

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

**MUNICIPIO DE JUNCOS  
AUDITORÍA 2011-2012  
30 DE JUNIO DE 2012**

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

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

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Year Ended June 30, 2012

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*Oficina de Asesoría Municipal  
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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, 2012**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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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, 2012, 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 11 (6)**, to the financial statements, management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the 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 previously 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, 2012, 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, 2012, 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 28, 2013, 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 61 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 as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements.



*Lopez-Vega, CPA, PSC*

Certified Public Accountant / Management Advisor

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

The schedule of expenditures of federal awards is the responsibility of management and was 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

San Juan, Puerto Rico  
March 28, 2013

Stamp No. 2632129 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*Lopez-Vega, CPA, PSC*

Certified Public Accountant / Management Advisor

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2012**

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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, 2012. 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, 2011. 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 2012 constitute factual evidence of the Municipality's economic situation by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$113,014,092 which represents a decrease of .38% compared to prior fiscal year, as restated;
2. At the end of fiscal year 2012, total liabilities amounted to \$80,198,066. Out of said amount, \$61,819,140 corresponded to long-term liabilities of which \$42,824,713 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 \$32,816,026 which represents a decrease of 3% 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 \$41,230,123, derived from the following sources: \$4,766,245 charges for services; \$4,013,922 from operating grants and contributions; \$530,833 from capital grants and contributions obtained from other sources, and \$31,919,123 from general revenues available;

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**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 \$42,131,061;
6. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$18,716,329;
7. As of the end of the current fiscal year the Municipality's General Fund deficit amounted to \$2,994,898;
8. The actual General Fund budgetary activities resulted in an unfavorable balance of \$(1,854,633).

**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 2012. 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, 2012

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**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, 2012, shows total expenses incurred to afford the cost of all functions and programs amounted to \$42,131,061. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$9,311,000 was derived from the following sources: \$4,766,245 charges for services; \$4,013,922 from operating grants and contributions; and \$530,833 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$31,919,123. When such figure is added to the \$9,311,000 previously mentioned, total revenues available for the financing of activities amounted to \$41,230,123. There was a deficiency of revenues over expenses in the amount of \$(900,938) 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, 2012

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**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)**

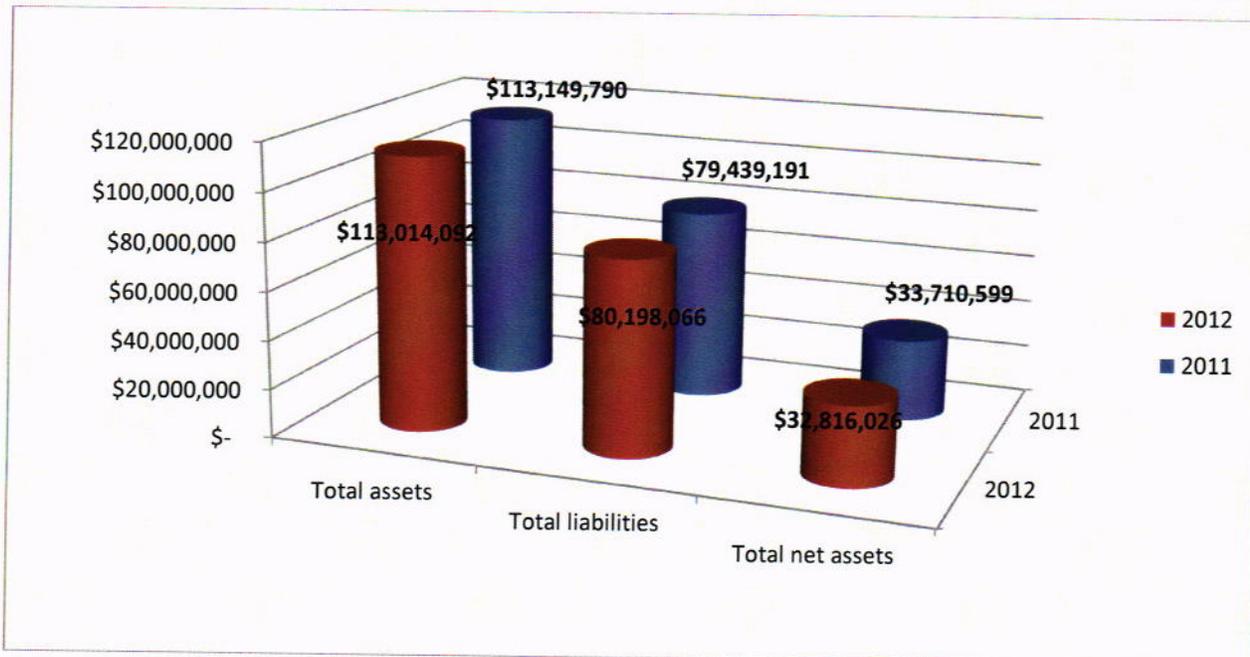
**YEAR ENDED JUNE 30, 2012**

**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 \$32,816,026 at the end of 2012, compared to \$33,716,964 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Assets of the Primary Government.

<u>Condensate Statement of Net Assets</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$34,078,177	\$38,907,949	(\$4,829,772)	(12%)
Capital Assets	78,935,915	74,540,789	4,395,126	6%
<b>Total Assets</b>	<b>113,014,092</b>	<b>113,448,738</b>	<b>(434,646)</b>	<b>(.38%)</b>
Current and other liabilities	18,378,926	17,624,749	754,177	4%
Long Term liabilities	61,819,140	62,107,025	(287,885)	(.46%)
<b>Total Liabilities</b>	<b>80,198,066</b>	<b>79,731,774</b>	<b>466,292</b>	<b>1%</b>
Invested in capital assets, net of related debt	37,942,701	74,540,789	(36,598,088)	(49%)
Restricted	21,524,677	23,874,860	(2,350,183)	(10%)
Unrestricted (deficit)	(26,651,352)	(64,698,685)	38,047,333	59%
<b>Total net assets</b>	<b>\$32,816,026</b>	<b>\$33,716,964</b>	<b>(\$900,938)</b>	<b>(3%)</b>



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**Changes in Net Assets**

The Statement of Activities reflects that for fiscal year 2012, the net effect of the revenues derived from several programs plus current operating revenues, amounted to \$41,230,123. Approximately 55 percent of the Municipality's total revenue came from taxes, while 28 percent resulted from grants and contributions, including federal aid. Charges for Services provide 12 percent of the total revenues. Interest and investment earnings and miscellaneous provide approximately 5 percent of the Municipality's total revenues. The largest expenses were for general government, health and welfare services, public works, public safety and culture and recreation. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

