

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

**MUNICIPIO DE JUNCOS
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

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

Year Ended June 30, 2011



Municipality of Juncos, P.O. Box 1706, Juncos, Puerto Rico 00777
Hon. Alfredo Alejandro Carrión

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, 2011

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2011

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos, Puerto Rico**, as of June 30, 2011, 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, 2011, 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 March 8, 2012, 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 55 be presented to supplement the basic financial statements. Such information, although not a 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 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 Juncos'** basic 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 not a required part of the financial statements.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

The schedule 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, 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
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
January 26, 2012

Stamp No. 2575533 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, 2011

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, 2011. 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, 2010. 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 2011 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 \$113,149,790 which represents a decrease of 4% compared to prior fiscal year, as restated;
2. At the end of fiscal year 2011, total liabilities amounted to \$79,439,191. Out of said amount, \$61,872,025 corresponded to long-term liabilities of which \$40,004,463 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues;
3. Total net assets of the Municipality amounted to \$33,710,599 which represents an decrease of 11% 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 \$44,085,666, derived from the following sources: \$5,771,105 charges for services; \$5,831,965 from operating grants and contributions; \$4,475,630 from capital grants and contributions obtained from other sources, and \$28,006,966 from general revenues available;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 \$48,059,819;
6. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$22,991,110;
7. As of the end of the current fiscal year the Municipality's General Fund balance amounted to \$1,077,656;
8. The actual General Fund budgetary activities resulted in an unfavorable balance of \$(2,391,863).

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 2011. 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, 2011

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, 2011, shows total expenses incurred to afford the cost of all functions and programs amounted to \$48,059,819. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$16,078,700 was derived from the following sources: \$5,771,105 charges for services; \$5,831,965 from operating grants and contributions; and \$4,475,630 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$28,006,966. When such figure is added to the \$16,078,700 previously mentioned, total revenues available for the financing of activities amounted to \$44,085,666. There was a deficiency of revenues over expenses in the amount of \$(3,974,153) 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, 2011

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)

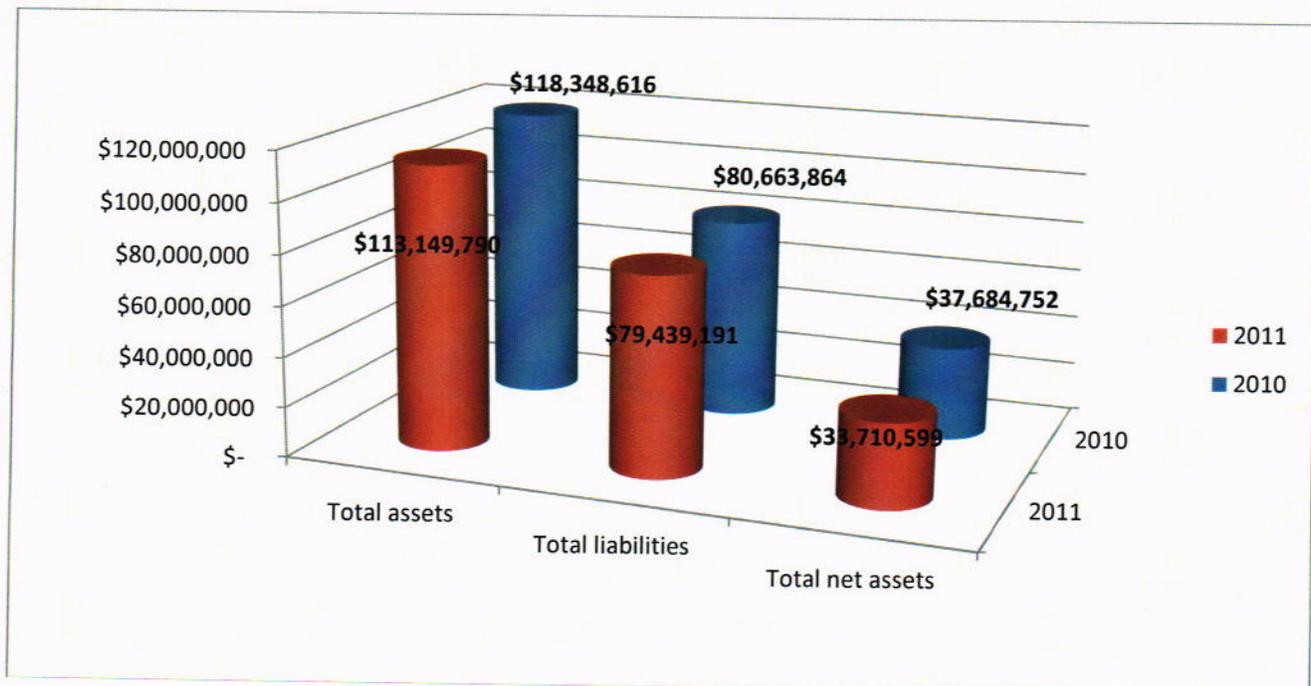
YEAR ENDED JUNE 30, 2011

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 \$33,710,599 at the end of 2011, compared to \$37,684,752 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	2011	2010	Change	%
Current and other assets	\$ 38,609,001	\$ 44,366,405	\$ (5,757,404)	(13%)
Capital Assets	74,540,789	73,982,211	558,578	1%
Total assets	113,149,790	118,348,616	(5,198,826)	(4%)
Current and other liabilities	17,567,166	16,374,182	1,192,984	(7)%
Long Term liabilities	61,872,025	64,289,682	(2,417,657)	(4)%
Total liabilities	79,439,191	80,663,864	(1,224,673)	(2%)
Invested in capital assets, net of related debt	74,540,789	73,982,211	558,578	1%
Restricted	23,874,860	26,260,545	(2,385,685)	(9)%
Unrestricted deficit	(64,705,050)	(62,558,004)	(2,147,046)	3%
Total net assets	\$ 33,710,599	\$ 37,684,752	\$ (3,974,153)	(11%)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Statement of Activities reflects that for fiscal year 2011, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$44,085,666. Approximately 45 percent of the Municipality's total revenue came from taxes, while 38 percent resulted from grants and contributions, including federal aid. Charges for Services provide 13 percent of the total revenues. Interest and investment earnings and miscellaneous provide approximately 4 percent of the Municipality's total revenues. The largest expenses were for general government, health and welfare services, public works, public safety and culture and recreation. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

