,533</u> |



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 8, 2010, which was unqualified at the fund financial statements level, but qualified 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'** 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'** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Juncos'** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

**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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item **10-02** to be material weakness.

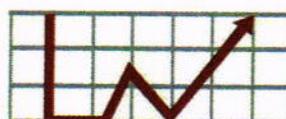
A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **10-01** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Junco'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 **10-02**.

We noted certain other matters that we reported to management of the **Municipality of Juncos** in a separate letter dated December 8, 2010.

The **Municipality of Juncos'** responses 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'** response and, accordingly, we express no opinion on it.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

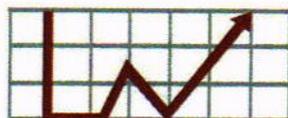
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

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

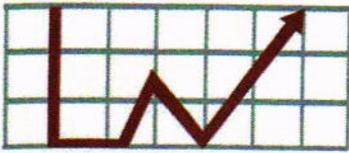
San Juan, Puerto Rico  
December 8, 2010

Stamp No. 2575443 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

Member of:

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

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

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

Compliance

We have audited the **Municipality of Juncos'** compliance 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, 2010. The **Municipality of Juncos'** 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 referred to above is the responsibility of the **Municipality of Juncos'** management. Our responsibility is to express an opinion on the **Municipality of Juncos'** 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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Juncos'** 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'** compliance with those requirements.

In our opinion, the **Municipality of Juncos** complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance 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, **10-03** through **10-07**.

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

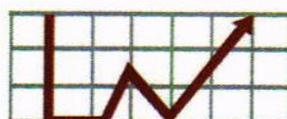
Internal Control Over Compliance

Management of the **Municipality of Juncos** is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the **Municipality of Juncos'** 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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'** internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **10-03** through **10-07**. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The **Municipality of Juncos'** responses 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'** response and, accordingly, we express no opinion on it.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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

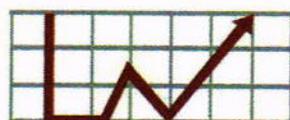
We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Juncos** in a separate letter dated January 31, 2011.

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  
January 31, 2011

Stamp No. 2575444 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2010**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

|  |   |               |
|--|---|---------------|
| Type of auditor’s report issued:   | <b>Unqualified, except for qualify<br/>for government-wide financial<br/>statements</b> |               |
| Internal control over financial reporting:                                       |   |               |
| Material weakness identified?  | Yes X   | No            |
| Significant deficiencies identified not considered to<br>be material weaknesses? | Yes X   | None reported |
| Noncompliance material to financial statements<br>noted?                         | Yes X   | No            |

**Federal awards**

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

**Type of auditor’s report issued on compliance  
for major programs:**

**Unqualified**

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

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>            |
|--------------------|--|
| 14.228             | Community Development Block Grants – State’s Program |
| 93.575             | Child Care and Development Block Grant               |

|  |                     |
|--|---------------------|
| Dollar threshold used to distinguish<br>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, 2010**

---

**Section II – Financial Statements Findings**

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>10-01</b>   |
| <b>Requirement</b>                               | <b>Financial Reporting – Accounting Records</b>  |
| <b>Statement of Condition</b>                    | During our examination of the Municipality's accounting system, we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds).  |
| <b>Criteria</b>                                  | 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.   |
| <b>Cause of Condition</b>                        | The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.  |
| <b>Effect of Condition</b>                       | The Municipality accounting system did not provide 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.  |
| <b>Recommendation</b>                            | 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.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | 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, 2010

---

**Section II - Financial Statements Findings**

**Finding Reference    10-01 (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:    July, 2011

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, 2010

---

Section II - Financial Statements Findings

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>10-02</b>   |
| <b>Requirement</b>                               | <b>Financial Reporting - Accounting Records</b>  |
| <b>Statement of Condition</b>                    | 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, 2010.                                     |
| <b>Criteria</b>                                  | <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. |
| <b>Cause of Condition</b>                        | The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.   |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.  |
| <b>Recommendation</b>                            | We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.  |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | 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 2010-2011 government-wide financial statements.   |

Implementation Date: July, 2011

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, 2010

---

**Section III – Mayor Federal Award Program Finding and Questioned Cost**

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>10-03</b>  |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>   |
| <b>Requirement</b>            | <b>Allowable Activities – Housekeepers Activities</b>   |
| <b>Statement of Condition</b> | <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"><li>a) Four (4) participant’s files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</li><li>b) For eight (8) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</li><li>c) For three (3) participant’s files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director.</li><li>d) Ten (10) participant’s files did not have the participation contract (OCAM-AH-005) completed in all its parts.</li></ul> |
| <b>Criteria</b>               | <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>   |
| <b>Cause of Condition</b>     | <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, 2010

