

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

MUNICIPIO DE ADJUNTAS
AUDITORIA 2000-01
30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2001

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MUNICIPALITY OF ADJUNTAS
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

Carlos R. Díaz Negrón

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

**Hon. Roberto Vera, Mayor
Municipality of Adjuntas
Adjuntas, Puerto Rico**

We have audited the accompanying general purpose financial statements of **Municipality of Adjuntas, Puerto Rico** (the Municipality), as of and for the year ended June 30, 2001 as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the third paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of the Municipality's accounting records related to fixed assets we were unable to form an opinion regarding the amount at which they (stated at \$9,558,690 are presented in the accompanying combined general purpose financial statements.

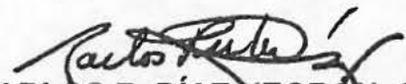
INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In our opinion, except for the effects for the adjustments, if any, as might have been determined to be necessary had we been able to obtain a sufficient evidential matter to form an opinion regarding the amount at which the fixed assets are presented in the accompanying combined general purpose financial statements the general purpose statements as referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Adjuntas as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2001, on our consideration of Municipality of Adjuntas internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements of Municipality of Adjuntas. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Municipality's management and the Office of the Commissioner of Municipal Affairs. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Municipality, is a matter of public record.


CARLOS R. DÍAZ NEGRÓN, CPA

December 20, 2001
Aguas Buenas, Puerto Rico

License No. 1339
Expire February 28, 2002



Stamp No. **1751603** was affixed
to the original report.

**MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

ASSETS

	<u>GOVERNMENT FUND TYPES</u>			<u>PROPRIETARY FUND TYPE</u>	<u>ACCOUNTS GROUPS</u>		<u>TOTAL</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>ENTERPRISE FUND</u>	<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>MEMORANDUM ONLY</u>
Cash:							
Cash	\$ 384,660	\$ 429,265		\$ 917,249			\$ 1,731,174
Cash with fiscal agent			\$626,311				626,311
Accounts receivable:							
Due from other fund	263,989	223,967					487,956
Due from governmental entity	708,723	1,213,830					1,922,553
Other		21,113					21,113
Property and equipment				2,182,649	\$9,558,690		11,741,339
Other assets:							
Amount to be provided for payment of:							
Accrued vacations						\$ 402,338	402,338
Retirement of general long-term debt						2,432,777	2,432,777
Other long-term debt						893,546	893,546
Amount available in debt service fund						138,353	138,353
Escrow accounts and other				3,009			3,009
	<u>\$1,357,372</u>	<u>\$1,888,175</u>	<u>\$626,311</u>	<u>\$3,102,907</u>	<u>\$9,558,690</u>	<u>\$3,867,014</u>	<u>\$20,400,469</u>

(continue)

**MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001**

LIABILITIES AND FUND EQUITY (DEFICIENT)

	<u>GOVERNMENT FUND TYPES</u>			<u>PROPRIETARY FUND TYPE</u>	<u>ACCOUNTS GROUPS</u>		<u>TOTAL</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>ENTERPRISE</u>	<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>MEMORANDUM ONLY</u>
Liabilities:							
Accounts payable and accrued expenses	\$ 751,319	\$ 82,467		\$ 59,575			\$ 893,361
Deferred revenue	225,116	173,005					398,121
Notes and bonds payable				1,875,876		\$2,571,130	4,447,006
Accrued vacations						402,338	402,338
Other long-term debt						893,546	893,546
Due to other funds			<u>\$487,958</u>				<u>487,958</u>
	<u>976,435</u>	<u>255,472</u>	<u>487,958</u>	<u>1,935,451</u>		<u>3,867,014</u>	<u>7,522,330</u>
Fund equity:							
Investment in general fixed assets					\$9,558,690		9,558,690
Reserved for:							
Debt service			\$138,353				138,353
By state statutes		1,632,703					1,632,703
Undesignated	380,937						380,937
Retained earnings, unreserved				<u>1,167,456</u>			<u>1,167,456</u>
	<u>380,937</u>	<u>1,632,703</u>	<u>138,353</u>	<u>1,167,456</u>	<u>9,558,690</u>		<u>12,878,139</u>
Total liabilities and fund equity	<u>\$1,357,372</u>	<u>\$1,888,175</u>	<u>\$ 626,311</u>	<u>\$3,102,907</u>	<u>\$9,558,690</u>	<u>\$3,867,014</u>	<u>\$20,400,469</u>

See notes to financial statements.