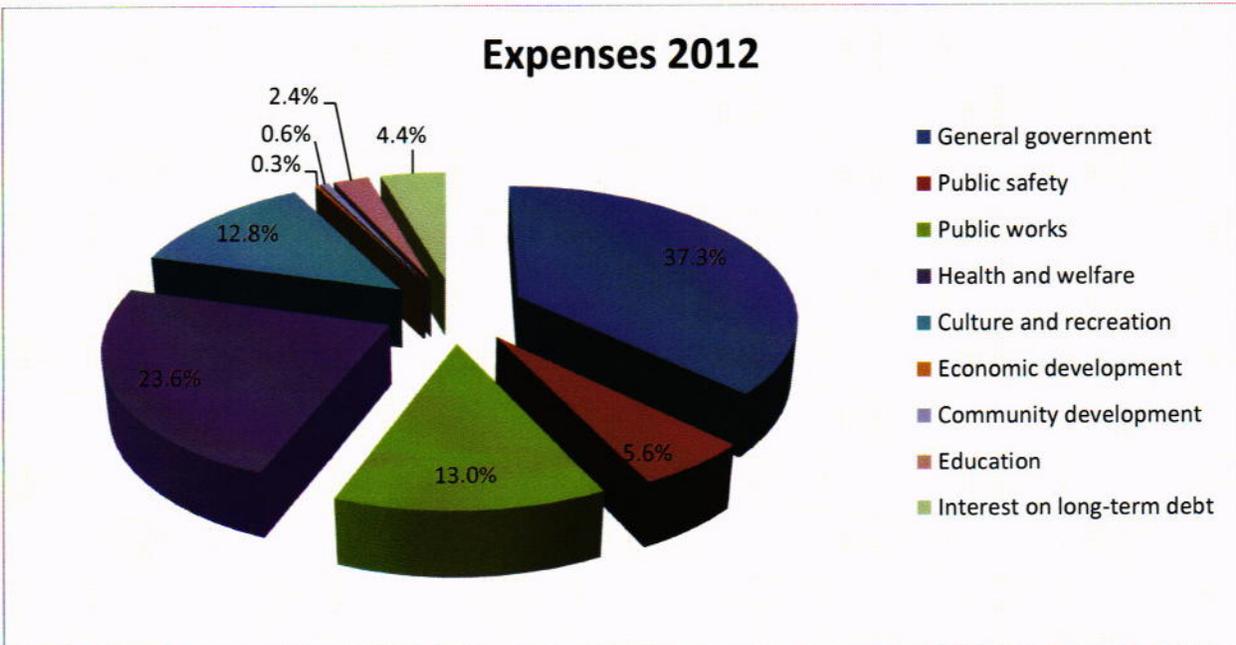
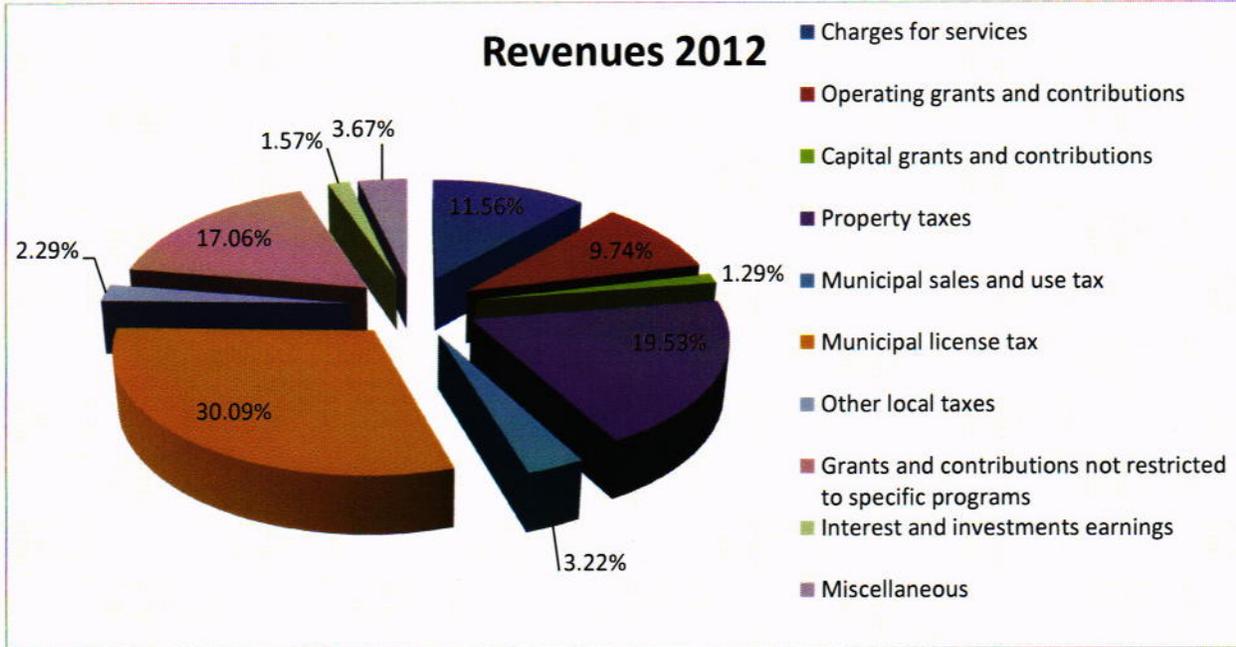
<b>Condensate Statement of Activities</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>%</b>
Program revenues:				
Charges for services	4,766,245	\$ 5,771,105	(\$1,004,860)	(17%)
Operating grants and contributions	4,013,922	5,831,965	(1,818,043)	(31%)
Capital grants and contributions	530,833	4,475,630	(3,944,797)	(88%)
General revenues:				
Property taxes	8,051,382	5,879,559	2,171,823	37%
Municipal license tax	12,407,743	11,658,235	749,508	6%
Municipal sales and use tax	1,325,638	900,264	425,374	47%
Other local taxes	943,209	1,261,857	(318,648)	(25%)
Grants and contributions not restricted to specific programs	7,033,899	6,377,570	656,329	10%
Interest and investment earnings	645,865	857,786	(211,921)	(25%)
Miscellaneous	1,511,387	1,071,695	439,692	41%
Total revenues	<u>41,230,123</u>	<u>44,085,666</u>	<u>(2,855,543)</u>	<u>(6%)</u>
Expenses:				
General government	15,700,600	14,467,121	1,233,479	9%
Public safety	2,366,762	2,826,999	(460,237)	(16%)
Public works	5,489,429	7,908,776	(2,419,347)	(31%)
Culture and recreation	5,408,191	7,175,971	(1,767,780)	(25%)
Health and welfare	9,928,686	10,323,170	(394,484)	(4%)
Economic development	113,244	29,816	83,428	280%
Community development	240,619	2,323,637	(2,083,018)	(90%)
Education	1,016,047	1,251,415	(235,368)	(19%)
Interest on long term debt	1,867,483	1,746,549	120,934	7%
Total expenses	<u>42,131,061</u>	<u>48,053,454</u>	<u>(5,922,393)</u>	<u>(12%)</u>
Change in net assets	(900,938)	(3,967,788)	3,066,850	77%
Net assets, beginning of the year	33,716,964	37,684,752	(3,967,788)	(11%)
Net assets, end of the year	<u>\$32,816,026</u>	<u>\$33,716,964</u>	<u>(900,938)</u>	<u>(3%)</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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, 2012**

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**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 \$18,716,329, which represents a decrease of \$(4,516,147) in comparison with the prior year, as restated. Out of the indicated balance, \$1,539,659 were classified as nonspendable; \$21,606,961 were classified as restricted for the following purposes: (1) \$6,300,486 for debt service payments; 2) \$14,572,815 to pay for capital projects; 3) \$733,660 for other purposes. There are committed fund balance amounting to \$1,342,350 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 \$56,708 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, 2012, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$(5,829,349).