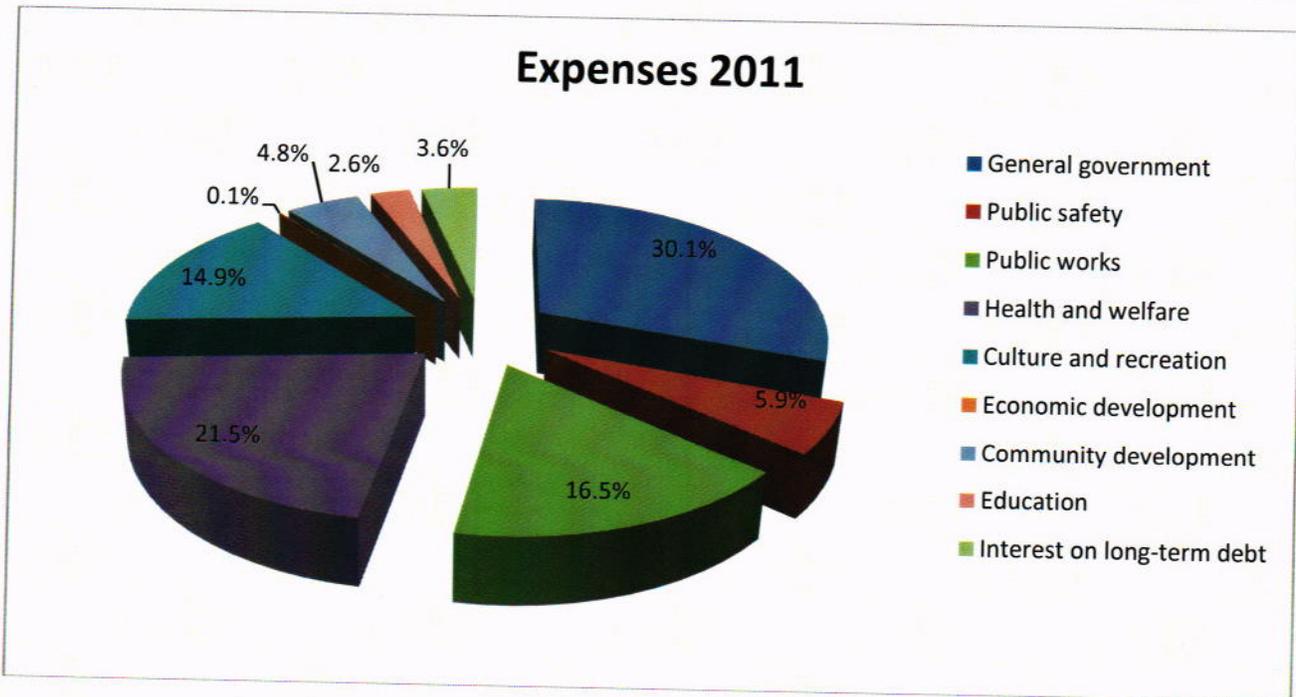
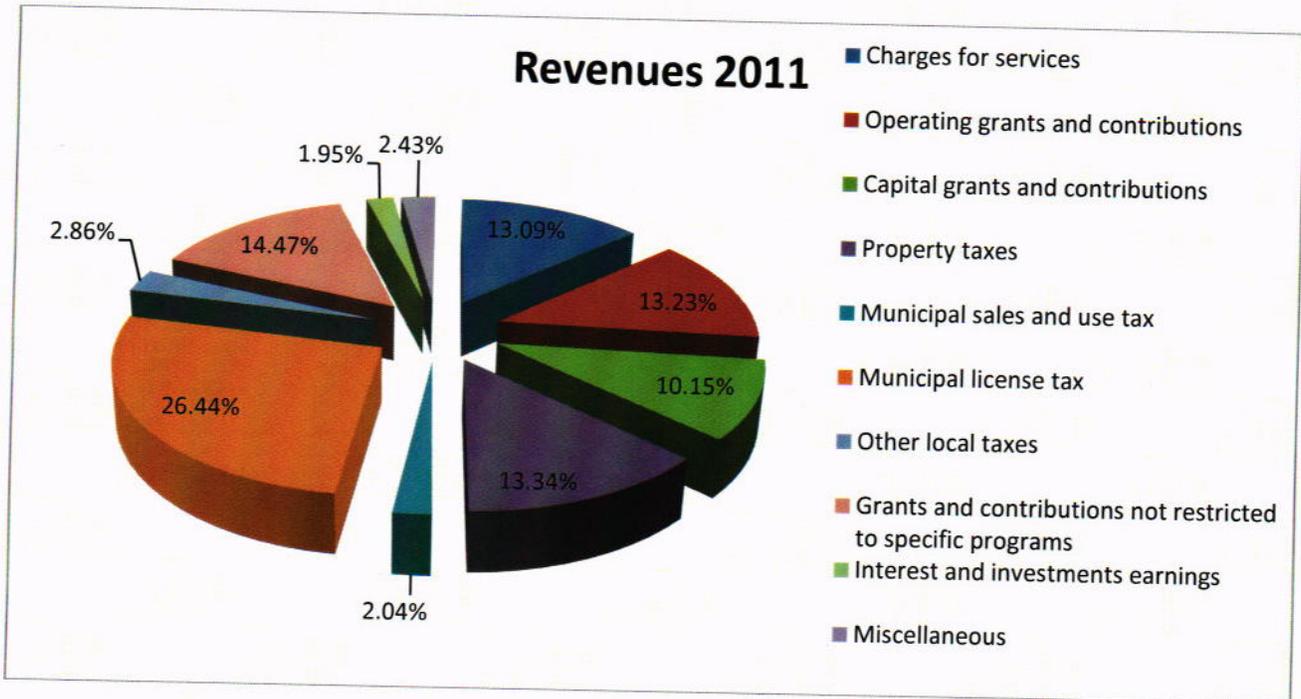
Condensed Statement of Activities	2011	2010	Change	%
Program revenues:				
Charges for services	\$ 5,771,105	\$ 5,013,700	\$ 757,405	15%
Operating grants and contributions	5,831,965	5,154,438	677,527	13%
Capital grants and contributions	4,475,630	3,418,770	1,056,860	31%
General revenues:				
Property taxes	5,879,559	6,824,042	(944,483)	(14%)
Municipal license tax	11,658,235	13,016,609	(1,358,374)	(10%)
Municipal sales and use tax	900,264	1,424,375	(524,111)	(37%)
Other local taxes	1,261,857	1,402,810	(140,953)	(10%)
Grants and contributions not restricted to specific programs	6,377,570	5,646,818	730,752	13%
Interest and investment earnings	857,786	3,593,847	(2,736,061)	(76%)
Miscellaneous	1,071,695	190,250	881,445	463%
Total revenues	44,085,666	45,685,659	(1,599,993)	(4%)
Expenses:				
General government	14,473,486	15,994,181	(1,520,695)	(10%)
Public safety	2,826,999	2,581,524	245,475	10%
Public works	7,908,776	5,402,112	2,506,664	46%
Culture and recreation	7,175,971	6,856,233	319,738	5%
Health and welfare	10,323,170	10,487,847	(164,677)	(2%)
Economic development	29,816	112,116	(82,300)	(73%)
Community development	2,323,637	1,515,019	808,618	53%
Education	1,251,415	3,904,037	(2,652,622)	(68%)
Interest on long-term debt	1,746,549	959,667	786,882	82%
Total expenses	48,059,819	47,812,736	247,083	1%
Change in net assets	(3,974,153)	(2,127,077)	(1,847,076)	87%
Net assets, beginning of year, as restated	37,684,752	39,811,829	(2,127,077)	(5%)
Net assets, end of year	\$ 33,710,599	\$ 37,684,752	\$ (3,974,153)	(11%)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011

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 \$22,991,110, which represents a decrease of \$(7,124,604) in comparison with the prior year. Out of the indicated balance, \$1,532,205 were classified as nonspendable; \$21,824,403 were classified as restricted for the following purposes: (1) \$4,025,417 for debt service payments; 2) \$17,515,392 to pay for capital projects; 3) \$283,594 for other purposes. There are committed fund balance amounting to \$518,253 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for specific programs purpose. There assigned fund balances amounting to \$93,211 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay specific programs purposes.

As of June 30, 2011, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$(976,962).