MUNICIPALITY OF ADJUNTAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY- ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENT FUND TYPES</u>			<u>TOTAL</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>MEMORANDUM ONLY</u>
Revenues:				
Taxes:				
Property taxes	\$ 730,962		\$290,314	\$ 1,021,276
Patents	279,678			279,678
Grants and contributions	4,213,290	4,896,085		9,109,375
Other income	600,029	519	27,488	628,036
	<u>5,823,959</u>	<u>4,896,604</u>	<u>317,802</u>	<u>11,038,365</u>
Expenditures:				
General government	2,594,545	700,208		3,294,753
Public work	1,245,603			1,245,603
Health, sanitation and welfare	820,238	188,643		1,008,881
Public safety	147,678	217,992		365,670
Capital outlay		2,206,431		2,206,431
Recreation and education	258,185	983,648		1,241,833
Debt service:				
Principal retirement			284,233	284,233
Interest charges			177,593	177,593
Other long term debt	495,033			495,033
	<u>5,561,282</u>	<u>4,296,922</u>	<u>461,826</u>	<u>10,320,030</u>
Excess of revenue over (under) expenditures	<u>262,677</u>	<u>599,682</u>	<u>(144,024)</u>	<u>718,335</u>
Other financial sources:				
Transfer in	516,174	300,000	291,376	1,107,550
Transfer out	(591,376)		(516,174)	(1,107,550)
Transfer to long term debt	71,351			71,351
	<u>(3,851)</u>	<u>300,000</u>	<u>(224,798)</u>	<u>71,351</u>
	<u>258,826</u>	<u>899,682</u>	<u>(368,822)</u>	<u>789,686</u>
Fund equity as of July 30, 2000:	<u>122,111</u>	<u>733,021</u>	<u>507,175</u>	<u>1,362,307</u>
Fund equity as of July 30, 2001	<u>\$ 380,937</u>	<u>\$1,632,703</u>	<u>\$138,353</u>	<u>\$2,151,993</u>

See notes to financial statement.

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND EQUITY-
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	<u>PROPRIETARY FUND TYPE</u>
	<u>ENTERPRISE</u>
Revenues:	
Rent	\$ 485,719
Financial	45,766
Other	<u>946</u>
	<u>532,431</u>
Expenses:	
Administrative	109,386
Utilities	11,951
Operating and maintenance	108,143
Taxes and insurance	35,594
Depreciation	134,239
Interests	<u>133,147</u>
	<u>532,460</u>
Change in fund equity	(29)
Fund equity at beginning of year	<u>1,167,485</u>
Fund equity at end of year	<u>\$1,167,456</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT CASH FLOWS-
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001**

	<u>PROPRIETARY FUND TYPE</u>
	<u>ENTERPRISES</u>
Cash flow from operating activities:	
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$(15,453)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	134,239
Decrease (increase in):	
Tenants security deposits	(254)
Tenants accounts receivable	1,050
Prepaid insurance	12
Increase (decrease in):	
Accounts payable	3,367
Accrued payroll	1,574
Tenant security deposits payable	207
Account payable HUD	731
	<u>140,926</u>
Net cash provided by operating activities	<u>125,473</u>

(continue)

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT CASH FLOWS-
 ALL PROPRIETARY FUND TYPES (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001**

	<u>PROPRIETARY FUND TYPE</u>
	<u>ENTERPRISES</u>
Cash flows from investing activities:	
Deposits to reserve for replacement and interest retained in account	\$ (62,886)
Withdrawals of reserve for replacement	23,478
Deposit to and interest earned and retained for insurance reserve	(21,472)
Interest earned but retained in residual receipts	(333)
Withdrawal from escrow deposit account	20,769
Purchase of fixed assets	<u>(6,178)</u>
Net cash used by investing activities	<u>(46,622)</u>
Cash flows from financing activities:	
Decrease of bank overdraft	(19,895)
Mortgage principal payments	(56,915)
Capital lease obligation	<u>(1,258)</u>
Net cash used by financing activities	<u>(78,068)</u>
Net decrease in cash	783
Cash at beginning of year	<u>250</u>
Cash at end of year	<u>\$ 1,033</u>

See notes to financial statements.

MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2001

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:						
Taxes:						
Property taxes	\$ 794,018	\$1,218,920	\$ 424,902	\$223,460	\$ 290,314	\$ 65,854
Patents	400,000	279,678	(120,322)			
- Grants and contributions	4,059,934	4,213,290	153,356			
Other income	<u>663,025</u>	<u>628,245</u>	<u>(34,780)</u>			
	<u>5,916,977</u>	<u>6,340,133</u>	<u>423,156</u>	<u>223,460</u>	<u>290,314</u>	<u>65,854</u>
Expenditures:						
General government	2,730,363	3,018,227	(287,864)			
Public works	1,534,926	1,245,603	289,323			
Health and sanitation	798,715	820,238	(21,523)			
Public safety	289,895	147,678	142,217			
Capital outlay		300,000	(300,000)			
Education and recreation	262,315	258,185	4,130			
Debt service, principal and interest payment	<u>300,763</u>	<u>291,376</u>	<u>9,387</u>	<u>223,460</u>	<u>170,450</u>	<u>53,610</u>
	<u>5,916,977</u>	<u>6,081,307</u>	<u>(164,330)</u>	<u>223,460</u>	<u>170,450</u>	<u>53,610</u>
Excess of revenue over (under expenditures)	<u>\$ - 0 -</u>	<u>\$ 258,826</u>	<u>\$ 258,826</u>	<u>\$</u>	<u>\$119,864</u>	<u>\$119,864</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting entity:

The Municipality of Adjuntas is a political and juridical corporation organized under laws of the Commonwealth of Puerto Rico.

The Municipality's operations include mostly health services, public works, public safety, recreation, community development, welfare and general administrative services.

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 criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Others manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Municipality is able to exercise oversight responsibilities.

The financial statements presented herein do not include agencies which have been formed under applicable laws or separate and distant units of government apart from the Municipality of Adjuntas.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Method of presentation:

Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Funds are ordered into two major categories: governmental and proprietary. Funds within each major categories are grouped by fund type in the combined financial statements. These funds and account group use by the Municipality are the following:

Governmental fund types

A. General Funds:

The General Funds are the general operating funds of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

B. Special Revenues Funds:

Special Revenues Funds are established to account for the proceeds of specific revenue source other than special assessments that are legally restricted to expenditures for specific purposes.

C. Debt Service Funds:

Debt Service Funds are established to accumulate resources for the payment of principal, interest and related costs of general long-term debt.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund Type

Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. Proprietary Fund equity is segregated into contributed capital and retained earnings. The following are the City's Proprietary Fund Types:

Enterprises Funds-

The Enterprises Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include Valle Verde Housing Project. (See Note 14.)

Account groups

Account groups are used to established accounting control and accountability for the Municipality's general fixed assets and general long-term debts. The following are the Municipality's account groups:

A. General Fixed Assets Account Group:

This group of accounts is established to account for all fixed assets of the Municipality. General fixed assets are recorded as expenditures in the Governmental Funds and are capitalized at cost in the General Fixed Group of Accounts. Donated general fixed assets are recorded at fair market value of the asset at the time it was donated. Depreciation is not recorded in the general fixed assets account groups.

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. General Long-term Debt Account Group:

This group of accounts is established to account for all long-term debts of the Municipality.

Budgetary control:

The major submits and the Municipal Assembly approves an annual budget for each fiscal year beginning July 1st. Appropriations in the Municipality's budget consist of the following:

General Fund Appropriations for recurrent and ordinary functions of the Municipality.

Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

Basis of accounting:

The Governmental Fund Types (General, Special and Debt Services) revenues and expenditures are recognized using the modified accrual basis. Under this method, revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as guide. Essentially, there are two types of these revenues. The first one requires that financial resources be spent in the specific projects and purposes before the revenue be recognized based on the recorded expenditures and submitted to the granting agencies for reimbursements. In the second type of intergovernmental revenues, the financial resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Basis of accounting (continued):

License, fees, permits, fines and other revenues are recognized when received.

Interest income is recorded when earned.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned. Expenses are recorded at the time liabilities are incurred.

Encumbrances:

Accounting for encumbrances, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end, if any, do not constitute expenditures or liabilities and, therefore, are presented in the financial statements as a reservation of fund balance.

Total column (memorandum only):

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The total under this column was not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

Property, plant and equipment:

General Fixed Assets Account Group:

Property, plant and equipment used in governmental fund type operations are recorded as expenditures of various governmental funds and capitalized at cost or, if donated,

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

at the estimated fair market value at time of contribution in the general fixed assets accounts group. Maintenance, repairs and minor renewals are expensed as incurred. Depreciation is not provided on general fixed assets. Certain improvements constructed, such as roads, streets, gutter, curbs, sidewalks, drainage and bridges are not capitalized.

Enterprises Fund:

Equipment and improvement are carried at cost and depreciation is provided using the straight-line method based on estimated useful lives of assets.

Uses of estimates:

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

2. CASH (RESTRICTED AND UNRESTRICTED):

A) To facilitate better management of the Municipality's resources, substantially, all cash is combined in pooled operating accounts. The amounts reflected as cash in the balance sheet represent the individuals funds' equity in pooled cash balance. Cash is deposited in interest bearing check accounts.