**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, 2012, amounted to \$104,638,828, which upon deduction of accumulated depreciation of \$25,702,913, produced a net book value of \$78,935,915 Depreciation charges for the year totaled \$2,289,029.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**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, 2012, the Municipality has \$17,802,726 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 2012-2013.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**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, 2012**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 6,328,276
Cash with fiscal agent	24,229,647
Accounts receivable:	
Intergovernmental	59,395
Landfill users	119,700
Construction excise taxes	15,962
Federal grants	3,046,580
Others	278,617
Capital assets	
Land, improvements, and construction in progress	42,327,240
Other capital assets, net of depreciation	36,608,675
Total capital assets	78,935,915
<b>Total assets</b>	113,014,092
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	3,838,526
Due to other governmental entities	782,254
Deferred revenues:	
Municipal license tax	11,004,035
Federal grant revenues	1,916,691
Interest payable	837,420
Noncurrent liabilities:	
Due within one year	2,451,404
Due in more than one year	59,367,736
Total liabilities	80,198,066
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	37,942,701
Restricted for:	
Capital projects	14,572,815
Debt service	5,463,066
Other purposes	1,488,796
Unrestricted (deficit)	(26,651,352)
<b>Total net assets</b>	\$ 32,816,026

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$15,700,600	\$ -	\$ 10,240	\$ 115,567	\$ (15,574,793)
Public safety	2,366,762	39,764	442,478		(1,884,520)
Public works	5,489,429	1,899,650	224,654	405,459	(2,959,666)
Health and welfare	9,928,686	2,717,329	1,744,851		(5,466,506)
Culture and recreation	5,408,191	109,502	48,016		(5,250,673)
Economic development	113,244		96,861	9,807	(6,576)
Community development	240,619		1,446,820		1,206,201
Urban development					-
Education	1,016,047		2		(1,016,045)
Interest on long-term debt	1,867,483				(1,867,483)
<b>Total governmental activities</b>	<b>\$42,131,061</b>	<b>\$ 4,766,245</b>	<b>\$ 4,013,922</b>	<b>\$ 530,833</b>	<b>(32,820,061)</b>
General revenues:					
					8,051,382
Property taxes					12,407,743
Municipal license tax					1,325,638
Municipal sales and use tax					943,209
Other local taxes					7,033,899
Grants and contributions not restricted to specific programs					645,865
Interest and investment earnings					1,511,387
Miscellaneous					
<b>Total general revenues</b>					<b>31,919,123</b>
Change in net assets					(900,938)
Net assets - beginning, as restated					33,716,964
Net assets - ending					<b>\$ 32,816,026</b>

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,624,805	\$ 2,047,084	\$ 1,063,076	\$ -	\$ 1,593,311	\$ 6,328,276
Cash with fiscal agent	823	171,137	17,802,726	6,241,091	13,870	24,229,647
Accounts receivable:						
Intergovernmental				59,395		59,395
Landfill users	119,700					119,700
Construction excise taxes	15,962					15,962
Federal grants		3,002,610			43,970	3,046,580
Others	278,617					278,617
Advance from other funds	1,539,659					1,539,659
Due from other funds	6,204,796	54,154				6,258,950
<b>Total assets</b>	<b>\$ 9,784,362</b>	<b>\$ 5,274,985</b>	<b>\$ 18,865,802</b>	<b>\$ 6,300,486</b>	<b>\$ 1,651,151</b>	<b>\$ 41,876,786</b>
<b>Liabilities and Fund Balances</b>						
Liabilities :						
Accounts payable and accrued liabilities	\$ 938,817	\$ 200,851	\$ 519,200	\$ -	\$ -	\$ 1,658,868
Due to other governmental entities	782,254					782,254
Advance to other funds		924,150	455,623		159,886	1,539,659
Due to other funds	54,154	2,326,913	3,318,164		559,719	6,258,950
Deferred revenues:						
Municipal license tax	11,004,035					11,004,035
Federal grant revenues		1,823,071			93,620	1,916,691
<b>Total liabilities</b>	<b>12,779,260</b>	<b>5,274,985</b>	<b>4,292,987</b>	<b>-</b>	<b>813,225</b>	<b>23,160,457</b>
Fund balances:						
Nonspendable	1,539,659					1,539,659
Restricted	823		14,572,815	6,300,486	732,837	21,606,961
Committed	1,293,969				48,381	1,342,350
Assigned					56,708	56,708
Unassigned	(5,829,349)					(5,829,349)
<b>Total fund balances (deficit)</b>	<b>(2,994,898)</b>	<b>-</b>	<b>14,572,815</b>	<b>6,300,486</b>	<b>837,926</b>	<b>18,716,329</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,784,362</b>	<b>\$ 5,274,985</b>	<b>\$ 18,865,802</b>	<b>\$ 6,300,486</b>	<b>\$ 1,651,151</b>	<b>41,876,786</b>

**Commonwealth of Puerto Rico**  
**Municipality of Juncos**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 3,379,041	\$ -	\$ -	\$ 4,672,341	\$ -	\$ 8,051,382
Municipal license taxes	12,407,743					12,407,743
Municipal sales and use tax	907,898			417,740		1,325,638
Licenses, permits and other local taxes	943,209					943,209
Charges for services	2,033,881				91,953	2,125,834
Intergovernmental	7,033,899		262,134		736,587	8,032,620
Fines and forfeitures	39,764					39,764
Rent of property	109,502				47,925	157,427
Interest	645,865					645,865
Users fees on landfill facilities	1,843,972					1,843,972
Federal grants		3,615,089			356,508	3,971,597
Miscellaneous	1,371,998		77		312,997	1,685,072
<b>Total revenues</b>	<b>30,716,772</b>	<b>3,615,089</b>	<b>262,211</b>	<b>5,090,081</b>	<b>1,545,970</b>	<b>41,230,123</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	17,277,262				11,513	17,288,775
Public safety	2,125,484	72,512			80,149	2,278,145
Public works	4,631,549	756,332	3,290,428		45,261	8,723,570
Health and welfare	7,091,160	1,328,243			1,118,418	9,537,821
Culture and recreation	2,152,554		2,618,547		47,887	4,818,988
Economic development		14,507			97,226	111,733
Community development		1,448,195				1,448,195
Education	866,125		127,921		18,393	1,012,439
<b>Debt service:</b>						
Principal				1,898,750		1,898,750
Interest				1,747,854		1,747,854
<b>Total expenditures</b>	<b>34,144,134</b>	<b>3,619,789</b>	<b>6,036,896</b>	<b>3,646,604</b>	<b>1,418,847</b>	<b>48,866,270</b>
Excess (deficiency) of revenues over (under) expenditures	(3,427,362)	(4,700)	(5,774,685)	1,443,477	127,123	(7,636,147)
<b>Other financing sources (uses)</b>						
Transfers in	3,960	4,700	85	831,677	885	841,307
Transfers out	(837,262)			(85)	(3,960)	(841,307)
Long-term debt issued			3,120,000			3,120,000
<b>Total other financing sources (uses)</b>	<b>(833,302)</b>	<b>4,700</b>	<b>3,120,085</b>	<b>831,592</b>	<b>(3,075)</b>	<b>3,120,000</b>
Net change in fund balances	(4,260,664)	-	(2,654,600)	2,275,069	124,048	(4,516,147)
Fund balance, beginning, as restated	1,265,766	-	17,227,415	4,025,417	713,878	23,232,476
Fund balance, ending	<u>\$ (2,994,898)</u>	<u>\$ -</u>	<u>\$ 14,572,815</u>	<u>\$ 6,300,486</u>	<u>\$ 837,926</u>	<u>\$ 18,716,329</u>

*Handwritten signature and date: 03/14/2013*

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

June 30, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	18,716,329
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</p> <p>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:</p>		
Non Depreciable Capital Assets	\$	42,327,240
Depreciable Capital Assets		62,311,585
Accumulated Depreciation		<u>(25,702,910)</u>
Total Capital Assets		78,935,915
<p>Accounts payable accumulated according to the accrual basis of accounting. In the current period, those amounts are:</p>		
		(2,179,658)
<p>Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds</p>		
		(837,420)
<p>Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:</p>		
General Bonds and Notes Payable		41,460,713
Line of credit-Landfill expansion		10,586,000
Property Taxes Debt		838,076
Compensated Absences		3,070,277
Claims and Judgments		338,593
Landfill Obligation		<u>5,525,481</u>
Total Long-Term Liabilities		<u>(61,819,140)</u>
<b>Total Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>32,816,026</u></b>

**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, 2012**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (4,516,147)</b>
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.	7,001,565
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.	(2,289,029)
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.	(317,411)
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.	(948,173)
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.	(119,628)
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.	(1,221,250)
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represented the change in long-term property tax advanced from prior year.	1,708,329
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.	24,990
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.	(263,447)
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.	39,263
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (900,938)</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2012**

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**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, 2012**

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**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 previous 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, 2012

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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, 2012

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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.

