

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

MUNICIPIO DE ADJUNTAS
AUDITORIA 2001-2002
30 DE JUNIO DE 2002

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF ADJUNTAS

SINGLE AUDIT REPORTING PACKAGE

FOR THE YEAR ENDED JUNE 30, 2002

MUNICIPALITY OF ADJUNTAS

SINGLE AUDIT REPORTING PACKAGE

FOR THE YEAR ENDED JUNE 30, 2002

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MUNICIPALITY OF ADJUNTAS
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

Carlos R. Díaz Negrón

Certified Public Accountant

P.O. BOX 408 - RAFAEL LASA NO. 44, AGUAS BUENAS, PUERTO RICO 00703 -TEL.732-8020 - FAX 732-0685

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, 2002 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 \$9,802,920) 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, 2002, and the results of its operations for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

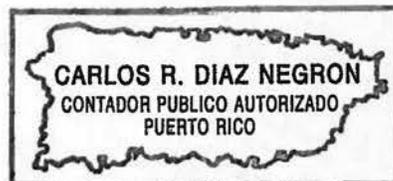
In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2002, on our consideration of Municipality of Adjuntas internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

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.

Carlos R. Diaz Negrón, CPA

December 18, 2002
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2004



Stamp No. **1835601** was affixed
to the original of this report.

MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

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	\$1,445,856	\$1,053,670		\$ 3,198			\$ 2,502,724
Restricted cash				792,399			792,399
Cash with fiscal agent			\$224,084				224,084
Accounts receivable:							
Due from other fund		70,864					70,864
Due from governmental entity	42,647	1,713,994					1,756,641
Other		5,446					5,446
Property and equipment				2,165,698	\$9,802,920		11,968,618
Other assets:							
Amount to be provided for payment of:							
Accrued vacations						\$ 443,659	443,659
Retirement of general long-term debt						2,061,501	2,061,501
Other long-term debt						738,560	738,560
Amount available in debt service fund						224,084	224,084
Escrow accounts and other				8,136			8,136
	<u>\$1,488,503</u>	<u>\$2,843,974</u>	<u>\$224,084</u>	<u>\$2,969,431</u>	<u>\$9,802,920</u>	<u>\$3,467,804</u>	<u>\$20,796,716</u>

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MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2002

LIABILITIES AND FUND EQUITY

	<u>GOVERNMENT FUND TYPES</u>			<u>PROPRIETARY</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	\$ 702,974	\$ 103,603		\$ 41,562			\$ 848,139
Deferred revenue	186,961	162,558					349,519
Due to other funds	70,854						70,854
Notes and bonds payable				1,821,389		\$2,285,585	4,106,974
Accrued vacations						443,659	443,659
Other long-term debt						738,560	738,560
	<u>960,789</u>	<u>266,161</u>		<u>1,862,951</u>		<u>3,467,804</u>	<u>6,557,705</u>
Fund equity:							
Investment in general fixed assets					\$9,802,920		9,802,920
Reserved for:							
Debt service			\$224,084				224,084
By state statutes		2,577,813					2,577,813
Undesignated	527,714						527,714
Retained earnings, unreserved				1,106,480			1,106,480
	<u>527,714</u>	<u>2,577,813</u>	<u>224,084</u>	<u>1,106,480</u>	<u>9,802,920</u>		<u>14,239,011</u>
Total liabilities and fund equity	<u>\$1,488,503</u>	<u>\$2,843,974</u>	<u>\$ 224,084</u>	<u>\$2,969,431</u>	<u>\$9,802,920</u>	<u>\$3,467,804</u>	<u>\$20,796,716</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, 2002

	GOVERNMENT FUND TYPES			TOTAL
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	MEMORANDUM ONLY
Revenues:				
Taxes:				
Property taxes	\$ 785,356		\$258,419	\$ 1,043,775
Patents	377,423			377,423
Grants and contributions	4,255,753	\$4,806,229		9,061,982
Other income	468,107	237	6,348	474,692
	5,886,639	4,806,466	264,767	10,957,872
Expenditures:				
General government	2,472,073	856,321		3,328,394
Public work	1,321,393			1,321,393
Health, sanitation and welfare	884,909	352,597		1,237,506
Public safety	333,331	64,438		397,769
Capital outlay		1,877,692		1,877,692
Recreation and education	247,145	787,318		1,034,463
Debt service:				
Principal retirement			285,545	285,545
Interest charges			142,506	142,506
Other long term debt	235,250			235,250
	5,494,101	3,938,366	428,051	9,860,518
Excess of revenue over (under) expenditures	392,538	868,100	(163,284)	1,097,354
Other financial sources:				
Transfer in	9,630	77,010	258,645	345,285
Transfer out	(335,655)		(9,630)	(345,285)
Transfer to long term debt	80,264			80,264
	(245,761)	77,010	249,015	80,264
	146,777	945,110	85,731	1,177,618
Fund equity as of July 30, 2001	380,937	1,632,703	138,353	2,151,993
Fund equity as of July 30, 2002	\$ 527,714	\$2,577,813	\$224,084	\$ 3,329,611