---

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

|  |  |
|--|--|
| <b>Finding Reference</b>                         | <b>10-03 (continued)</b>   |
| <b>Effect of Condition</b>                       | The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.484 and with the procedures manual issued by the Office of Commissioner of Municipal Affairs (OCAM).  |
| <b>Recommendation</b>                            | 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.   |
| <b>Questioned Costs</b>                          | None   |
| <b>Management Response and Corrective Action</b> | We reviewed the procedures established in the procedures manual "Guía Operacional de Servicio de Auxiliares del Hogar" that included the use of the forms included on it. 1) We designated a new coordinator for this program. 2) All forms were completed and signed according to the manual. 3) We implemented monitoring visits as stated in the procedures manual. |
|  | Implementation Date: October, 2011   |
|  | Responsible Person: Ivelisse T. Reyes González<br>Federal Program Department Director  |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>10-04</b>  |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>       |
| <b>Requirement</b>            | <b>Cash Management</b>  |
| <b>Statement of Condition</b> | We performed a Cash Management test and found that the program requested funds that were not disbursed on a reasonable lapse of time. During the fiscal year 2009-2010, the Municipality maintained an average cash balance of \$111,443. |
| <b>Criteria</b>               | 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.     |
| <b>Cause of Condition</b>     | 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.                            |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).  |
| <b>Recommendation</b>         | We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and the disbursements made by the Municipality.                                |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

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

**Questioned Costs**      None

**Management Response  
and Corrective Action**

In September 2010, the Office of Federal Programs and the Director of Finance established the necessary guidelines to strengthen the disbursement procedures. First day: As soon as confirmation of funds available is made by the bank, prepare the payment checks at the Federal Programs Office and deliver them by hand to the Finance Director. Second Day: The Finance Director receives the check with supporting document, signs the documents and transfers it to the payment officer. Third Day: The payment officer delivers the check to the contractor or supplier.

**Implementation Date:**    April, 2011

**Responsible Person:**    Ivelisse T. Reyes González  
Federal Program Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>10-05</b>   |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  |
| <b>Requirement</b>            | <b>Davis-Bacon Act</b>   |
| <b>Statement of Condition</b> | During our Davis-Bacon Act test, we verified the construction projects 08-FC-35-001. The following summarizes the situations found: <ul style="list-style-type: none"><li>a. There is no evidence that the Program requested and obtained the weekly payrolls from one (1) contractor.</li><li>b. No evidence of monitoring (including on-site visits) procedures is maintained by the Municipality to verify contractor’s compliance with Davis Bacon Act.</li></ul>  |
| <b>Criteria</b>               | Davis-Bacon Act, as amended, DOL (40 USC 276a – 276a-7).   |
| <b>Cause of Condition</b>     | The Municipality’s internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.  |
| <b>Effect of Condition</b>    | The Municipality is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a -276a-7).   |
| <b>Recommendation</b>         | We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview contractor’s and subcontractor’s laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then communicate promptly to the contractors any failure in the payroll process. |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

**Finding Reference**      10-05 (continued)

**Questioned Costs**      None

**Management Response  
and Corrective Action**

We designated an employee to visit the projects and obtain contractor's and subcontractor's payrolls to be reviewed on a weekly basis and perform the periodical interviews.

**Implementation Date:**    May, 2011

**Responsible Person:**    Ivelisse T. Reyes González  
Federal Program Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

|                               |  |
|-------------------------------|--|
| <b>Finding Reference</b>      | <b>10-06</b>   |
| <b>Program</b>                | <b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>  |
| <b>Requirement</b>            | <b>Procurement and Suspension and Debarment</b>  |
| <b>Statement of Condition</b> | <p>During our contract provision test, we verified one (1) contract for the Community Development Block Grants – State’s Program, formalized during the fiscal year ended June 30, 2010. The following summarizes the situations found:</p> <ul style="list-style-type: none"><li>a. One (1) contract did not include a provision for compliance with executive order 11246 “Equal Employment Opportunity”</li><li>b. One (1) contract did not include a provision for compliance with Davis Bacon Act.</li><li>c. One (1) contract did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours &amp; Safety Standards Act.</li><li>d. One (1) contract did not include a provision for compliance with Energy Policy and Conservation Act.</li><li>e. One (1) contract did not include a provision for compliance with the Copeland “Anti-kickback”.</li><li>f. One (1) contract did not include a provision for retention of all required records for three years.</li></ul> |
| <b>Criteria</b>               | <p>Code of Federal Regulation 24, Subpart I, Sec. 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.</p>   |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

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

**Finding Reference**      **10-06 (continued)**

**Cause of Condition**      The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.

**Effect of Condition**      The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec.570.489 (g).

**Recommendation**      We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.

**Questioned Costs**      None

**Management Response  
and Corrective Action**

We will ensure that all contracts include the provisions for compliance required by Federal Statutes.