**Debt Service Fund** - is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

B. Government-wide and fund financial statements (Continued)

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.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

**General Fund** – General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

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

**Special Revenue Fund – Section 8** – Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Special Revenue Fund – Other Federal Grants** – Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

**Debt Service Funds** – Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**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.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012. 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, 2012. At June 30, 2012, 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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, 2012.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

- 2. Receivables and payables** – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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

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

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

**5. 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, 2012 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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.

9. **Fund Balances**- In the previous 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

- 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.

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, 2012.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

**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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

- 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.

For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**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, 2012 amounted to \$324,322. 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 (AACCA), 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 AACCA.

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, 2012 amounted to \$543,425.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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, 2012**

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**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, 2012.

**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, 2012, (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, 2012, 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, 2012, 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, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012 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, 2012.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**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 \$1,624,805 in the General Fund, the \$2,047,084 in the Special Revenue Fund – Other Federal Grants, and the \$1,063,076 in the Capital Projects Fund – State and Local Grants, were fully collateralized at June 30, 2012. In the Other Governmental Funds there were deposits with commercial banks of \$1,593,311 that were fully collateralized.

The deposits at GDB of \$823 in the General Fund, \$171,137 in the Special Revenue Fund – Other Federal Grants, the \$17,802,726 in the Capital Projects Fund – State and Local Grants, the \$6,241,091 in the Debt Service Fund, and the \$13,870 in the Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. 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")	<u>\$ 59,395</u>
<b>Total</b>	<u>\$ 59,395</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**3. RECEIVABLES (CONTINUED)**

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	\$ 43,970
<b>Total</b>	<b><u>\$ 43,970</u></b>

- B. 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, 2012, the landfill users receivable amounted \$119,670.
- C. Construction excise tax**- Construction excise tax receivables amounting to \$ 15,961 in the general fund represent the amount owed to the Municipality corresponding to the fiscal year 2011-12 that will be collected and collected after June 30, 2012.

**4. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2012, and interfund transfers during the fiscal year ended at June 30, 2012, 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	\$ 3,251,063
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	3,773,787
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	719,605
Special Revenue Fund – Other Federal Grants	General Fund	Reimbursable expenditures	<u>54,154</u>
<b>Total</b>			<b><u>\$ 7,798,609</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**4. INTERFUND TRANSACTIONS**

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

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Other Governmental Funds	General Fund	Reimbursable expenditures	\$ 3,960
General Fund	Debt Service Fund	Debt Retirement	831,677
Debt Service Fund	Capital Projects Fund-State & Local Grants	Reimbursable expenditures	85
General Fund	Other Governmental Funds	Reimbursable expenditures	885
General Fund	Special Revenue Fund - Other Federal Grants	Reimbursable expenditures	<u>4,700</u>
<b>Total</b>			<b><u>\$ 841,307</u></b>

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**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 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 27,954,929	\$ 704,250	\$ -	\$ 28,659,179
Construction in progress	<u>9,899,572</u>	<u>4,085,900</u>	<u>(317,411)</u>	<u>13,668,061</u>
<b>Total capital assets not being depreciated</b>	<u>37,854,501</u>	<u>4,790,150</u>	<u>(317,411)</u>	<u>42,327,240</u>
<b>Capital assets, being depreciated:</b>				
Buildings	14,436,901	94,397		15,531,298
Buildings improvements	13,157,960	246,227		13,404,187
Infrastructure	12,303,981	509,415		12,813,396
Infrastructure improvements	8,103,547	795,941		8,899,488
Equipment	5,270,485	229,604		5,500,089
Furnishing	983,211	10,030		993,241
Works of art	23,271			23,271
Computers	935,970	41,347		977,317
Vehicles	<u>4,884,846</u>	<u>284,455</u>	<u>-</u>	<u>5,169,301</u>
<b>Total capital assets being depreciated</b>	<u>60,100,172</u>	<u>2,211,416</u>	<u>-</u>	<u>62,311,588</u>
<b>Less accumulated depreciation for:</b>				
Buildings	(4,607,807)	(363,282)		(4,971,089)
Buildings improvements	(1,437,321)	(331,394)		(1,768,715)
Infrastructure	(4,406,751)	(223,134)		(4,629,885)
Infrastructure improvements	(2,272,628)	(574,485)		(2,847,113)
Equipment	(4,456,852)	(399,615)		(4,856,467)
Furnishing	(836,999)	(57,049)		(894,048)
Works of art	(12,817)	(2,197)		(15,014)
Computers	(781,553)	(100,902)		(882,455)
Vehicles	<u>(4,601,156)</u>	<u>(236,971)</u>	<u>-</u>	<u>(4,838,127)</u>
<b>Total accumulated depreciation</b>	<u>(23,413,884)</u>	<u>(2,289,029)</u>	<u>-</u>	<u>(25,702,913)</u>
<b>Total capital assets being depreciated, net</b>	<u>36,686,288</u>	<u>(77,613)</u>	<u>-</u>	<u>36,608,675</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 74,540,789</u>	<u>\$ 4,712,537</u>	<u>\$ (317,411)</u>	<u>\$ 78,935,915</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**5. CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental activities:</b>	<b><u>Amount</u></b>
Community Development	\$ 281,577
Culture and Recreation	229,321
Education	10,813
General Governmental	595,178
Health and Welfare	194,810
Public Safety	115,772
Public Work	860,048
Economic Development	<u>1,510</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 2,289,029</u></b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2012 are summarized as follows:

<b>Description</b>	<b>General Fund</b>	<b>Special Revenue Fund – Other Federal Grants</b>	<b>Capital Projects Fund – State &amp; Local Grants</b>	<b>Other Governmental Fund</b>	<b>Total</b>
Accounts payable	\$ 314,868	\$ 200,851	\$ 519,200	\$ -	\$ 1,034,919
Accrued liabilities	<u>623,949</u>	-	-	-	<u>623,949</u>
<b>Total</b>	<b><u>\$ 938,817</u></b>	<b><u>\$ 200,851</u></b>	<b><u>\$ 519,200</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,658,868</u></b>

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

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

<b><u>Governmental Entity</u></b>	<b><u>Amount</u></b>
Puerto Rico Aqueduct and Sewer Authority	\$ 573,054
Retirement System Administration	78,561
Department of Labor and Human Resources	8,944
Internal Revenue Service	74,177
Commonwealth of Puerto Rico – General Services Administration	10,475
Commonwealth of Puerto Rico – Treasury Department – Income Tax	<u>37,043</u>
<b>Total</b>	<b><u>\$ 782,254</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**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, 2012, 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, 2012, 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 \$11,004,035, in the General Fund relates to municipal license tax collected in fiscal year 2011-2012 that will be earned in fiscal year 2012-2013.

**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	\$ 17,981
Public Assistance Grants	1,432,008
Special program for the Aging - Tittle III-B	54,422
State and Community Highway Safety Programs	106,451
Department of Family – ARRA	10,892
Emergency Management Performance Grant	4,775
Child Care and Development Block Grant	17,402
Juvenile Justice and Delinquency Prevention	1,354
Loan for equipment Acquisition	90,975
Homeland Security Grant Program	72,352
Others	<u>14,459</u>
<b>Total</b>	<b><u>\$ 1,823,071</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**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	<u>\$ 93,620</u>
Total	<u>\$ 93,620</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, 2012**

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**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, 2012, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$838,076.