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, 2002

	<u>PROPRIETARY</u> <u>FUND TYPE</u>
	<u>ENTERPRISE</u>
Revenues:	
Rent	\$ 484,984
Financial	15,760
Other	<u>8,440</u>
	<u>509,184</u>
Expenses:	
Administrative	119,580
Utilities	11,018
Operating and maintenance	116,153
Taxes and insurance	34,146
Depreciation	136,710
Interests	<u>152,553</u>
	<u>570,160</u>
Change in fund equity	(60,976)
Fund equity at beginning of year	<u>1,167,456</u>
Fund equity at end of year	<u>\$1,106,480</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT OF CASH FLOWS-
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002**

**PROPRIETARY FUND TYPE
 ENTERPRISES**

Cash flow from operating activities:

Reconciliation of change in net assets to	
net cash provided by operating activities:	
Change in net assets	\$(60,976)
Adjustment to reconcile change in net assets	
to net cash provided by operating activities:	
Depreciation	136,710
Increase in escrow accounts and others	(3,855)
Decrease in accounts payable and accrued	
expenses	<u>(17,045)</u>
	<u>115,810</u>
Net cash provided by operating activities	<u>54,834</u>

Cash flows from investing activities:

Deposits to reserve for replacement and	
interest retained in account	(37,510)
Withdrawals of reserve for replacement	152,873
Deposit to and interest earned and retained	
for insurance reserve	(21,357)
Interest earned but retained in residual receipts	(189)
Withdrawal from escrow deposit account	28,728
Purchase of fixed assets	<u>(119,759)</u>

Net cash used by investing activities

2,786

Cash flows from financing activities:

Mortgage principal payments	(54,487)
Capital lease obligation	<u>(968)</u>

Net cash used by financing activities

(55,455)

Net decrease in cash

2,165

Cash at beginning of year

1,033

Cash at end of year

\$ 3,198

See notes to financial statements.

MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002

	<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	\$ 785,356	\$ 785,356	\$	\$223,460	\$ 255,137	\$ 31,677
Patents	350,000	377,423	27,423			
Grants and contributions	4,242,701	4,255,753	13,052			
Other income	<u>731,970</u>	<u>477,737</u>	<u>(254,233)</u>			
	<u>6,110,027</u>	<u>5,896,269</u>	<u>(213,758)</u>	<u>223,460</u>	<u>255,137</u>	<u>31,677</u>
Expenditures:						
General government	2,767,522	2,391,809	375,713			
Public works	1,338,515	1,348,952	(10,437)			
Health and sanitation and welfare	888,624	909,361	(20,737)			
Public safety	373,468	333,331	40,137			
Education and recreation	246,591	272,144	(25,553)			
Debt service, principal and interest payment	<u>495,307</u>	<u>493,895</u>	<u>1,412</u>	<u>223,460</u>	<u>169,406</u>	<u>54,054</u>
	<u>6,110,027</u>	<u>5,749,492</u>	<u>360,535</u>	<u>223,460</u>	<u>169,406</u>	<u>54,054</u>
Excess of revenue over (under expenditures)	<u>\$ - 0 -</u>	<u>\$ 146,777</u>	<u>\$ 146,777</u>	<u>\$</u>	<u>\$ 85,731</u>	<u>\$ 85,731</u>

See notes to financial statements.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

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, 2002

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 category 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, 2002

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 activity 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 establish 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, 2002

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, 2002

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, at the estimated fair market value at time of contribution in the general fixed assets accounts group. Maintenance, repairs and minor renewals are expended 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.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 individual 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, 2002, cash retained by the GDB amounted to \$224,084.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

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

C) Restricted deposit:

Cash in the Enterprises Fund included restricted deposits as follows:

Escrow deposit	\$ 19,626
Tenant security deposits	14,978
Reserve for replacement	752,098
Residual receipts	<u>5,697</u>
	<u>\$792,399</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.

Tenant 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, 2002

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 \$186,961, 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.

4. PROPERTY, PLANT AND EQUIPMENT:

A summary of changes in general fixed assets transactions for the year ended June 30, 2002 is as follows:

	<u>BALANCE</u> <u>JULY 1, 2001</u>	<u>ADDITIONS</u>	<u>DISPOSAL</u>	<u>BALANCE</u> <u>JUNE 30, 2002</u>
Land and building	\$7,283,291			\$7,283,291
Automobiles	1,255,633	\$160,107		1,415,740
Machinery and equipment	<u>1,019,766</u>	<u>404,764</u>	<u>320,641</u>	<u>1,103,889</u>
	<u>\$9,558,690</u>	<u>\$564,871</u>	<u>\$320,641</u>	<u>\$9,802,920</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

5. NOTES AND BONDS PAYABLE (CONTINUED):

\$260,000 general obligation bond due in annual installments of \$44,000 to \$49,000 through July 1, 2003, plus interest at 4.5%.	\$ 49,000
\$465,000 public improvements bonds due in annual installments of \$25,000 to \$55,000 through July 1, 2009. Plus interest at 7.65%.	315,000
\$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%.	330,000
\$481,620 lease agreement for Governmental Functions due in semi-annual installments of \$56,821 through April 1, 2004 including interest at 6.25%.	<u>190,585</u>
	<u>\$2,285,585</u>