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, 2011, amounted to \$97,954,673, which upon deduction of accumulated depreciation of \$23,413,884, produced a net book value of \$74,540,789. Depreciation charges for the year totaled \$2,410,860.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011, the Municipality has \$20,089,556 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 2011-2012.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,052,633
Cash with fiscal agent	24,455,744
Accounts receivable:	
Municipal sales and use tax	67,277
Intergovernmental	23,033
Landfill users	146,146
Construction excise taxes	109,908
Federal grants	3,696,074
Others	58,186
Capital assets	
Land, improvements, and construction in progress	37,854,501
Other capital assets, net of depreciation	36,686,288
Total capital assets	<u>74,540,789</u>
Total assets	<u>113,149,790</u>
Liabilities	
Accounts payable and accrued liabilities	3,625,724
Due to other governmental entities	260,437
Deferred revenues:	
Municipal license tax	12,055,832
Federal grant revenues	907,381
Interest payable	717,792
Noncurrent liabilities:	
Due within one year	3,907,332
Due in more than one year	57,964,693
Total liabilities	<u>79,439,191</u>
Net Assets	
Invested in capital assets, net of related debt	74,540,789
Restricted for:	
Capital projects	17,515,392
Debt service	4,025,417
Other purposes	2,334,051
Unrestricted (deficit)	<u>(64,705,050)</u>
Total net assets	<u>\$ 33,710,599</u>

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

**Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Activities
For the Year Ended June 30, 2011**

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	\$14,473,486	\$ -	\$ 19,373	\$ -	\$ (14,454,113)
Public safety	2,826,999	53,012	560,444		(2,213,543)
Public works	7,908,776	2,946,677	688,921	990,127	(3,283,051)
Health and welfare	10,323,170	2,632,486	2,453,745		(5,236,939)
Culture and recreation	7,175,971	138,930	60,560	2,968,370	(4,008,111)
Economic development	29,816		64,032		34,216
Community development	2,323,637		1,973,382	159,052	(191,203)
Urban development			287		287
Education	1,251,415		11,221	358,081	(882,113)
Interest on long-term debt	1,746,549				(1,746,549)
Total governmental activities	\$48,059,819	\$ 5,771,105	\$ 5,831,965	\$ 4,475,630	(31,981,119)

General revenues:

Property taxes	5,879,559
Municipal license tax	11,658,235
Municipal sales and use tax	900,264
Other local taxes	1,261,857
Grants and contributions not restricted to specific programs	6,377,570
Interest and investment earnings	857,786
Miscellaneous	1,071,695

Total general revenues	28,006,966
Change in net assets	(3,974,153)
Net assets - beginning, as restated	37,684,752
Net assets - ending	\$ 33,710,599

Commonwealth of Puerto Rico
Municipality of Juncos
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 7,104,227	\$ 761,946	\$ 1,249,364	\$ 937,096	\$ 10,052,633
Cash with fiscal agent	52,502	288,582	20,094,446	4,020,214	24,455,744
Accounts receivable:					
Municipal sales and use tax	67,277				67,277
Intergovernmental				23,033	23,033
Landfill users	146,146				146,146
Construction excise taxes	109,908				109,908
Federal grants		3,545,904		150,170	3,696,074
Others	58,186				58,186
Advance from other funds	1,532,205				1,532,205
Due from other funds	5,437,780	54,154			5,491,934
Total assets	\$ 14,508,231	\$ 4,650,586	\$ 21,343,810	\$ 5,130,513	\$ 45,633,140
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 1,060,152	\$ 755,162	\$ 496,108	\$ 82,819	\$ 2,394,241
Due to other governmental entities	260,437				260,437
Advance to other funds		916,744	455,623	159,838	1,532,205
Due to other funds	54,154	2,127,312	2,865,323	445,145	5,491,934
Deferred revenues:					
Municipal license tax	12,055,832				12,055,832
Federal grant revenues		851,368		56,013	907,381
Total liabilities	13,430,575	4,650,586	3,817,054	743,815	22,642,030
Fund balances:					
Nonspendable	1,532,205				1,532,205
Restricted	52,502		17,515,392	4,256,509	21,824,403
Committed	469,911			48,342	518,253
Assigned			11,364	81,847	93,211
Unassigned	(976,962)				(976,962)
Total fund balances	1,077,656	-	17,526,756	4,386,698	22,991,110
Total liabilities and fund balances	\$ 14,508,231	\$ 4,650,586	\$ 21,343,810	\$ 5,130,513	\$ 45,633,140

Commonwealth of Puerto Rico
Municipality of Juncos
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 4,235,031	\$ -	\$ -	\$ 1,644,528	\$ 5,879,559
Municipal license taxes	11,658,235				11,658,235
Municipal sales and use tax	547,931			352,333	900,264
Licenses, permits and other local taxes	1,261,857				1,261,857
Charges for services	2,738,076			29,168	2,767,244
Intergovernmental	6,377,570		4,168,438	1,384,824	11,930,832
Fines and forfeitures	53,012				53,012
Rent of property				60,450	60,450
Interest	857,786				857,786
Users fees on landfill facilities	2,179,577				2,179,577
Federal grants		4,758,485		536,459	5,294,944
Miscellaneous	1,062,670		96	179,140	1,241,906
Total revenues	30,971,745	4,758,485	4,168,534	4,186,902	44,085,666
Expenditures					
Current:					
General government	17,061,929			44,773	17,106,702
Public safety	2,269,285	303,693		69,223	2,642,201
Public works	4,457,189	745,362	1,277,790		6,480,341
Health and welfare	7,091,792	1,565,827	4,155	2,052,167	10,713,941
Culture and recreation	2,402,877		6,106,179	53,694	8,562,750
Economic development				30,063	30,063
Community development		1,973,382	24,742	159,052	2,157,176
Education	808,667		2,492	516,534	1,327,693
Debt service:					
Principal				1,825,500	1,825,500
Interest				1,398,903	1,398,903
Total expenditures	34,091,739	4,588,264	7,415,358	6,149,909	52,245,270
Excess (deficiency) of revenues over (under) expenditures	(3,119,994)	170,221	(3,246,824)	(1,963,007)	(8,159,604)
Other financing sources (uses)					
Transfers in	1,551,719			839,092	2,390,811
Transfers out	(839,092)	(170,221)		(1,381,498)	(2,390,811)
Long-term debt issued			1,035,000		1,035,000
Total other financing sources (uses)	712,627	(170,221)	1,035,000	(542,406)	1,035,000
Net change in fund balances	(2,407,367)		(2,211,824)	(2,505,413)	(7,124,604)
Fund balance, beginning	3,485,023	-	19,738,580	6,892,111	30,115,714
Fund balance, ending	<u>\$ 1,077,656</u>	<u>\$ -</u>	<u>\$ 17,526,756</u>	<u>\$ 4,386,698</u>	<u>\$ 22,991,110</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, 2011

Total Fund Balances - Governmental Funds \$ 22,991,110

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	\$ 37,854,501	
Depreciable Capital Assets	60,100,172	
Accumulated Depreciation	<u>(23,413,884)</u>	
Total Capital Assets		74,540,789

Accounts payable accumulated according to the accrual basis of accounting. In the current period, those amounts are: (1,231,483)

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	40,004,463	
Line of credit-Landfill expansion	10,586,000	
LIMS Repayment Plan	24,990	
Property Taxes Debt	2,546,404	
Compensated Absences	2,806,830	
Claims and Judgments	377,857	
Interest Payable of Noncurrent liabilities	717,792	
Landfill Obligation	<u>5,525,481</u>	
Total Long-Term Liabilities		<u>(62,589,817)</u>

Total Net Assets of Governmental Activities \$ 33,710,599

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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (7,124,604)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	2,996,235
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.	(2,410,860)
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Changes in Net Assets.	(26,797)
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.	521,862
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.	(347,646)
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.	790,500
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.	1,550,331
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.	47,835
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.	26,220
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.	22,034
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.	(19,263)
Change in Net Assets of Governmental Activities	\$ (3,974,153)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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 terms.