B) Cash with fiscal agents:

An annual special tax of .50% of the assessed value of all real and personal property is levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected and retained by the Municipal Income Collection Center (CRIM) and deposited in an account with Governmental Development Bank of Puerto Rico (GDB) as agent for the Municipality. At June 30, 2001, cash retained by the GDB amounted to \$626,311.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

2. CASH (RESTRICTED AND UNRESTRICTED) (CONTINUED):

C) Restricted deposit:

Cash in the Enterprises Fund included restricted deposits as follows:

Escrow deposit	\$ 26,997
Tenant security deposits	16,250
Reserve for replacement	867,461
Residual receipts	<u>5,508</u>
	<u>\$916,216</u>

As per Rural Economic and Community Development (RECD) and US Department of Housing and Urban Development (HUD) regulations, the Project is required to set aside amounts for the replacement of property and for other project expenditures. These reserves are restricted as to use by RECD and HUD.

Tenants' security deposits are held in a separate bank savings account in the name of the Project in compliance with RECD and HUD requirements.

Uses of residual receipts account is contingent upon RECD and HUD's prior written approval.

2. VOLUME OF BUSINESS TAX:

The volume of business tax is determined based on the gross income of all commerce and industrial organizations doing business in the Municipality of Adjuntas which are not specifically exempt by law. An annual return of business volume should be filed on April 15 of each year and payable in two equal installments due on July 1st and January 1st. The tax rates are the following:

Financing institution = 1.50%

Other organizations = .50%

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

3. VOLUME OF BUSINESS TAX (CONTINUED):

The collections in advance of patents of the next year or fiscal period are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$225,116, corresponding to the next fiscal year municipal license.

4. GRANTS AND CONTRIBUTIONS:

Grants and contributions revenue consist of concessions and subsidies received from government of Puerto Rico and contributions received from certain quasi public corporations of Government of Puerto Rico such as the Electric Power Authority, and from certain federal agencies, such as U.S. Department of Housing and Urban Development.

Concessions and subsidies received from Government of Puerto Rico include among others, a general subsidy for general operations and for the financing of capital improvements.

Contributions received are in lieu of tax payments from quasi-public corporations.

Grant and contributions revenues are recorded in the General Fund, except those related with capital improvements and those legally restricted to expenditures for specific purpose which are recorded in the Special Revenue Fund.

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

5. PROPERTY, PLANT AND EQUIPMENT:

A summary of changes in general fixed assets transactions for the year ended June 30, 2001 is as follows:

	<u>BALANCE JULY 1, 2000</u>	<u>ADDITIONS</u>	<u>DISPOSAL</u>	<u>BALANCE JUNE 30, 2001</u>
Land and building	\$6,774,268	\$509,023		\$7,283,291
Automobiles	1,123,402	213,726	\$ 81,495	1,255,633
Machinery and equipment	<u>1,161,091</u>	<u> </u>	<u>141,325</u>	<u>1,019,766</u>
	<u>\$9,058,761</u>	<u>\$722,749</u>	<u>222,820</u>	<u>\$9,558,690</u>

A summary of Enterprise Fund's property and equipment at June 30, 2001 is as follows:

Land and improvements	\$ 362,859
Building and improvements	4,077,282
Furniture and equipments	<u>217,876</u>
	4,658,017
Accumulated depreciation	<u>(2,475,368)</u>
	<u>\$2,182,649</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

6. NOTES AND BONDS PAYABLE:

Outstanding Debt:

At June 30, 2001 notes and bonds note consist of the following individual issues:

General long-term debt:

\$1,355,000 Special Fund for Loans to Governmental Entities (Lottery) due in annual installments of \$68,000 to \$80,000 through April 1, 2013 plus interest at variable rate.	\$ 899,000
\$245,000, 1988 public improvements serial bonds due in annual installments of \$10,000 to \$17,000, through January 1, 2011, plus interest at 5%.	137,000
\$595,000 public improvements serial bonds due in annual installments of \$25,000 to \$42,000, through January 1, 2011 plus interest at 5%.	333,000
\$200,000, public improvements serial bonds due in annual installments of \$7000 to \$15,000, through January 1, 2015, plus interest at 5%.	144,000
\$260,000 general obligation bond due in annual installments of \$44,000 to \$49,000 through July 1, 2003, plus interest at 4.5%.	95,000
\$465,000 public improvements bonds due in annual installments of \$25,000 to \$55,000 through July 1, 2009. Plus interest at 7.65%.	340,000
\$400,000 Special Fund for Loans to Governmental Entities note due in annual installments of \$15,000 to \$40,000 through 2015 plus interest at 8%.	345,000

(continua)

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

6. NOTES AND BONDS PAYABLE (CONTINUED):

\$481,620 lease agreement for Governmental Functions due in semi-annual installments of \$56,821 through April 1, 2004 including interest at 6.25%.