Implementation Date:    April, 2011

Responsible Person:    Ivelisse T. Reyes González  
Federal Program Department Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

---

Section III - Major Federal Award Program Findings and Questioned Costs

|                               |   |
|-------------------------------|---|
| <b>Finding Reference</b>      | <b>10-07</b>  |
| <b>Program</b>                | <b>Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)</b>   |
| <b>Requirement</b>            | <b>Reporting</b>  |
| <b>Statement of Condition</b> | We examined the Financial Quarterly Report ended on June 30, 2010 and identified differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program's General Ledger. Also, three (3) quarterly reports were submitted after due date.   |
| <b>Criteria</b>               | <p>24 CFR, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions.</p> <p>24 CFR, Subtitle A, Subpart C, Section 85.41 states (a) <i>General</i> (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies. Also, Section (b) states that grantees will use Standard Form to report the status of funds for all non-construction grants and for construction grants when required in accordance with 85.41(e)(2)(iii) of this section. (3) <i>Frequency</i>. The Federal agency may prescribe the frequency of the report for each project or program.</p> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

---

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

**Finding Reference**      **10-07 (continued)**

**Criteria (Continued)**      However, the report will not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination grant support. Besides, Section 85.41 (c) (ii) states that these reports will used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees. The format of the report may be adapted as appropriate when reporting is to be accomplished with the assistance of automatic data processing provided that the information to submitted id not changed in substance.

**Cause of Condition**      The Municipality accounting controls and procedures failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.

**Effect of Condition**      The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Sec.570.489 (d) (1).

**Recommendation**      We recommend the Municipality's Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the pass-through grantor. Also, we recommend that the Municipality should strengthen it's procedures in order to assure that all financial and programmatic reports are submitted on time to agencies.

**Questioned Costs**      None

**Management Response and Corrective Action**      The Municipality's Management instructed the Program staff to record any necessary adjustment to correct the situations commented in the finding. Also, instructed the Program staff to submit the quarterly reports on time to the federal agency.