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 basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

The Municipality's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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.

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reports the following governmental funds in the accompanying GFFS:

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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 a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

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, 2011

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.

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal.

The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements - The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2011. At June 30, 2011, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities.

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

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."

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

Intergovernmental receivable in general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM), related to preliminary liquidation. Intergovernmental and federal grant receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state founded programs. Intergovernmental receivable in the debt service fund represent the distribution of property tax collected by the CRIM which is restricted for the debt service.

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, 2011

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

5. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2011 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. 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 in the general fund.

7. 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.

8. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

9. **Fund Balances**– In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Nonspendable* – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *Restricted* – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c. *Committed* – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- d. *Assigned* – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- e. *Unassigned* – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. Net Assets – Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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.

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

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.

12. 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.

13. 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, 2011 amounted to \$278,598. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2011 amounted to \$517,462.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

14. Use of Estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 its 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. 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, 2011.

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, 2011, (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, 2011, 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, 2011, 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 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, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 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, 2011.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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).

Deposits – The Municipality's bank balances in commercial banks of \$7,104,227 in the General Fund, the \$761,946 in the Special Revenue Fund – Other Federal Grants, and the \$1,249,364 in the Capital Projects Fund – State and Local Grants, were fully collateralized at June 30, 2011. In the Other Governmental Funds there were deposits with commercial banks of \$937,096 that were fully collateralized.

The deposits at GDB of \$52,502 in the General Fund, \$288,582 in the Special Revenue Fund – Other Federal Grants, the \$20,094,446 in the Capital Projects Fund – State and Local Grants and the \$4,020,214 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 (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$67,277 represents filed municipal sales and use tax returns that were uncollected as of June 30, 2011, net of allowance for uncollectible accounts.

B. Intergovernmental Receivables – 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")	\$ 23,033
Total	\$ 23,033

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RECEIVABLES (CONTINUED)

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	\$ 1,783,487
Child Care and Development Block Grant	676,733
ARRA – FTA Urbanized Area Formula	478,484
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
Juvenile Justice and Delinquency	57,736
Edward Byrne Memorial Justice Assistance Grant Program	42,037
Fish and Wild Life	19,110
Community Service Block Grant	18,401
Others	<u>86,261</u>
Total	<u>\$ 3,545,904</u>

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>
Puerto Rico Housing Finance Authority	\$ 150,000
Department of Agriculture (WWDL&G)	<u>170</u>
Total	<u>\$ 150,170</u>

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, 2011, the landfill users receivable amounted \$146,146.

E. Construction excise tax- Construction excise tax receivables amounting to \$ 109,908 in the general fund represent the amount owed to the Municipality corresponding to the fiscal year 2010-11 that will be collected and collected after June 30, 2011.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2011, and interfund transfers during the fiscal year ended at June 30, 2011, 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 – Other Federal Grants	Payrolls, accruals, and other expenditures not reimbursed	\$ 3,044,056
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	3,320,946
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	604,983
Special Revenue Fund – Other Federal Grants	General Fund	Reimbursable expenditures	<u>54,154</u>
Total			<u>\$ 7,024,139</u>

a. 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	\$ 423,591
General Fund	Other Governmental Funds	Section 108 Loan	415,501
Other Governmental Funds	General Fund	Special Revenue	1,381,498
Special Revenue Fund – Other Federal Grant	General Fund	Reimbursable expenditures	<u>170,221</u>
Total			<u>\$ 2,390,811</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital asset, not being depreciated:				
Land	\$ 27,954,929	\$ -	\$ -	\$ 27,954,929
Construction in progress	<u>9,483,280</u>	<u>2,014,239</u>	<u>(1,597,947)</u>	<u>9,899,572</u>
Total capital assets not being depreciated	<u>37,438,209</u>	<u>2,014,239</u>	<u>(1,597,947)</u>	<u>37,854,501</u>
Capital assets, being depreciated:				
Buildings	14,416,901	20,000		14,436,901
Buildings improvements	11,319,116	1,838,844		13,157,960
Infrastructure	12,216,307	87,674		12,303,981
Infrastructure improvements	7,715,938	387,609		8,103,547
Equipment	5,193,072	89,376	(11,963)	5,270,485
Furnishing	930,384	66,219	(13,392)	983,211
Works of art	23,076	195		23,271
Computers	935,192	49,412	(48,634)	935,970
Vehicles	<u>4,844,232</u>	<u>40,614</u>	<u>-</u>	<u>4,884,846</u>
Total capital assets being depreciated	<u>57,594,218</u>	<u>2,579,943</u>	<u>(73,989)</u>	<u>60,100,172</u>
Less accumulated depreciation for:				
Buildings	(4,247,093)	(360,714)		(4,607,807)
Buildings improvements	(1,116,210)	(321,111)		(1,437,321)
Infrastructure	(4,188,484)	(218,267)		(4,406,751)
Infrastructure improvements	(1,732,391)	(540,237)		(2,272,628)
Equipment	(4,046,438)	(420,179)	9,765	(4,456,852)
Furnishing	(777,043)	(70,550)	10,594	(836,999)
Works of art	(10,626)	(2,191)		(12,817)
Computers	(691,824)	(116,562)	26,833	(781,553)
Vehicles	<u>(4,240,107)</u>	<u>(361,049)</u>	<u>-</u>	<u>(4,601,156)</u>
Total accumulated depreciation	<u>(21,050,216)</u>	<u>(2,410,860)</u>	<u>47,192</u>	<u>(23,413,884)</u>
Total capital assets being depreciated, net	<u>36,544,002</u>	<u>169,083</u>	<u>(26,797)</u>	<u>36,686,288</u>
Governmental activities capital assets, net	<u>\$ 73,982,211</u>	<u>\$ 2,183,322</u>	<u>\$ (1,624,744)</u>	<u>\$ 74,540,789</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	<u>Amount</u>
Community Development	\$ 332,307
Culture and Recreation	227,681
Education	14,547
General Governmental	538,752
Health and Welfare	209,209
Public Safety	132,369
Public Work	954,580
Economic Development	<u>1,415</u>
Total depreciation expense-governmental activities	<u>\$ 2,410,860</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Other Governmental Fund	Total
Accounts payable	\$ 488,147	\$ 755,162	\$ 496,108	\$ 82,819	\$ 1,822,236
Accrued liabilities	<u>572,005</u>	-	-	-	<u>572,005</u>
Total	<u>\$ 1,060,152</u>	<u>\$ 755,162</u>	<u>\$ 496,108</u>	<u>\$ 82,819</u>	<u>\$ 2,394,241</u>

7. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 155,836
Retirement System Administration	80,274
Commonwealth of Puerto Rico – General Services Administration	9,578
Commonwealth of Puerto Rico – Treasury Department – Income Tax	<u>14,749</u>
Total	<u>\$ 260,437</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. 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, 2011, 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, 2011, net of allowance for uncollectible.