278,130

\$2,571,130

Enterprise Fund Debt:

Eight percent mortgage note payable to RECD, due in monthly installments of \$17,157 including principal and interest through 2017. Secured by land and building.

\$1,875,876

The following is a summary of general obligation transactions for year ended June 30, 2001:

	<u>GENERAL LONG-TERM DEBT</u>	<u>ENTERPRISE FUND DEBT</u>	<u>OTHER LONG-TERM DEBT</u>
Balance, July 1, 2000	\$2,855,363	\$1,932,791	\$1,317,228
Less repayments	(284,233)	(56,915)	(495,033)
Additions	<u> </u>	<u> </u>	<u>71,351</u>
Balance, June 30, 2001	<u>\$2,571,130</u>	<u>\$1,875,876</u>	<u>\$ 893,546</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

6. NOTES AND BONDS PAYABLE (CONTINUED):

The maturity of general obligations is as follows:

<u>YEAR ENDED</u> <u>JUNE 30</u>	<u>GENERAL</u> <u>LONG-TERM DEBT</u>	<u>ENTERPRISE</u> <u>FUND DEBT</u>
2002	\$ 275,550	\$ 53,759
2003	316,051	58,802
2004	288,529	64,318
2005	183,000	70,351
2006	195,000	76,950
Thereafter	<u>1,313,000</u>	<u>1,551,696</u>
	<u>\$2,571,130</u>	<u>\$1,875,876</u>

7. OTHER LONG-TERM DEBT:

Other long-term debt consists of the following:

	<u>Balance</u> <u>June 30, 2000</u>	<u>Addition</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2001</u>
Puerto Rico Department of Labor	\$ 718,888		\$293,750	\$425,138
Puerto Rico Water and Sewer Authority	233,715	\$71,351		305,066
Puerto Rico Authority of Electric Power	<u>364,625</u>	<u> </u>	<u>201,283</u>	<u>163,342</u>
	<u>\$1,317,228</u>	<u>\$71,351</u>	<u>\$495,033</u>	<u>\$893,546</u>

In June 6, 2000, the Municipality and the Commonwealth of Puerto Rico signed an agreement for the of the debt with payment of the Puerto Rico Department of Labor. The debt will be payable in an initial installment of \$134,000, thirty five monthly installments of \$17,750 and a final installment of \$17,724. The payment plan includes unemployment benefits paid up to March 31, 2000 amounting to \$673,218 plus interest.

No specific payment plan has been agreed for amount due to Puerto Rico Water and Sewer and Electric Power Authorities.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

8. PROPERTY TAXES:

The Department of the Municipal Taxes Collection Center (CRIM) is responsible for the appraisal imposition administrative and collection of all real and personal property located in the Municipality.

Property taxes are levied annually over the property assessed value at beginning of the calendar year which amounts to 5.83% of the personal property and 7.83% of the real property values. The real property appraisal is based on the property appraisal value of 1957 and the personal property in the current value at the appraisal time. The Municipality grants retailers with a volume of business of less than \$150,000 a personal property tax exception up to \$50,000 of the assessed value of the property. Also, property tax law grants, under certain circumstances, a tax exemption (exonerated) for the first \$15,000 of the assessment made to properties occupied by the owner. Nevertheless, PR Treasury Department pays the Municipality the basic tax related to those \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemptions.

In addition of the basic property tax, an additional special property tax (.50%) is levied against taxpayer. The basic property tax is used for general purposes and is accounted in the General Fund. The additional special property tax is retained by the CRIM and deposited with Governmental Development Bank (cash with fiscal agent) and is used and designated for debt services and accounted in the Debt Service Fund.

Property tax is recorded as revenue when it is collected and notified by the CRIM.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the CRIM.

9. ACCRUED VACATIONS:

Employees are entitled to 30 days vacations leave and 18 days sick-leave per year. The regular vacations can be accumulated maximum 60 days at the end of a calendar year and for sick up to 90 days. Vacations are recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick-leave upon retirement.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

10. EMPLOYEE'S RETIREMENT PLAN:

The Municipality is a member of the Puerto Rico Retirement System for State Employees which covers all eligible full-time employees. The Municipality provide to the fund 9.275% of the gross salaries of the participating employees. The participants provide 8.275% of their gross salaries or 5.77% for the first \$600 and 8.275% of the excess if selected by the participants entered in the plan before April 30, 1990. If participant entered in the plan after such date it is required to provide the 8.275% of his gross salary. Total pension expense amounted to \$141,510 for the year ended June 30, 2001.