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 9.83% for real property and 7.83% 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) 6.8% and 4.8%, 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, 2012**

**10 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%.

**11. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2012, 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	\$ 37,947,213	\$ 2,700,000	\$ 1,087,000	\$ 39,560,213	\$ 1,214,000
Notes Payable	2,057,250	655,000	811,750	1,900,500	955,500
Property Tax Debt	2,546,404		1,708,328	838,076	41,904
Municipal Revenue Collection Center – LIMS Repayment Plan	24,990		24,990	-	-
Landfill Closure Costs	4,055,481			4,055,481	
Landfill Obligation Post Closure Costs	1,470,000			1,470,000	
Line of credit- Landfill expansion	10,586,000			10,586,000	
Compensated Absences	2,806,830	263,447		3,070,277	240,000
Claims and Judgments	<u>377,856</u>	<u>-</u>	<u>39,263</u>	<u>338,593</u>	<u>-</u>
<b>Total</b>	<b><u>\$61,872,024</u></b>	<b><u>\$3,618,447</u></b>	<b><u>\$3,671,331</u></b>	<b><u>\$61,819,140</u></b>	<b><u>\$2,451,404</u></b>

**1. Legal debt margin** – The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**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, 2012 are as follows:

Description	Balance at June 30, 2012
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%	\$ 85,000
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%	258,000
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%	277,213
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%	301,000
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%	328,000
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%	240,000
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%	1,520,000
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%	850,000
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%	235,000
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%	220,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

Description	Balance at June 30, 2012
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%	\$ 1,540,000
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%	2,500,000
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%	131,000
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%	295,000
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%	360,000
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%	446,000
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%	283,000
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%	960,000
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%	7,475,000
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%	650,000
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%	480,000
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%	65,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

Description	Balance at June 30, 2012
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%	\$ 145,000
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%	2,460,000
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%	490,000
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%	7,565,000
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%	5,685,000
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%	700,000
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%	320,000
2005 General obligation bond for improvement of capital assets, with an original amount of \$235,000 due in installments of 4,000 to \$15,000 through January 1, 2036, with interest ranging from 4.50%	231,000
2011 Special obligation bond for acquisition of capital assets, with an original amount of \$755,000 due in installments of 5,000 to \$65,000 through July 1, 2036, with interest ranging from 6.0% to 7.50%	755,000
2012 Special obligation bond for improvement of capital assets, with an original amount of \$1,710,000 due in installments of 65,000 to \$185,000 through July 1, 2026, with interest ranging from 6.0% to 7.50%	<u>1,710,000</u>
<b>Total</b>	<b><u>\$ 39,560,213</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,216,000	\$ 1,987,274
2014	1,284,000	2,498,277
2015	1,370,000	2,418,168
2016	1,341,000	2,167,841
2017	1,407,000	2,265,058
2018-2022	8,054,213	10,064,200
2023-2027	10,208,000	7,068,662
2028-2032	9,473,000	3,580,731
2033-2037	<u>5,207,000</u>	<u>578,858</u>
<b>Total</b>	<b><u>\$ 39,560,213</u></b>	<b><u>\$ 32,629,069</u></b>

**3. Notes Payable** – The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of special events. Notes payable outstanding at June 30, 2012 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, 2012</u>
1994 Series	4-1-13	\$ 1,680,000	5.00% to 7.50%	\$ 172,500
2006 Series	7-1-12	805,000	6.25% to 7.25%	140,000
2007 Series	7-1-13	1,080,000	6.60% to 7.50%	215,000
2011 Series	7-1-18	300,000	6.00% to 7.50%	300,000
2012 Series	7-1-18	355,000	6.00% to 7.50%	355,000
Section 108 Loan	8-1-13	1,510,000	1.75% to 5.29%	277,000
Section 108 Loan	8-1-13	2,385,000	1.75% to 5.29%	<u>441,000</u>
<b>Total notes payable</b>				<b><u>\$ 1,900,500</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 955,500	\$ 65,259
2014	445,000	50,154
2015	85,000	34,312
2016	90,000	27,750
2017	100,000	20,625
2018-2022	<u>225,000</u>	<u>17,063</u>
<b>Total</b>	<b><u>\$ 1,900,500</u></b>	<b><u>\$ 215,163</u></b>

4. **Property Tax Debt** – These amounts represent the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2012, as described in Note 8, from property tax advances in excess of actual collections and other property tax debts.
  
5. **Compensated absences** – The government-wide Statement of Net Assets includes \$1,492,510 of accrued sick leave benefits, and \$1,577,767 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
  
6. **Landfill obligation** – State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has recognized \$4,055,481 as the Municipality's estimated current cost for landfill closure, and \$1,470,000 for landfill post-closure as of June 30, 2012. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

7. **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.
8. **Claims and Judgments** – These amounts represent the balance related to legal claims at June 30, 2012, as described in Note 14.

**12. 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 OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**12. PENSION PLAN (CONTINUED)**

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

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

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

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**12. PENSION PLAN (CONTINUED)**

Contribution requirements are established by law and are as follows:

<b>Municipality</b>	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>
2012	\$ 213,432	\$ 133,193
2011	\$ 231,824	\$ 127,946
2010	\$ 247,328	\$ 123,008

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, 2012, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**13. FUND BALANCE (DEFICIT)**

As of June 30 2012, 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 &amp; Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Nonspendable:</b>						
Interfund loans receivable	\$ 1,539,659	\$ -	\$ -	\$ -	\$ -	\$ 1,539,659
<b>Restricted for:</b>						
General Government	823				70,432	71,255
Culture and Recreation			11,364			11,364
Health and Welfare					322,510	322,510
Public Safety					339,895	339,895
Capital Projects			14,561,451			14,561,451
Education						
Debt Service				6,300,486		6,300,486
<b>Committed for:</b>						
General Government	1,293,969				1,209	1,295,178
Culture and Recreation					17,768	17,768
Education					15,843	15,843
Public Works					13,561	13,561
<b>Assigned for:</b>						
General Government					40,105	40,105
Culture and Recreation					7,446	7,446
Health and Welfare					4,636	4,636
Public Safety					4,521	4,521
Education						
<b>Unassigned</b>	<u>(5,829,349)</u>					<u>(5,829,349)</u>
<b>Total Fund Balance (Deficit)</b>	<u><b>\$(2,994,898)</b></u>	<u><b>\$ -</b></u>	<u><b>\$14,572,815</b></u>	<u><b>\$ 6,300,486</b></u>	<u><b>\$ 837,926</b></u>	<u><b>\$ 18,716,329</b></u>

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**14. 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.

**15. 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 \$338,594 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

**c. Other Commitments:**

At June 30, 2012, the general fund had commitments of approximately \$1,261,000 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, 2012**

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**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The GASB has issued the following statements that have effective dates after June 30, 2012:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirement of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, were amended to better meet user need and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is Effective for periods beginning 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*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements; 1) Financial Accounting Standard Board (FASB) Statements and interpretations, 2) Accounting Principles Boards Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’(AICPA) Committee on Accounting Procedures. This Statement is effective for periods beginning after December 15, 2011.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

- e. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determinations of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
  
- f. GASB Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

**Post fiscal year 2012-2013**

- a. *GASB-67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 is effective for periods beginning after June 15, 2013.*
  
- b. *GASB-68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 is effective for periods beginning after June 15, 2014.*

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

**17. PRIOR PERIOD ADJUSTMENTS**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

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

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balances (deficit), beginning	\$ 1,077,656	\$ -	\$ 17,526,756	\$ 4,025,417	\$ 361,281	\$22,991,110
Fund balance reclassification	225,692		(225,692)		298,948	298,948
To restate correct beginning balance			(20,000)			(20,000)
To reclassify prior year accounts payable to other fund			(53,649)		53,649	-
To adjust uncollectible loans to other funds	<u>(37,582)</u>	-	-	-	-	<u>(37,582)</u>
Fund balances (deficit), beginning as restated	<u>\$ 1,265,766</u>	<u>\$ -</u>	<u>\$ 17,227,415</u>	<u>\$ 4,025,417</u>	<u>\$ 713,878</u>	<u>\$23,232,476</u>