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

The deferred revenues of \$12,055,832 in the General Fund relates to municipal license tax collected in fiscal year 2010-2011 that will be earned in fiscal year 2011-2012.

B. *Federal Government* – The deferred revenues presented in the Special Revenue Fund – Other 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	\$ 52,833
Public Assistance Grants	375,877
Loan for Equipment Acquisition	90,957
State and Community Highway Safety Programs	106,404
Department of Family - ARRA	35,247
Emergency Management Performance Grant	1,680
Child Care and Development Block Grant	1,169
Juvenile Justice and Delinquency Prevention	1,354
Federal Transit Administration	6,824
ARRA – Energy Efficiency and Conservation Block Grant Program	47,283
COPS - ARRA	31,942
Homeland Security Grant Program	77,043
Others	<u>22,755</u>
Total	<u>\$ 851,368</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

9. DEFERRED REVENUES (CONTINUED)

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	\$ 55,916
Others	97
Total	<u>\$ 56,013</u>

9. PROPERTY TAXES

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

The CRIM is required by law to prepare 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

9. PROPERTY TAXES (CONTINUED)

On June 26, 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30, 2011, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$879,979.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions or Adjustments</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 37,887,213	\$ 1,035,000	\$ 975,000	\$ 37,947,213	\$ 1,083,000
Notes Payable	2,907,750		850,500	2,057,250	811,750
Property Tax Debt	4,096,735		1,550,331	2,546,404	1,708,329
Municipal Revenue Collection Center – LIMS Repayment Plan	72,825		47,835	24,990	24,990
State Insurance Fund Corp.	26,220		26,220	-	
Landfill Closure Costs	4,055,481			4,055,481	
Landfill Obligation Post Closure Costs	1,470,000			1,470,000	
Line of credit- Landfill expansion	10,821,000	(235,000)		10,586,000	
Compensated Absences	2,828,864	220,578	242,612	2,806,830	240,000
Claims and Judgments	<u>358,594</u>	<u>19,263</u>	<u>-</u>	<u>377,857</u>	<u>39,263</u>
Total	<u>\$ 64,524,682</u>	<u>\$ 1,039,841</u>	<u>\$ 3,692,498</u>	<u>\$61,872,025</u>	<u>\$ 3,907,332</u>

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, 2011 are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
1993 General obligation bond for improvements of capital asset with an original amount of \$264,000 due in installments of \$7,000 to \$19,000 through January 1, 2017, with interest from 4.5%	\$ 100,000
1994 General obligation bond for improvements of capital asset with an original amount of \$650,000 due in installments of \$20,000 to \$48,000 through January 1, 2018, with interest from 5.25%	295,000
1996 General obligation bond for acquisition and construction of capital asset with an original amount of \$525,000 due in installments of \$14,000 to \$36,212.80 through January 1, 2021, with interest from 4.50%	302,213
1996 General obligation bond for improvements of capital asset with an original amount of \$551,000 due in installments of \$16,000 to \$41,000 through January 1, 2021, with interest from 4.5%	327,000
1998 General obligation bond for improvements of capital asset with an original amount of \$520,000 due in installments of \$18,000 to \$40,000 through January 1, 2022, with interest from 4.5%	353,000
2002 General obligation bond for improvements of capital asset with an original amount of \$305,000 due in installments of \$5,000 to \$70,000 through July 1, 2026, with interest from 2.7% to 5.60%	250,000
2002 General obligation bond for improvements of capital asset with an original amount of \$1,955,000 due in installments of \$30,000 to \$160,000 through July 1, 2026, with interest from 2.7% to 5.60%	1,580,000
2003 General obligation bond for improvements of capital asset with an original amount of \$1,060,000 due in installments of \$15,000 to \$80,000 through July 1, 2027, with interest from 4.17% to 5.31%	880,000
2004 General obligation bond for improvements of capital asset with an original amount of \$305,000 due in installments of \$5,000 to \$20,000 through July 1, 2028, with interest from 2.36% to 5.31%	245,000
2004 General obligation bond for improvements of capital asset with an original amount of \$405,000 due in installments of \$20,000 to \$35,000 through July 1, 2018, with interest from 2.36% to 4.80%	245,000
2004 General obligation bond for improvements of capital asset with an original amount of \$1,860,000 due in installments of \$30,000 to \$150,000 through July 1, 2028, with interest from 4.17% to 5.31%	1,590,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
2004 General obligation bond for improvements of capital asset with an original amount of \$3,115,000 due in installments of \$50,000 to \$240,000 through July 1, 2028, with interest from 1.53% to 6.50%	2,590,000
2004 General obligation bond for improvements of capital asset with an original amount of \$155,000 due in installments of \$4,000 to \$10,000 through January 1, 2031, with interest from 4.25%	135,000
2006 General obligation bond for improvements of capital asset with an original amount of \$833,000 due in installments of \$65,000 to \$102,000 through July 1, 2015, with interest from 1.53% to 6.62%	385,000
2006 General obligation bond for improvements of capital asset with an original amount of \$395,000 due in installments of \$5,000 to \$30,000 through July 1, 2031, with interest from 6.62% to 7.25%	370,000
2006 General obligation bond for improvements of capital asset with an original amount of \$508,000 due in installments of \$11,000 to \$34,000 through January 1, 2032, with interest from 4.25%	460,000
2007 General obligation bond for improvements of capital asset with an original amount of \$375,000 due in installments of \$13,000 to \$30,000 through January 1, 2024, with interest from 4.50%	300,000
2007 General obligation bond for improvements of capital asset with an original amount of \$1,020,000 due in installments of \$10,000 to \$85,000 through July 1, 2032, with interest from 3.93% to 7.50%	980,000
2008 General obligation bond for construction, improvement and acquisition of capital assets with an original amount of \$8,215,000 due in installments of \$170,000 to \$555,000 through July 1, 2032, with an interest ranging from 3.93% to 7.0%	7,675,000
2009 General obligation bond for construction of capital assets with an original amount of \$700,000 due in installments of \$15,000 to \$65,000 through July 1, 2028, with interest ranging from 4.75% to 7.5%	670,000
2009 General obligation bond for acquisition of a capital asset with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2033, with interest ranging from 2.43% to 7.5%	490,000
2010 General obligation bond for acquisition of a capital asset with an original amount of \$75,000 due in installments of \$5,000 to \$5,000 through July 1, 2024, with interest ranging from 5.0% to 7.5%	70,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2011
2010 General obligation bond for acquisition and improvement of a capital asset with an original amount of \$155,000 due in installments of \$5,000 to \$15,000 through July 1, 2034, with interest ranging from 4.75% to 7.5%	150,000
2010 General obligation bond for acquisition of a capital asset with an original amount of \$2,535,000 due in installments of \$35,000 to \$210,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	2,500,000
2010 General obligation bond for improvement of a capital asset with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	500,000
2010 General obligation bond for construction of a capital assets with an original amount of \$7,800,000 due in installments of \$110,000 to \$650,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	7,690,000
2010 General obligation bond for construction of a capital asset with an original amount of \$5,860,000 due in installments of \$80,000 to \$490,000 through July 1, 2034, with an interest ranging from 6.0% to 7.5%	5,780,000
2011 Special obligation bond for infrastructure improvements with an original amount of \$710,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	710,000
2011 Special Obligation bond for improvements of capital asset with an original amount of \$325,000 due in installments of \$5,000 to \$30,000 through July 1, 2030, with interest ranging from 6.0% to 7.5%	325,000
Total	<u>\$ 37,947,213</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. In addition, the Series 2011, amounting 710,000, and the Series 2011 amounting to \$325,000 are payable with the revenues generated from the collection of the .0002% of the municipal sales and use taxes Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,083,000	\$ 1,783,033
2013	1,140,000	2,424,910
2014	1,198,000	2,354,277
2015	1,274,000	2,279,538
2016	1,240,000	2,035,093
2017-2021	7,107,213	9,970,047
2022-2026	8,732,000	7,405,649
2027-2031	9,409,000	4,145,109
2032-2036	<u>6,764,000</u>	<u>952,133</u>
Total	<u>\$ 37,947,213</u>	<u>\$ 33,349,789</u>