11. CONTINGENCIES:

- A. The Municipality receives federal grants for specific purposes that are subject to review and audit by the grantor agencies or their representatives. Although, such audits could generate expenditure disallowance under terms of the grants, it is believed that any required reimbursement would not be material.
- B. As part of the requirement of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM should determine a final liquidation of funds distributed to municipalities for the fiscal year ended June 30, 2001. This distribution includes advances of property tax and income derived from other subsidies from the state government.

As of the date the financial statement was issued this liquidation has not been made. Income from property tax has been recognized based on partial advance made by CRIM.

The liquidations for the years ended June 30, 1999 and 1998 represent the amount due to CRIM of \$646,090 and \$660,077, respectively. This amounts have not been recorded in the accompanying financial statements. The Municipality has requested the write-off of such liability in the court. At present, the case is in preliminary stage and the final outcome can not be determined.

**MUNICIPALITY OF ADJUNTAS
NOTE TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

11. CONTINGENCIES (CONTINUED):

In addition, for the year ended June 30, 2000 the CRIM withheld \$660,077 applicable to the liquidation for the year ended June 30, 1998. However, since the Municipality does not recognize such debt, the amount withheld has been presented as an account receivable in the accompanying financial statements.

C. Litigation

1. The municipality has been named defendant of a lawsuit filed by 82 individuals who allege harassment and employment termination due to their political affiliation. On December 3, 2001 the jury determined in favor of 20 out of 82 plaintiff for the amount of \$6,956,400. The trails for the other 62 plaintiffs have not commenced. At present, the legal counsels are preparing the appeal of the jury's decision. The management and legal counsel will vigorously appeal the jury decision. The legal counsel has advised the management that the probability of prevailing on appeal is substantial. Accordingly no provision for possible loss has been made in the financial statements.
2. The municipality is defendant and/or co-defendant in various pending claims and lawsuits. Some of these cases are covered by the insurance policies. The Municipality's management, after consultation with legal counselors, is of the opinions that the ultimate liability if any, would not be significant to the Municipality's financial statements.

12. FUND EQUITY (RESERVES AND DESIGNATION):

Reserved for encumbrances:

This amount represents encumbrances outstanding at the end of the year based on contracts signed by the Municipality, but not completed as of the end of the fiscal year.

Designated for debt service

In accordance with legal restriction, these amounts are reserved for payments of principal and interest of general long-term debt maturing in later years. The resources for this reserve arise from the additional special contribution of property taxes.

**MUNICIPALITY OF ADJUNTAS
NOTE TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

13. BUDGETARY COMPARISONS:

As indicated in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with the generally accepted accounting principles.

The principal differences between budgetary basis and generally accepted accounting principles, are as follows:

- A. The encumbrances are recorded as expenditures in the budgetary basis instead as a reserve of the fund balance. However, encumbrances outstanding at year end, if any, are not material.
- B. Transfers in and out are recorded as revenue or expense instead as other financing sources.

The budget amounts shown in the financial statement are the final authorized amounts as revised during the year.

Adjustments necessary to reconcile the revenues and expenditures at the end of the fiscal year from generally accepted accounting principles to budgetary basis, are as follows:

	<u>GENERAL FUND</u>		<u>DEBT SERVICE FUND</u>	
	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>
General Fund:				
General accepted accounting principles basis	\$5,823,959	\$5,561,282	\$317,802	\$461,826
Transfer out/in recorded as revenue/expense on the budgetary basis	<u>516,174</u>	<u>520,025</u>	<u>(27,488)</u>	<u>(291,376)</u>
Budgetary basis	<u>\$6,340,133</u>	<u>\$6,081,307</u>	<u>\$290,314</u>	<u>\$120,450</u>

**MUNICIPALITY OF ADJUNTAS
NOTE TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

14. ENTERPRISE FUNDS:

The Enterprise Fund includes the operation of Valle Verde Housing Project (Project).

The Project is a Housing Development Project consisting of ninety-six (96) housing dwelling units located in Adjuntas, Puerto Rico. The Project was designed to assist families with low and moderate income in obtaining adequate and reasonable priced rental housing.

The Project operates under financing from Rural Economic and Community Development (RECD), Section 515 (Rural Rental Housing) of the National Housing Act. Rent charges and operating methods are regulated by RECD and the U.S. Department of Housing and Urban Development (HUD).