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO BASIC FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

<u>Description</u>	<u>Governmental Activities</u>
Net assets, beginning	\$ 33,710,599
To correct balance of bonds payable	(235,000)
Reclassification of fund balance	225,692
To adjust prior year accounts payable	73,256
To restate correct beginning balance	(20,000)
To adjust uncollectible loans to other funds	<u>(37,583)</u>
Net assets, beginning as restated	<u>\$ 33,716,964</u>

18. SUBSEQUENT EVENTS

On July 23, 2012, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$415,000, for the improvement and reconstruction of several facilities. Repayment of the bond is scheduled from July 2013 through July, 2022.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES AND OTHER FINANCING SOURCES:</b>				
Property taxes	\$ 2,917,802	\$ 2,917,802	\$ 3,379,041	\$ 461,239
Municipal license tax	12,220,000	12,220,000	12,407,743	187,743
Municipal sales and use tax	-	-	907,898	907,898
Licenses, permits and other local taxes	4,711,000	4,711,000	1,037,155	(3,673,845)
Charges for services	2,364,218	2,364,218	1,809,386	(554,832)
Intergovernmental	7,462,275	7,462,275	7,024,152	(438,123)
Rent of property	41,400	41,400	113,566	72,166
Fines and forfeitures	20,000	20,000	39,764	19,764
Interest	200,000	200,000	645,865	445,865
Users fees on landfill facilities	2,700,000	2,700,000	1,870,418	(829,582)
Miscellaneous	<u>300,000</u>	<u>300,000</u>	<u>1,439,274</u>	<u>1,139,274</u>
<b>Total revenues and other financing sources</b>	<u>32,936,695</u>	<u>32,936,695</u>	<u>30,674,262</u>	<u>(2,262,433)</u>
<b>Budget carryover (1)</b>	<u>-</u>	<u>1,745,000</u>	<u>1,745,000</u>	<u>-</u>
<b>Total revenues after carryover</b>	<u>32,936,695</u>	<u>34,681,695</u>	<u>32,419,262</u>	<u>(2,262,433)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	14,983,997	15,924,597	16,500,618	(576,021)
Public safety	2,365,302	2,332,535	2,127,035	205,500
Public works	4,871,709	5,518,370	4,625,000	893,370
Health and welfare	6,528,636	6,631,027	7,099,466	(468,439)
Culture and recreation	2,452,226	2,515,516	2,194,540	320,976
Education	897,553	922,378	889,974	32,404
Operating transfer to other fund	<u>837,272</u>	<u>837,272</u>	<u>837,262</u>	<u>10</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>32,936,695</u>	<u>34,681,695</u>	<u>34,273,895</u>	<u>407,800</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,854,633)</u>	<u>\$ (1,854,633)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 32,419,262
Differences-budget to USGAAP:				
Budgeted carryover				(1,745,000)
Non-Budgeted transfer in				3,960
GAAP adjustments to revenues				<u>42,510</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 30,720,732</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 34,273,895
Differences-budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP basis				1,078,927
Non-Budgeted expenditures				28,261
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(399,687)</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 34,981,396</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**YEAR ENDED JUNE 30, 2012**

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**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, 2012**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico-Department of Education: Child and Adult Care Food Program	10.558	Not Available	\$ 214,937
Summer Food Service Program	10.559	Not Available	19,480
<b>Total U.S. Department of Agriculture</b>			<b>234,417</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Section 8 Housing Choice Vouchers	14.871		295,497
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	1,448,195
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan: Housing Opportunities for Persons with AIDS	14.241	Not Available	73,260

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED):</b>			
Pass-through the Commonwealth of Puerto Rico – Department of Family			
Emergency Shelter Grant Program	14.231	Not Available	\$ 19,361
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	Not Available	112,478
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,948,791</b>
<b>U.S. DEPARTMENT OF INTERIOR:</b>			
Direct Program			
Fish and Wild Life Service	15.630		840
<b>Total U.S. Department of Interior</b>			<b>840</b>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through the Commonwealth of Puerto Rico – Department of Justice:			
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	Not Available	69,480
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	Not Available	35

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF JUSTICE (CONTINUED):</b>			
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs: Juvenile Justice and Delinquency Program	16.540	2005JPFX4027	\$ 30,384
<b>Total U.S. Department of Justice</b>			<b>99,899</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Direct Program: Federal Transit-Formula Grants	20.507		104,436
ARRA - Urbanized Area Formula	20.509		78,098
<b>Total U.S. Department of Transportation</b>			<b>182,534</b>
<b>US ENVIROMENTAL PROTECTION AGENCY Office of Solid Waste and Emergency Response</b>			
Direct Program: Brownfields Assessment and Cleanup Cooperative Recovery Act Fund	66.818		14,507
<b>Total U.S. Environmental Protection Agency</b>			<b>14,507</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF ENERGY:</b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program	81.128		\$ 42,115
<b>Total U.S. Department of Energy</b>			<b>42,115</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico- Governor's Office (Elderly Office)			
Special Programs for the Aging- Title III, Part B- Grants for Supportive Services and Seniors Centers	93.044	Not Available	1,433
Special Programs for the Aging- Title III, Part C- Nutrition Services	93.045	Not Available	42,966
Nutrition Services Incentive Program	93.053	Not Available	98,823
Pass-through the Commonwealth of Puerto Rico – Governor's Office (Elderly Office)			
CCDF Cluster:			
Community Service Block Grant	93.569	Not Available	87,323
Child Care and Development Block Grant	93.575	Not Available	708,535
<b>Total U.S. Department of Health and Human Services</b>			<b>939,080</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Homeland Security Grant	97.067	Not Available	\$ 4,680
Disaster Grants – Public Assistance	97.036	Not Available	531,689
<b>Total U.S. Department of Homeland Security</b>			<b>536,369</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,998,552</b>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2012**

**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	\$ 3,703,055	\$ 295,497	\$ 3,998,552
Non federal programs Expenditures	(83,266)	176,650	93,384
Total expenditures in the basic financial statements	<u>\$ 3,619,789</u>	<u>\$ 472,147</u>	<u>\$ 4,091,936</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Juncos, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 28, 2013, 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

Management of the **Municipality of Juncos'** is responsible for establishing and maintaining effective 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 the 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 **12-02** to be material weakness.

A *significant deficiency* is a deficiency, or a 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 **12-01** 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 **12-02**.

We noted certain other matters that we reported to management of the **Municipality of Juncos** in a separate letter dated March 28, 2013.

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.



Lopez-Vega, CPA, PSC

Certified Public Accountant / Management Advisor

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

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 28, 2013

Stamp No. 2632130 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*Lopez-Vega, CPA, PSC*

Certified Public Accountant / Management Advisor



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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 *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, 2012. 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, 2012. 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, **12-03** through **12-08**.

**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)**

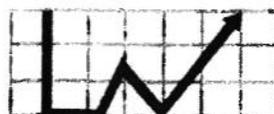
Internal Control Over Compliance

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 to determine the 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 **12-03** through **12-08**. 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.