- 3. Notes Payable** – The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of special events. Notes payable outstanding at June 30, 2011 are as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2011</u>
1994 Series	4-1-13	\$ 1,680,000	5.00% to 7.50%	\$ 301,250
2006 Series	7-1-12	805,000	6.25% to 7.25%	270,000
2007 Series	7-1-13	1,080,000	6.60% to 7.50%	415,000
Section 108 Loan	8-1-13	1,510,000	1.75% to 5.29%	414,000
Section 108 Loan	8-1-13	2,385,000	1.75% to 5.29%	<u>657,000</u>
Total notes payable				<u>\$ 2,057,250</u>

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 811,750	\$ 69,235
2013	880,500	45,510
2014	<u>365,000</u>	<u>9,654</u>
Total	<u>\$ 2,057,250</u>	<u>\$ 124,399</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. LONG-TERM LIABILITIES (CONTINUED)

4. **Property Tax Debt** – These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2011, as described in Note 8, 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, 2011 the outstanding debt balance is \$24,990. This amount will be presented in the government wide Statement of Net Assets.
6. **Compensated absences** – The government-wide Statement of Net Assets includes \$1,443,195 of accrued sick leave benefits, and \$1,363,635 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, 2011. Such estimate was determined in the prior fiscal years. The Municipality has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non current liability in governmental activities and, accordingly, has not adjusted the recorded liability.

Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level.
8. **Line of Credit – Landfill Expansion** – These amounts represent the balance related to GDB line of credit to acquire land for the expansion of Municipal Landfill.
9. **Claims and Judgments** – These amounts represent the balance related to legal claims at June 30, 2011, as described in Note 14.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

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. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. PENSION PLAN (CONTINUED)

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

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2011	\$ 231,824	\$ 127,946
2010	\$ 247,328	\$ 123,008
2009	\$ 263,183	\$ 117,613

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. PENSION PLAN (CONTINUED)

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.

12. FUND BALANCE

As of June 30 2011, fund balance is comprised of the following:

<u>Fund Balance (Deficit)</u>	<u>General Fund</u>	<u>Special Revenue Fund- Other Federal Grants</u>	<u>Capital Projects Fund- State & Local Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Interfund loans receivable	\$ 1,532,205	\$ -	\$ -	\$ -	\$ 1,532,205
Restricted for:					
General Government	52,502				52,502
Culture and Recreation				25,583	25,583
Health and Welfare				129,339	129,339
Public Safety				62,612	62,612
Capital Projects			17,515,392		17,515,392
Education				13,558	13,558
Debt Service				4,025,417	4,025,417
Committed for:					
General Government	469,911				
Culture and Recreation				8,669	478,580
Education				17,742	17,742
Public Works				15,830	15,830
				6,101	6,101
Assigned for:					
General Government				53,897	53,897
Culture and Recreation			11,364	7,446	18,810
Health and Welfare				4,636	4,636
Public Safety				4,526	4,526
Education				11,342	11,342
Unassigned	(976,962)				(976,962)
Total Fund Balance	<u>\$ 1,077,656</u>	<u>\$ -</u>	<u>\$ 17,526,756</u>	<u>\$ 4,386,698</u>	<u>\$ 22,991,110</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

13. 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.

14. CONTINGENCIES

a. Federal Grants:

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.

b. Claims and lawsuits:

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 \$377,857 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.

c. Other Commitments:

At June 30, 2011, the general fund had commitments of approximately \$826,654 for executory purchase orders or contracts that will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2011

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

16. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 37,449,752
To correct prior year long term debt	235,000
Net assets, beginning as restated	<u>\$ 37,684,752</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

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

YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 4,302,253	\$ 4,302,253	\$ 4,235,031	(67,222)
Municipal license tax	12,220,000	12,220,000	11,602,664	(617,336)
Municipal sales and use tax	500,000	500,000	780,316	280,316
Licenses, permits and other local taxes	4,011,000	4,011,000	1,261,857	(2,749,143)
Charges for services	1,964,218	1,964,218	2,659,706	695,488
Intergovernmental	6,496,850	6,496,850	6,420,498	(76,352)
Rent of property	93,000	93,000	138,930	45,930
Fines and forfeitures	20,000	20,000	53,012	33,012
Interest	200,000	200,000	858,140	658,140
Users fees on landfill facilities	2,700,000	2,700,000	2,361,568	(338,432)
Miscellaneous	170,000	170,000	1,062,670	892,670
Total revenues and other financing sources	<u>32,677,321</u>	<u>32,677,321</u>	<u>31,434,392</u>	<u>(1,242,929)</u>
Budget carryover (1)	-	1,000,000	1,000,000	-
Total revenues after carryover	<u>32,677,321</u>	<u>33,677,321</u>	<u>32,434,392</u>	<u>(1,242,929)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	14,252,203	14,775,183	16,957,353	(2,182,170)
Public safety	2,430,780	2,357,326	2,269,285	88,041
Public works	4,737,129	4,886,374	4,457,189	429,185
Health and welfare	6,855,217	7,389,570	7,091,792	297,778
Culture and recreation	2,452,356	2,505,414	2,402,877	102,537
Education	1,100,705	914,308	808,667	105,641
Operating transfer to other fund	848,931	849,146	839,092	10,054
Total expenditures, encumbrances and other financing uses	<u>32,677,321</u>	<u>33,677,321</u>	<u>34,826,255</u>	<u>(1,148,934)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,391,863)</u>	<u>\$ (2,391,863)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 32,434,392
Differences-budget to USGAAP:				
Budgeted carryover				(1,000,000)
Non-Budgeted transfer in				1,551,719
GAAP adjustments to revenues				<u>(462,647)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 32,523,464</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 34,826,255
Differences-budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP basis				1,619,901
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,515,325)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 34,930,831</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2011

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, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Water and Waste Disposal Loans and Grants	10.770		\$ 9,042
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	238,984
Summer Food Service Program	10.559	Not Available	11,577
Total U.S. Department of Agriculture			259,603
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		277,941
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
CDBG - State - Administered Small Cities Program Cluster			
Community Development Block Grants - State's Program	14.228	10-FC, AB-AB 09-FC, AB-35 08-FC, AB-35 07-FC, AB-35 06-FC, AB-35	1,840,835
ARRA - Community Development Block Grant/State's Program and Non-Entitlement Grants (Recovery Act Funded)	14.255	Not Available	132,546