The U. S. Department of Housing and Urban Development (HUD) has contracted with the Project, under Section 8 of the Title II of the Housing and Community Development Act of 1974, to make housing assistance payments to the Project on behalf of qualified tenants. The term of the agreement is for five years, which commenced in 1985, with seven renewal options of five years each. In addition, for a 60-day period, the Project receives a partial assistance payment of vacant units. A significant portion of the Project's unit income is recurred from HUD. The Project entered into a Regulatory agreement with HUD providing that rent increases are subject to HUD's approval.

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban Development</u>		
Passed through		
Municipal Service Administration:		
State Block Grant	14.216	\$ 275,215
Housing Assistance Payments:		
Program for low income families (Section 8)	14.145	<u>188,670</u>
Total HUD		<u>463,885</u>
<u>US Department of Health and Human Services</u>		
Administration for Children, Youth and Families, Head Start	13.600	<u>935,193</u>
<u>US Department of Justice</u>		
Direct program:		
Public Safety and Community Oriented Policing Service Corps	16.570	160,852
Edward Byne Memorial Program	16.580	<u>49,627</u>
		<u>210,479</u>
<u>US Department of Commerce</u>		
Economic Development Act	11.300	<u>536,421</u>
<u>US Department of Transportation</u>		
Non-Urbanized Formula Program	20.509	<u>93,299</u>
<u>US Department of Agriculture</u>		
Child and Adult Care Food Program	10.558	<u>39,424</u>
<u>Federal Emergency Management Agency</u>		
Direct Program:		
Disaster assistance	83.516	<u>1,054,333</u>
		<u>\$3,333,034</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

The accompanying Schedule of Federal Financial Assistance includes the federal grant activity of Municipality of Adjuntas and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-128, Audit of States and Local Governments. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The Valle Verde Housing Project, included as an enterprises fund, has a separate Single Audit. Therefore federal awards expended by the Project has not been included in the accompanying schedule of expenditures of federal awards.

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

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARD**

**Honorable Mayor and Members
of the Municipal Assembly
Municipality of Adjuntas
Adjuntas, Puerto Rico**

We have audited the general purpose financial statements of **Municipality of Adjuntas Puerto Rico**, as of and for the year ended June 30, 2001 and have issued our report there on dated December 20, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Adjuntas general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of 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 test disclosed instances of noncompliance that are required to be reported under Government Auditing Standard which are described in the accompanying schedule of findings and questioned costs as items Section II - Financial Statements Findings.

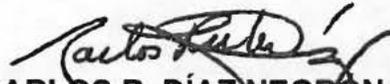
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Adjuntas internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Adjuntas ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable as items Section II - Financial Statements Items.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider item Section II - 2 property, plant and equipment to be a material weakness.

This report is intended for the information of the management of Municipality of Adjuntas and Adjuntas Municipal Assembly. However, this report is a matter of public record and its distribution is not limited.


CARLOS R. DÍAZ NEGRÓN CPA

December 20, 2001
Aguas Buenas, Puerto Rico

Licence No. 1339
Expires February 28, 2002



Stamp No. **1751604** was affixed
to the original of this report.

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

**REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Honorable Mayor and Members
of the Municipal Assembly
Municipality of Adjuntas
Adjuntas, Puerto Rico**

Compliance

We have audited the compliance of Municipality of Adjuntas, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Municipality of Adjuntas, Puerto Rico major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Adjuntas, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Adjuntas, Puerto Rico's compliance based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; 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 State and 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 non-compliance 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 Municipality of Adjuntas, Puerto Rico compliance with those requirements and performing such other procedures as we considered necessary in the circumstance. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Adjuntas, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

In our opinion, Municipality of Adjuntas, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Municipality of Adjuntas, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Adjuntas, Puerto Rico's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

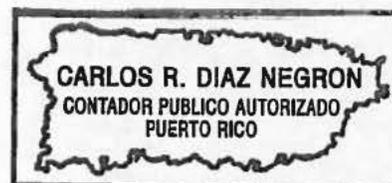
This report is intended for the information of management, Municipal Assembly and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.


CARLOS R. DÍAZ NEGRÓN CPA

December 20, 2001
Aguas Buenas, Puerto Rico

License No. 1339
Expires February 28, 2002

Stamp No. **1751605** was
affixed to the original
of this report.



MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

**MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION I. - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes Xno
- Reportable condition(s) identified that are not considered to be material weaknesses? Xyes ___no

Noncompliance material to financial statement noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes Xno
- Report condition(s) identified that are not considered to be material weakness(es) ___yes Xno

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 section 510(a) of Circular A-133? ___yes Xno

Identification of major programs:

<u>CFA Number(s)</u>	<u>Name of Federal Program Cluster</u>
11.300	Disaster Assistance
11.300	Economic Development Act
20.509	Non-Urbanized Formula Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Audit qualified as low-risk audited? ___yes Xno

**MUNICIPALITY OF ADJUNTAS
FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION II. - FINANCIAL STATEMENT FINDINGS

1. VACATIONS:

The Municipality should adopt the following procedures in connection with the accrued vacations:

A. The records to control the accrued vacations should contain, as minimum, the following information:

- Employee name
- Department
- Social Security number
- Balance of accrued vacation at the beginning of fiscal year.
- Current year accrued vacations
- Vacations used during the year
- Balance of accrued vacations at the end of fiscal year.
- These records should be updated each month, based on the punch cards or assistance records.
- The cards of records should be audited periodically by the Finance Department in order to determine the accuracy of the balances.
- The Personnel Department should provide each month to the Finance Department the following information:
 - Accrued Vacations at the beginning of the month.
 - Accrued vacations during the month.
 - Vacations used during the month.
- The accrued vacations should be recorded in the General Long-term Debt Account Group.
 - Accrued vacations at the end of month.

B. The accrued vacations have not been accounted in the Municipality's book and have only been valued for audit purposes. The Municipality just keep the accrued vacations days and hours.

**MUNICIPALITY OF ADJUNTAS
FINDINGS AND RECOMMENDATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION II. - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. PROPERTY, PLANT AND EQUIPMENT:

Condition:

During our examination of the Municipality's property records we noted the following:

- A. No system has been established to gather all capitalizable cost of construction in progress.
- B. Separate accounting controls have not been formally established in the accounting system for property owned or donated.
- C. Property ledgers are not reliable since the information included is not updated or complete.
- D. Not all property is identified by prenumbered labels to indicate the Municipality's ownership.
- E. The property register detailed by dependency is not reliable due to interoffice property transfers performed which are not timely notified to property in charge personnel or not posted.

Failure to comply may lead to erroneous presentation of the Municipality's, loss, misuse, to be stolen, unauthorized changes or disposition of property.

Generally Accepted Accounting Principles and the Law of the Autonomous Municipalities of the Commonwealth of Puerto Rico required that the Municipalities maintain an adequate records of fixed assets.

**MUNICIPALITY OF ADJUNTAS
FINDINGS AND RECOMMENDATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION II. - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED):

Recommendation:

In order to improve the internal control on property, the following procedures should be implemented.

- A. Established a system to gather all capitalizable cost of construction.
- B. To property record the additions to the property account.
- C. To develop a perpetual inventory system and at least an annual count.
- D. To develop the property manual and to assure that all deficiencies are included and considered in such manual.
- E. The importance of the due care in performing any task.

**MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

None

MUNICIPALITY OF ADJUNTAS
STATUS OF PRIOR YEAR AUDIT FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

**MUNICIPALITY OF ADJUNTAS
STATUS OF PRIOR YEAR'S AUDIT
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

The Municipality of Adjuntas, Puerto Rico has been subjected to various audits and program monitoring compliance over the past year. Repeat findings from the audit report for the year ended June 30, 2001, are included as current year findings for the current year audit report. Therefore, findings included in the audit report for the year ended June 30, 2001, encompass unresolved findings mentioned in the audit for the fiscal year ended June 30, 2000. No cost were questioned on prior audit.

Tels. 829-3310
829-5000

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Adjuntas
Adjuntas, Puerto Rico 00601.

Apartado 1009

December 20, 2001

CPA Carlos R. Díaz Negrón
Certified Public Accountant
P.O. Box 408
Aguas Buenas, Puerto Rico

Dear Mr. Díaz Negrón:

Enclosed are our comments to the finding included in the Single Audit for the period ended at June 30, 2001.

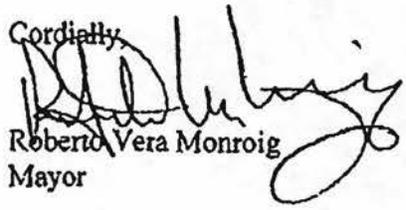
1. Vacations

The Municipality keeps a manual record of the accrued vacations and sick leave benefits for the employees. We are in process to establish an electronic punch card system to calculate the assistance, vacations and sick leave benefits for the municipal employees.

2. Property, Plant and Equipment

We have taken, on an annually basis, a physically inventory of the property plant and equipment pertained to the Municipality. This information was entered into the computerized accounting system.

Cordially,


Roberto Vera Monroig
Mayor

Adjuntas... "Ciudad del Gigante Dormido"