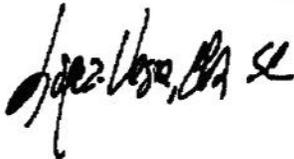
Lopez-Vega, CPA, PSC

Certified Public Accountant / Management Advisor

**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 28, 2013.

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 28, 2013

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Certified Public Accountants / Management Advisor

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2012**

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

**Financial Statements**

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

**Federal awards**

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

**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 X	No
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Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
14.228	Community Development Block Grants – State’s Program
14.871	Section 8 Housing Choice Vouchers
93.575	Child Care and Development Block Grant

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>12-01</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	<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>
<b>Criteria</b>	<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>
<b>Cause of Condition</b>	<p>The Municipality accounting data is not summarized in the form of a double-entry General Ledger record.</p>
<b>Effect of Condition</b>	<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>
<b>Recommendation</b>	<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>
<b>Questioned Costs</b>	<p>None</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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**Section II - Financial Statements Findings**

**Finding Reference**      **12-01 (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, 2013

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, 2012

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Section II - Financial Statements Findings

<b>Finding Reference</b>	<b>12-02</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2012.
<b>Criteria</b>	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Management will update the estimate of closure and post closure cost of its landfill facilities in order to include that liability in the fiscal year 2012-2013 government-wide financial statements.

Implementation Date: July, 2013

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, 2012

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Section III – Mayor Federal Award Program Finding and Questioned Cost

<b>Finding Reference</b>	<b>12-03</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Allowable Activities – Housekeepers Activities</b>
<b>Statement of Condition</b>	<p>We performed a housekeeper activities test of four (4) participant’s files and found the following exceptions:</p> <ul style="list-style-type: none"><li>a) Two (2) participant’s file did not have the application form (OCAM-AH-002) signed and dated by the participant.</li><li>b) Two (2) participant’s file did not have the Applicant Eligibility Form (OCAM-AH-003) sign and dated by the participant and the service coordinator.</li><li>c) For three (3) participant’s files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director.</li><li>d) Three (3) participant’s files did not have the participation contract (OCAM-AH-005) completed in all its parts and duly signed by the participant and the program director.</li><li>e) For four (4) participant’s files the form (OCAM-AH-006) was not completed in all parts and was not duly signed by the service coordinator.</li><li>f) For four (4) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</li></ul>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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Section III – Mayor Federal Award Program Finding and Questioned Cost

<b>Finding Reference</b>	<b>12-03 (Continued)</b>
<b>Criteria</b>	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”.
<b>Cause of Condition</b>	The Municipality’s controls and procedures failed to assure that the participant files include all the required documents to comply with the program requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.484 and with the procedures manual issued by the Office of Commissioner of Municipal Affairs (OCAM).
<b>Recommendation</b>	We recommended management to follow the procedures established in the procedures manual “Guía Operacional de Servicio de Auxiliares del Hogar”, including the use of the forms included on it.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Municipality’s controls and procedures failed to assure that the participants files include all the required documents to comply with the program requirements. The contracts are being requested to Human Resources Department. We are in negotiations with The “Asuntos al Ciudadano Office” so they could administer this program and this way will be available a Social Worker:</p> <p>a) Forms will be completed and signed in all its parts.</p> <p>b) Monitoring visits have been established and will be documented properly as stated in the procedures manual.</p> <p>c) Implementation Date: APRIL 15, 2013</p> <p>Responsible Person: Deborah Díaz López Federal Program Department Interim Director</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**Finding Reference**        **12-04**

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

**Requirement**            **Cash Management**

**Statement of Condition** 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 2011-2012, the Municipality maintained an average cash balance of \$182,320.

We also noted the following exceptions related to cash advances transfers from the Office of Commissioner of Municipal Affairs (OCAM) to the Municipality::

- a) On July 8, 2011, OCAM deposited \$137,956.05 pertaining to requisition 01-10. Those funds were not transfers to the general fund of the Municipality to liquidate a loan until July 21, 2011.
- b) On July 8, 2011, OCAM deposited \$5,703.57 pertaining to requisition 08-37. Those funds were not used until July 15, 2011.
- c) On March 8, 2012, OCAM deposited \$135,216.36 pertaining to requisition 08-19DR. Those funds were not transfers to the general fund of the Municipality to liquidate a loan until April 2, 2012.
- d) During December, 2011 the Municipality transfers \$200,000 from the SBGP bank account to the General Fund bank account corresponding to payroll reimbursements, in change the SBGP staff did not provide us adequate documentation of the transfer.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

**Finding Reference**      **12-04 (Continued)**

**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.

**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 and the Finance department the importance of the accuracy of 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 to our new Accountant
- b) Second Day: Complete payment/transfer procedures at the required time
- c) Third Day: Deliver of payments is registered

Implementation Date: May 15, 2013

Responsible Person: Deborah Díaz López  
Federal Program Department Interim Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

<b>Finding Reference</b>	<b>12-05</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	<p>During our Davis-Bacon Act test, we verified the constructions projects 10-AB-35-001, 10-FC-35-002, 08-FC-DR-35-001, 11-FC-35-001 and 09-AB-35-001. The following summarizes the situations found:</p> <ul style="list-style-type: none"><li>a. There is no evidence that the Program requested and obtained the weekly payrolls for four (4) projects.</li><li>b. No evidence of monitoring (including on-site visits) procedures is maintained by the Municipality to verify contractor’s compliance with Davis Bacon Act for five (5) projects.</li></ul>
<b>Criteria</b>	Davis-Bacon Act, as amended, DOL (40 USC 276a – 276a-7).
<b>Cause of Condition</b>	The Municipality’s internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a -276a-7).
<b>Recommendation</b>	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee, and interview contractor’s and subcontractor’s laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any, and then communicate promptly to the contractors any failure in the payroll process.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

**Finding Reference**      **12-05 (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 and placed a new DBA coordinator that will establish correct procedures.

- 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.
- d) We recruited a new DBA Coordinator to ensure the corrective actions will take effect and be established.

Implementation Date: April 15, 2013

Responsible Person: Deborah Díaz López  
Federal Program Department Interim Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-06
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Reporting
Statement of Condition	We examined the Financial Quarterly Report ended on June 30, 2012 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 was submitted after due date.
Criteria	<p>24 CFR, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions.</p> <p>24 CFR, Subtitle A, Subpart C, Section 85.41 states (a) <i>General</i> (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies. Also, Section (b) states that grantees will use Standard Form to report the status of funds for all non-construction grants and for construction grants when required in accordance with 85.41(e)(2)(iii) of this section. (3) <i>Frequency</i>. The Federal agency may prescribe the frequency of the report for each project or program.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**Finding Reference**      **12-06 (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 be 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 submitted is 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 its procedures in order to assure that all financial and programmatic reports are submitted on time to agencies.

**Questioned Costs**      None

**Management Response and Corrective Action**      The Municipality accounting controls and procedures failed to assure accurate, current and complete disclosure of the financial results of financially assisted activities. Starting January 2012, the former federal program's director decided to assume the reporting responsibilities. On February 2012 a new accountant was hired and has been trained and proceeded to establish better accounting records.

Implementation Date: Complete

Responsible Person: Mrs. Deborah Díaz López  
Federal Programs Department Interim Director

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-07
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs (OCAM)
Requirement	Procurement and Suspension and Debarment
Statement of Condition	<p>During our audit of procurement contract provisions test of five (5) contracts, we found the following:</p> <ul style="list-style-type: none"><li>a) Four (4) contracts paid with CDBG Fund, without the following federal provisions:<ul style="list-style-type: none"><li>➤ Suspension and Debarment.</li></ul></li><li>b) Two (2) contracts paid with CDBG Fund, without the following federal provisions:<ul style="list-style-type: none"><li>➤ Executive Order 11246 “Equal Employment Opportunity”;</li><li>➤ Davis Bacon Act;</li><li>➤ Sections 103 and 107 of the Contract Work Hours &amp; Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations;</li><li>➤ Granting access to GAO or other federally agency, to books, documents, etc.;</li><li>➤ Energy Policy and Conservation Act;</li><li>➤ Copeland “Antikickback”,</li><li>➤ Retention of all required records for three years.</li></ul></li></ul>
Criteria	24 CFR Subpart C, Section 85.36 (b), <i>Procurement standards</i> . (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards identified in this section.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-07 (continued)

24 CFR Subpart C Section (i) (3) Compliance with Executive Order 11246 of September 24, 1965, entitled "Equal Employment Opportunity", as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)(5)

Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2,000 awarded by grantees and subgrantees when required by Federal grant program legislation) (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327A 330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers) (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed. (12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857 (h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000). (13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94A 163, 89 Stat. 871).