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED):			
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	104,706
Pass-through the Commonwealth of Puerto Rico - Department of Family ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	Not Available	446,074
Pass-through the Commonwealth of Puerto Rico - P.R. Housing Authority Public Housing Capital Fund	14.872	Not Available	150,000
Total U.S. Department of Housing and Urban Development			2,952,102
U.S. DEPARTMENT OF INTERIOR:			
Direct Program			
Fish and Wild Life Service	15.630		12,832
Total U.S. Department of Interior			12,832
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law Enforcement Block Grant Program	16.592	2003-LB-MJ-01	50,323
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	Not Available	16,908

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE (CONTINUED):			
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	Not Available	151,461
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Juvenile Justice and Delinquency Program	16.540	2005JPFX4027	48,826
Total U.S. Department of Justice			<u>267,518</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit-Formula Grants	20.507		13,567
ARRA - Urbanized Area Formula	20.509		478,641
Pass-through the Commonwealth of Puerto Rico - Traffic Safety Commission			
State and Community Highway Safety	20.600	Not Available	36,175
Total U.S. Department of Transportation			<u>528,383</u>
U.S. DEPARTMENT OF ENERGY:			
Direct Program			
Energy Efficiency and Conservation Block Grant Program	81.128		123,417
Total U.S. Department of Energy			<u>123,417</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office) Aging Cluster Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	512
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	Not Available	29,461
Nutrition Services Incentive Program	93.053	Not Available	67,994
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office) Special Programs for the Aging-Title III, Part E - National Family Caregiver Support	93.052	Not Available	19,032
CCDF Cluster Child Care and Development Block Grant	93.575	Not Available	707,350
ARRA-Child Care and Development Block Grant (Recovery Act funded)	93.713	Not Available	32,002
Total U.S. Department of Health and Human Services			<u>856,351</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR): Disaster Grants - Public Assistance	97.036	Not Available	129,736

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Total U.S. Department of Homeland Security			129,736
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,129,942

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, 2011

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 Revenue Fund Other Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 4,588,253	\$ 541,689	\$ 5,129,942
Non federal programs Expenditures	11	5,608,220	5,608,231
Total expenditures in the basic financial statements	<u>\$ 4,588,264</u>	<u>\$ 6,149,909</u>	<u>\$ 10,738,173</u>



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos, Puerto Rico**, as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated January 26, 2012, 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 **11-02** 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 **11-01** to be a significant deficiency.

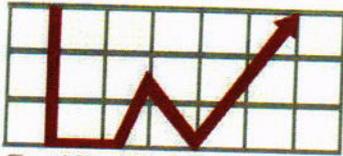
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Juncos'** 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 **11-02**.

We noted certain other matters that we reported to management of the **Municipality of Juncos** in a separate letter dated January 26, 2012.

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.





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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on the **Municipality of Juncos'** major federal programs for the year ended June 30, 2011. 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 laws, regulations, contracts, and grants applicable to each of its major federal programs 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 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 could have a direct and material effect of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **11-03** through **11-07**.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 requirements of laws, regulations, contracts and grants applicable to federal programs. 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, or 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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 **11-03** through **11-07**. 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 the responses.



López-Vega, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Juncos** in a separate letter dated March 8, 2012.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 8, 2012

Stamp No. 2575535 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, 2011

Section I - Summary of Auditor's Results

Financial Statements

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

Federal awards

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

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

Unqualified

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

CFDA Number	Name of Federal Program or Cluster
14.228	CDBG-State-Administered Small Cities Program Cluster
14.255	Community Development Block Grants - State's Program
14.257	Community Development Block Grant/State's Program and Non-Entitlement Grants (Recovery Act Funded)
20.507	Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)
20.509	Federal Transit Cluster Federal Transit-Formula Grants
93.575	ARRA - Urbanized Area Formula
93.713	CCDF Cluster Child Care and Development Block Grant
	ARRA-Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000	
Auditee qualified as low-risk auditee?	Yes	No <input checked="" type="checkbox"/>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section II - Financial Statements Findings

Finding Reference	11-01
Requirement	Financial Reporting - Accounting Records
Statement of Condition	<p>During our examination of the Municipality's accounting system, we noted that the Municipality's accounting records for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. The computerized system provided by the Office of Commissioner of Municipal Affairs (OCAM) and manual system maintained by the finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first years of the system operations.</p> <p>Therefore, the Municipality's hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law 81.</p>
Criteria	<p>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.</p>
Cause of Condition	<p>The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.</p>
Effect of Condition	<p>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.</p>
Recommendation	<p>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.</p>
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section II - Financial Statements Findings

Finding Reference **11-01 (Continued)**

**Management Response
and Corrective Action**

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

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, 2012

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, 2011

Section II - Financial Statements Findings

Finding Reference	11-02
Requirement	Financial Reporting - Accounting Records
Statement of Condition	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2011.
Criteria	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
Cause of Condition	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
Recommendation	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
Questioned Costs	None
Management Response and Corrective Action	The Municipality's Management will update the estimate of closure and post closure cost of its landfill facilities in order to include that liability in the fiscal year 2011-2012 government-wide financial statements.

Implementation Date: July, 2012

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, 2011

Section III - Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	11-03
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM) Community Development Block Grants - State's Program and Non-Entitlement Grants (Recovery Act Funded) (CFDA. No. 14.255); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Allowable Activities - Housekeepers Activities
Statement of Condition	We performed a housekeeper activities test of eight (8) participant's files and found the following exceptions: a) One (1) participant's file did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts. b) For eight (8) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual. c) For four (4) participant's files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director. d) Three (3) participant's files did not have the participation contract (OCAM-AH-005) completed in all its parts. e) One (1) participant's file did not have the application form (OCAM-AH-002) signed by the participant.
Criteria	Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality have an operational manual for housekeepers activities titled "Guía Operacional de Servicio de Auxiliares del Hogar".
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant files include all the required documents to comply with the program requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **11-03 (Continued)**

Effect of Condition 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).

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

Questioned Costs None

Management Response and Corrective Action The Municipality's controls and procedures failed to assure that the participants files include all the required documents to comply with the program requirements. We will review the procedures with the Service Coordinator in order to be corrected:

- a) Forms will be completed and signed in all its parts.
- b) Monitoring visits as stated in the procedures manual will be review and implemented.

Implementation Date: May 15, 2012

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, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-04
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM) Community Development Block Grants - State's Program and Non-Entitlement Grants (Recovery Act Funded) (CFDA. No. 14.255); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Cash Management
Statement of Condition	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 2010-2011, the Municipality maintained an average cash balance of \$94,539.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality's disbursements procedures failed to assure that the funds requested and received from the Pass-through Grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to strengthen 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, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-04 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality's disbursements procedures failed to assure that the funds requested and received from the Pass-through Grantor are disbursed in compliance with the code of Federal Regulations Requirements. We will discuss with the municipality administration the disbursements procedures in order to minimize the time elapsed between the deposit of funds in the municipality account and their disbursement.

- a) First Day: Confirmation of funds available
- b) Second Day: Complete payment/transfer procedures
- c) Third Day: Deliver of payments is registered

Implementation Date: April 15, 2012

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, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-05
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM) Community Development Block Grant - State's Program and Non-Entitlement Grants (Recovery Act Funded) (CFDA. No. 14.255); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test, we verified the constructions projects 10-AB-35-001, 10-FC-35-002, 08-ABAR-35-001 and 08-FC-35-001. The following summarizes the situations found: a. There is no evidence that the Program requested and obtained the weekly payrolls for the three (3) projects. b. No evidence of monitoring (including on-site visits) procedures is maintained by the Municipality to verify contractor's compliance with Davis Bacon Act for four (4) projects.
Criteria	Davis-Bacon Act, as amended, DOL (40 USC 276a - 276a-7).
Cause of Condition	The Municipality's internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a -276a-7).
Recommendation	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then communicate promptly to the contractors any failure in the payroll process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-05 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

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

- a) The project's file will include copy of weekly payrolls and the interviews required in the act.
- b) No payment will be process until the coordinator of the project certifies the payrolls.
- c) After the payment of first certification, project will be visited for interviews.