Implementation Date: July, 2010

Responsible Person: Mrs. Ivelisse T. Reyes Gonzalez  
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
| 09-03                   | 14.228   | <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"> <li>a) One (1) participant's file did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</li> <li>b) For ten (10) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</li> <li>c) For three (3) participant's files, the approval application notified (OCAM-AH-004) did not signature for the Programs Director.</li> <li>d) For two (2) participant's files, the participation contract (OCAM-AH-005) did not have the signature of the Program Director.</li> </ul> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-03.</p> |
| 09-04                   | 14.228   | <p>We performed a housing rehabilitation activities test of ten (10) participant's files and found the following exceptions:</p> <ul style="list-style-type: none"> <li>a) Five (5) participant's files did not have the applicant eligibility or non-eligibility determination Form (OCAM-RMV-DR-05-005-A o OCAM-RMV-DR-05-005-B) completed in all its parts.</li> <li>b) Six (6) participant's files did not have evidence of the initial inspections (OCAM-RMV-DR-05-003).</li> <li>c) Eight (8) participant's files did not have evidence of the final inspection (OCAM-RMV-DR-05-010).</li> <li>d) Two (2) handicap participant's files did not have evidence of the disability.</li> <li>e) Six (6) participant's files did not have evidence that the improvements to be made are incorporated in the contract form (OCAM-RMV-04-004).</li> </ul>           |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
|                         |          | <p>f) One (1) participant's file did not have the Agreements Between Parties form (OCAM-RMV-04-006A) signed by the Program official.</p> <p>g) Three (3) participant's files did not have the eligibility application form (OCAM-RMV-DR-05-002) completed in all its parts.</p> <p>h) One (1) participant's file did not have evidence of family income.</p> <p>i) One (1) participant's file did not have evidence of the all family composition.</p> <p>Corrective action was taken.</p>   |
| 09-05                   | 14.228   | <p>We performed a Cash Management test and found that the program requested funds that were not disbursement on a reasonable lapse of time. During the fiscal year 2008-2009, the Municipality maintains an average cash balance of \$118,198.</p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-04.</p>   |
| 09-06                   | 14.228   | <p>During our Davis-Bacon Act test, we verified the construction projects 08-AB-35-001 and 08-FC-35-001. The following summarizes the situations found:</p> <p>a. There is no evidence that the Program requested and obtained the weekly payrolls from the two (2) contractors.</p> <p>b. No evidence of monitoring (including on-site visits) procedures are maintained by the Municipality to verify contractor's compliance with Davis Bacon Act from the two (2) contractors.</p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-05.</p> |
| 09-07                   | 14.228   | <p>During our contract provision test, we verified two (2) contracts for the Community Development Block Grants - State's Program,</p>   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
|                         |          | <p>formalized during the fiscal year ended June 30, 2009. The following summarizes the situations found:</p> <ul style="list-style-type: none"> <li>a. Two (2) contracts did not include a provision for compliance with executive order 11246 "Equal Employment Opportunity"</li> <li>b. Two (2) contracts did not include a provision for compliance with Davis Bacon Act.</li> <li>c. Two (2) contracts did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours &amp; Safety Standards Act.</li> <li>d. Two (2) contracts did not include a provision for compliance with Energy Policy and Conservation Act.</li> <li>e. Two (2) contracts did not include a provision for compliance with the Copeland "Anti-kickback".</li> <li>f. Two (2) contracts did not include a provision for retention of all required records for three years.</li> <li>g. Two (2) contracts did not include a provision for compliance with Suspension and Debarment.</li> </ul> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-06.</p> |
| 08-03                   | 14.228   | <p><u>We performed a housekeeper activities test of ten (10) participant's files and found the following exceptions:</u></p> <ul style="list-style-type: none"> <li>a) <u>Six (6) participant's files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u></li> <li>b) <u>For ten (10) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</u></li> </ul> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-03.</p>   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)  |
|-------------------------|----------|---|
| 08-04                   | 14.228   | <p><u>We performed a housing rehabilitation activities test of nine (9) participant's files and found the following exceptions:</u></p> <ul style="list-style-type: none"> <li>a) <u>Nine (9) participant's files did not have the applicant eligibility or non-eligibility determination Form (OCAM-RV-DR-05-005-A o OCAM-RV-DR-05-005-B) completed in all its parts.</u></li> <li>b) <u>Nine (9) participant's files did not have evidence of the initial inspections (OCAM-RV-DR-05-003).</u></li> <li>c) <u>Nine (9) participant's files did not have evidence of the final inspections (OCAM-RV-DR-05-010).</u></li> <li>d) <u>Four (4) handicap participant's files did not have evidence of the disability.</u></li> <li>e) <u>One (1) participant's file did not have the eligibility application form (OCAM-RV-DR-05-002) completed in all its parts.</u></li> <li>f) <u>One (1) participant's file did not have evidence of family income.</u></li> </ul> <p>Corrective action was taken.</p> |
| 08-05                   | 14.228   | <p><u>We performed a Cash Management test and examined eight (8) cash advances received by the Municipality during the fiscal year 2007-2008, and also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:</u></p> <ul style="list-style-type: none"> <li>a. <u>In five (5) cash advances we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.</u></li> <li>b. <u>The Municipality maintains an average cash balance of \$95,467 during the fiscal year 2007-2008.</u></li> </ul> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-04.</p>  |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
| 08-06                   | 14.228   | <p><u>During our Davis-Bacon Act test, we verified the construction projects 06-FE-35-001, 04-AB-35-001, 07-FC-35-001, 05-AB-35-001 and 06-FC-35-001. The following summarizes the situations found:</u></p> <p>a. <u>There is no evidence that the Program requested and obtained the weekly payrolls from the two (2) contractors.</u></p> <p>b. <u>No evidence of monitoring (including on-site visits) procedures are maintained by the Municipality to verify contractor's compliance with Davis Bacon Act.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-05.</p>   |
| 08-07                   | 14.228   | <p><u>We examined the Financial Quarterly Report ended on June 30, 2008 and identified differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program's General Ledger. Also, two (2) quarterly reports were submitted after due date.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 10-07.</p>  |
| 07-03                   | 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 2006-2007 and also; the auditors verified the bank statements and cash reconciliations for that period. The following summarizes the situations found: (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 a cash balance of \$639 related to one (1) request made in May 2007. The cash requested was not consistent with realistic cash needs.</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  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2010**

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
| 07-04                   | 14.228   | <p><u>The auditors performed a housekeeper activities test of ten (10) participant's files and found the following exceptions: (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.</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>                          |
| 07-05                   | 14.228   | <p><u>The auditors performed a Cash Management test and examined thirteen (13) cash advances received by the Municipality during the fiscal year 2006-2007, and also, they verified the bank statements and cash reconciliations for that period. The following summarizes the situations found: (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.</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> |
| 07-06                   | 14.228   | <p><u>During the Davis-Bacon Act test, the auditors 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: (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.</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  
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2010

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings<br>(As required by OMB Circular A-133)   |
|-------------------------|----------|--|
| 07-07                   | 20.507   | <p><u>The last three (3) financial quarterly reports (due in December, 2006, March, and June, 2007) were not available for the auditors' verification.</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> |