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

Effect of Condition The Program is not in compliance with the Code of Federal Regulation 24, Subpart C, Sec. 85.36.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

**Finding Reference 12-07 (continued)**

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

Questioned Costs None

Management Response and Corrective Action Added Suspension Debarment to the contracts and ask The Secretary Department to make the relevant changes to the contracts.

Implementation Date: Complete

Responsible Person: Mrs. Deborah Díaz López  
Federal Programs Department Interim Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**Finding Reference**        **12-08**

**Program**                    **Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development**

**Requirement**            **Eligibility Test**

**Statement of Condition**

During our eligibility test, we examined fifteen (15) participant files and found the following missing documentation:

- a) Application Form was not available for examination in thirteen (13) participant files.
- b) Housing Assistance Payment (HAP) Contracts with private owners was not available for examination in fifteen (15) participant files.
- c) Release forms to allow the PHA obtains information from third parties were not dated in six (6) cases.
- d) Release forms to allow the PHA obtains information from third parties and the Privacy Act Notice were not signed by a family member in five (5) cases.
- e) A release form to allow the PHA obtains information from third parties was not completed in the annual reexamination in five (5) cases.
- f) Privacy Act Notice was not completed in the annual reexamination in seven (7) cases.
- g) Family photos were not actualized in two (2) cases.
- h) No income verification from third parties was obtained in the annual reexamination in one (1) case.
- i) Income verification from the Department of Unemployment was not obtained in the annual reexamination in fourteen (14) cases.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

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

**Finding Reference**      **12-08 (Continued)**

- j) Income verification from the Department of Families was not obtained in the annual reexamination in one (1) case.
- k) The Value of Assets Certification was not obtained in the annual reexamination in fifteen (15) participant files.

**Criteria**                      Code of Federal Regulations 24, Sections 5.609 established that as a condition of admission or continued occupancy, the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually, (2) the PHA must obtain and document in the tenant file third-party verification. Besides, Code of Federal Regulations 24, Sections 982.158(d) and 982.405 (b) states that the PHA must prepare a unit inspection report and conduct quality control re-inspections.

**Cause of Condition**      The Program's officers did not obtain and complete the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.

**Effect of Condition**      The Program does not meet all in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP report.

**Recommendation**        The Program should strengthen internal control procedures to monitor performance, ensure compliance with these requirements and train staff on documentation and verification process.

**Questioned Costs**        None

**Management Response and Corrective Action**      All Contracts will be requested from the Department of Secretary to be submitted immediately to the program to be on each file. The rest of the documents will be requested to the participant. Participant that does not complete their reexamination procedure will not be reassigned to the program.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

Finding Reference      **12-08 (Continued)**

Responsible Person:                      Mrs. Deborah Díaz López  
Federal Programs Department Interim Director

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-03	14.228	<p><u>We performed a housekeeper activities test of eight (8) participant's files and found the following exceptions:</u></p> <ul style="list-style-type: none"> <li>a) <u>One (1) participant's files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u></li> <li>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></li> <li>c) <u>For three (4) participant's files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director.</u></li> <li>d) <u>Three (3) participant's files did not have the participation contract (OCAM-AH-005) completed in all its parts.</u></li> <li>e) <u>One (1) participant's file did not have the application form (OCAM-AH-002) signed by the participant.</u></li> </ul> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-03.</p>
11-04	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 2010-2011, the Municipality maintained an average cash balance of \$94,539.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-04.</p>
11-05	14.228	<p><u>During our Davis-Bacon Act test, we verified the construction projects 10-AB-35-001, 10-FC-35-002, 08-ABAR-35-001 and 08-FC-35-001. The following summarizes the situations found:</u></p> <ul style="list-style-type: none"> <li>a. <u>There is no evidence that the Program requested and obtained the weekly payrolls from three (3) projects.</u></li> <li>b. <u>No evidence of monitoring (including on-site visits) procedures is</u></li> </ul>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>maintained by the Municipality to verify contractor's compliance with Davis Bacon Act for four (4) projects.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-05.</p>
11-06	14.228	<p><u>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.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-06.</p>
11-07	14.257	<p><u>We performed an allowable activities test of ten (10) participant's files and found the following exceptions:</u></p> <ul style="list-style-type: none"> <li>a) <u>Ten (10) participant's files did not include the certification of income tax for the last five years.</u></li> <li>b) <u>Ten (10) participant's files did not include the Debt Certification of the Treasury Department.</u></li> <li>c) <u>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.</u></li> <li>d) <u>In two (2) cases the Form HPRP-23 was delivered before determining the eligibility.</u></li> <li>e) <u>In one (1) case the Form HPRP-32 was not completed in all its parts.</u></li> <li>f) <u>One (1) participant file did not include the Form HPRP-24 "Solicitud para Aprobación de la Unidad".</u></li> <li>g) <u>Two (2) participants files did not include the Form HPRP-3 "Hoja de Seguimiento de Ayuda y Apoyo".</u></li> </ul>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Partial Corrective Action was taken. The Program established a checklist of documents that should be included in the participant files.
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> <p>a) <u>Four (4) participant's files did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u></p> <p>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></p> <p>c) <u>For three (3) participant's files, the approval application notice (OCAM-AH-004) was not signed by the Programs Director.</u></p> <p>d) <u>Ten (10) participant's files did not have the participation contract (OCAM-AH-005) completed in all its parts.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-03.</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 12-04.</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> <p><u>There is no evidence that the Program requested and obtained the weekly payrolls from one (1) contractor. No evidence of monitoring (including on-site visits) procedures is maintained by the Municipality to</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>verify contractor's compliance with Davis Bacon Act.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 12-05.</p>
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"> <li>a. <u>One (1) contract did not include a provision for compliance with executive order 11246 "Equal Employment Opportunity"</u></li> <li>b. <u>One (1) contract did not include a provision for compliance with Davis Bacon Act.</u></li> <li>c. <u>One (1) contract did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours &amp; Safety Standards Act.</u></li> <li>d. <u>One (1) contract did not include a provision for compliance with Energy Policy and Conservation Act.</u></li> <li>e. <u>One (1) contract did not include a provision for compliance with the Copeland "Anti-kickback".</u></li> <li>f. <u>One (1) contract did not include a provision for retention of all required records for three years.</u></li> </ul> <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 12-06.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2012**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-03	14.228	<p><u>We performed a housekeeper activities test of ten (10) participant's files and found the following exceptions:</u></p> <ul style="list-style-type: none"> <li>a) <u>One (1) participant's file did not have the Applicant Eligibility Form (OCAM-AH-003) completed in all its parts.</u></li> <li>b) <u>For ten (10) participants, the Service Coordinator did not make an adequate number of monitoring visits; as stated in the procedures manual.</u></li> <li>c) <u>For three (3) participant's files, the approval application notified (OCAM-AH-004) did not signature for the Programs Director.</u></li> <li>d) <u>For two (2) participant's files, the participation contract (OCAM-AH-005) did not have the signature of the Program Director.</u></li> </ul> <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>
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>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>
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> <ul style="list-style-type: none"> <li>a. <u>There is no evidence that the Program requested and obtained the weekly payrolls from the two (2) contractors.</u></li> <li>b. <u>No evidence of monitoring (including on-site visits) procedures</u></li> </ul>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>are maintained by the Municipality to verify contractor's compliance with Davis Bacon Act from the two (2) contractors.</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>