Implementation Date: April 1, 2012

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, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-06
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM) Community Development Block Grants - State's Program and Non-Entitlement Grants (Recovery Act Funded) (CFDA. No. 14.255); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Reporting
Statement of Condition	We examined the Financial Quarterly Report ended on June 30, 2011 and identified differences between the amounts presented in the Financial Quarterly Reports and the amounts presented in the Program's General Ledger. Also, one (1) quarterly report were submitted after due date.
Criteria	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. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference	11-06 (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), 24 CFR, Subtitle A, Subpart C, Section 85.41.
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	<p>The Municipality accounting controls and procedures failed to assure accurate, current and complete disclosure of the financial results of financially assisted activities. Starting January 2012, the federal program's director decided to assume the reporting responsibilities. New accountant was hired and is been trained.</p> <p>Implementation Date: Complete</p> <p>Responsible Person: Mrs. Ivelisse T. Reyes Gonzalez Federal Programs Department Director</p>

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

YEAR ENDED JUNE 30, 2011

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **11-07**

Program **Homelessness Prevention and Rapid Re-housing Program – Recovery Act Funded (CFDA. No. 14.257); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office Department of the Family**

Requirement **Activities Allowed or Unallowed**

Statement of Condition We performed an allowable activities test of ten (10) participant's files and found the following exceptions:

- a. In ten (10) participants files did not include the certification of income tax for the last five years.
- b. In ten (10) participants files did not include the Debt Certification of the Treasury Department.
- c. In eight (8) cases, the Form HPRP-22 "Formulario de Determinación de Elegibilidad y Otorgación de Ayuda" was made later than fourteen (14) days after signing the application form.
- d. In two (2) cases, the Voucher (HPRP-23) was delivered before determining the eligibility.
- e. In one (1) case the Form HPRP-32 was not completed in all its parts.
- f. In one (1) participant file did not include the Form HPRP-24 "Solicitud para Aprobación de la Unidad"
- g. In two (2) participants files did not include the Form HPRP-3 "Hoja de seguimiento de ayuda y apoyo."

We performed a waiting list test and found that did not include the time of application, applicants address, income information and family unit size.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-07 (Continued)
Criteria	Notice Section IV, (D) (1) indicated that grantees are responsible for verifying and documenting the individuals' risk of homelessness that qualifies them for receiving rental assistance. HUD require grantees and/or sub grantees to evaluate and certify the eligibility of program participants. Notice Section IV, (E) (1) required submission documents. Also, the Municipality has a Housing Prevention and Rapid Rehousing Program Operational Manual.
Cause of Condition	The Municipality's controls and procedures failed to assure that the participants files include all the required documents to comply with the program requirements.
Effect of Condition	The Program is not in compliance with Notice Section IV, (E) (1) and with the procedures manual issued by the Department of Family.
Recommendation	We recommend management to follow the procedures established in the Housing Prevention and Rapid Rehousing Program Operational Manual, including the use of the forms included on it.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements. This program's procedures were change by the Department of Family in so many times since the start date that is not possible that all files have the same final requirements. The coordinator will review all pending cases in order to certify that follow the procedures established in the manual.</p> <p>The Municipality did not maintain an adequate waiting list as required by Federal Regulation. The list was prepared as soon as the Municipality's Grant was assigned. The Department of Family holds up months before trainings were started. By that time they accepted our waiting list. The waiting list is already closed</p> <p>Implementation Date: April 1, 2012</p> <p>Responsible Person: Ivelisse T. Reyes González Federal Program Department Director</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
10-03	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"> a) <u>Four (4) participant's files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u> b) <u>For eight (8) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</u> c) <u>For three (3) participant's files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director.</u> d) <u>Ten (10) participant's files did not have the participation contract (OCAM-AH-005) completed in all its parts.</u> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-03.</p>
10-04	14.228	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-04.</p>
10-05	14.228	<p><u>During our Davis-Bacon Act test, we verified the construction projects 08-FC-35-001. The following summarizes the situations found:</u></p> <ul style="list-style-type: none"> a. <u>There is no evidence that the Program requested and obtained the weekly payrolls from one (1) contractor.</u> b. <u>No evidence of monitoring (including on-site visits) procedures is maintained by the Municipality to verify contractor's compliance with Davis Bacon Act.</u> <p>No corrective action was taken. The auditors reissued the finding for</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		the current year. Finding Reference 11-05.
10-06	14.228	<p><u>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:</u></p> <ul style="list-style-type: none"> a. <u>One (1) contract did not include a provision for compliance with executive order 11246 “Equal Employment Opportunity”</u> b. <u>One (1) contract did not include a provision for compliance with Davis Bacon Act.</u> c. <u>One (1) contract did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours & Safety Standards Act.</u> d. <u>One (1) contract did not include a provision for compliance with Energy Policy and Conservation Act.</u> e. <u>One (1) contract did not include a provision for compliance with the Copeland “Anti-kickback”.</u> f. <u>One (1) contract did not include a provision for retention of all required records for three years.</u> <p>Corrective action was taken.</p>
10-07	14.228	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-06.</p>
09-03	14.228	<p><u>We performed a housekeeper activities test of ten (10) participant’s files and found the following exceptions:</u></p>

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

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p>a) <u>One (1) participant's file did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u></p> <p>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></p> <p>c) <u>For three (3) participant's files, the approval application notified (OCAM-AH-004) did not signature for the Programs Director.</u></p> <p>d) <u>For two (2) participant's files, the participation contract (OCAM-AH-005) did not have the signature of the Program Director.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-03.</p>
09-05	14.228	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-04.</p>
09-06	14.228	<p><u>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:</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 from the two (2) contractors.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 11-05.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JUNCOS**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-07	14.228	<p><u>During our contract provision test, we verified two (2) contracts for the Community Development Block Grants - State's Program, formalized during the fiscal year ended June 30, 2009. The following summarizes the situations found:</u></p> <ul style="list-style-type: none"> a. <u>Two (2) contracts did not include a provision for compliance with executive order 11246 "Equal Employment Opportunity"</u> b. <u>Two (2) contracts did not include a provision for compliance with Davis Bacon Act.</u> c. <u>Two (2) contracts did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours & Safety Standards Act.</u> d. <u>Two (2) contracts did not include a provision for compliance with Energy Policy and Conservation Act.</u> e. <u>Two (2) contracts did not include a provision for compliance with the Copeland "Anti-kickback".</u> f. <u>Two (2) contracts did not include a provision for retention of all required records for three years.</u> g. <u>Two (2) contracts did not include a provision for compliance with Suspension and Debarment.</u> <p>Corrective action was taken.</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"> a) <u>Six (6) participant's files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u> 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>

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

YEAR ENDED JUNE 30, 2011

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
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> <p>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></p> <p>b. <u>The Municipality maintains an average cash balance of \$95,467 during the fiscal year 2007-2008.</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>
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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>

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

YEAR ENDED JUNE 30, 2011

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