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.	<u>\$1,821,389</u>
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MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

6. NOTES AND BONDS PAYABLE (CONTINUED):

The following is a summary of general obligation transactions for year ended June 30, 2002:

	<u>GENERAL LONG-TERM DEBT</u>	<u>ENTERPRISE FUND DEBT</u>	<u>OTHER LONG-TERM DEBT</u>
Balance, July 1, 2001	\$2,571,130	\$1,875,876	\$893,546
Less repayments	(285,545)	(54,487)	(235,250)
Additions			<u>80,264</u>
Balance, June 30, 2002	<u>\$2,285,585</u>	<u>\$1,821,389</u>	<u>\$738,560</u>

The maturity of general obligations is as follows:

<u>YEAR ENDED JUNE 30</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>ENTERPRISE FUND DEBT</u>
2003	\$ 312,646	\$ 50,306
2004	256,939	64,318
2005	178,000	70,351
2006	185,000	76,950
2007	193,000	84,169
Thereafter	<u>1,160,000</u>	<u>1,475,295</u>
	<u>\$2,285,585</u>	<u>\$1,821,389</u>

7. OTHER LONG-TERM DEBT:

Other long-term debt consists of the following:

	<u>Balance June 30, 2001</u>	<u>Addition</u>	<u>Payments</u>	<u>Balance June 30, 2002</u>
Puerto Rico Department of Labor	\$425,138		\$195,250	\$229,888
Puerto Rico Water and Sewer Authority	305,066	\$74,126	40,000	339,192
Puerto Rico Authority of Electric Power	<u>163,342</u>	<u>6,138</u>	_____	<u>169,480</u>
	<u>\$893,546</u>	<u>\$80,264</u>	<u>\$235,250</u>	<u>\$738,560</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

7. OTHER LONG-TERM DEBT (CONTINUED):

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.

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 that \$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.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

8. PROPERTY TAXES (CONTINUED):

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 expenditure in the year paid. Employees are entitled to payment of unused sick-leave upon retirement.

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 provides 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 \$155,945 for the year ended June 30, 2002.

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, 2002. This distribution includes advances of property tax and income derived from other subsidies from the state government.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

11. CONTINGENCIES (CONTINUED):

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, 2000 and 1998 presented on amount due to CRIM of \$646,090 and \$660,077, respectively. These 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.

C. Litigation

1. The municipality has been named defendant of a lawsuit filed by 88 individuals who allege political harassment and discrimination. On December 3, 2001 the jury determined in favor of 20 out of 88 plaintiffs for the amount of \$6,956,400. The trails for the other 68 plaintiffs have not commenced. The Municipality appealed the jury's 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
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

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	\$5,886,639	\$5,494,100	\$264,767	\$428,051
Transfer out/in recorded as revenue/expense on the budgetary basis	<u>9,630</u>	<u>255,391</u>	<u>(9,630)</u>	<u>(258,645)</u>
Budgetary basis	<u><u>\$5,896,269</u></u>	<u><u>\$5,749,491</u></u>	<u><u>\$255,137</u></u>	<u><u>\$169,406</u></u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

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.

15. NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending June 30, 2004. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.218	\$ 708,640
Direct Program:		
Rent Supplements Rental Housing for Lower Income Families (Section 8)	14.149	<u>190,428</u>
		<u>899,068</u>
<u>US Department of Health and Human Services</u>		
Direct Program:		
Administration for Children, Youth and Families, Head Start	93.600	709,291
Passed through:		
Puerto Rico Family Department Child Care and Development Block Grant	93.575	<u>73,216</u>
		<u>782,507</u>
<u>US Department of Justice</u>		
Direct program:		
Police Corps	16.712	12,885
Edward Byne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	<u>52,309</u>
		<u>65,194</u>
<u>US Department of Commerce</u>		
Direct Program:		
Grant for Public Works and Economic Development	11.300	<u>164,632</u>
<u>US Department of Agriculture</u>		
Direct Program:		
Child and Adult Care Food Program	10.558	<u>81,406</u>
<u>Federal Emergency Management Agency</u>		
Direct Program:		
Public Assistance Grant	83.544	<u>279,348</u>
		<u>\$2,272,155</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

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 have 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, 2002 and have issued our report there on dated December 18, 2002, which was qualified because of the inadequacy of the Municipality's accounting record related to fixed assets. 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.

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.

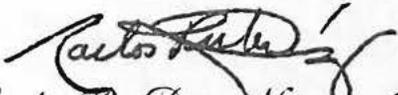
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

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 conditions are described in the accompanying schedule of findings and questioned costs as items Section II - Financial Statements Items.

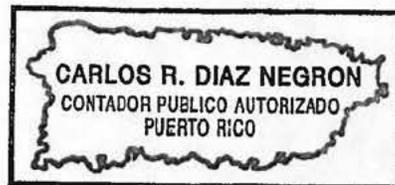
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period 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 solely for the information and use of the management and Municipal Assembly of Municipality of Adjuntas, federal awarding agencies and passed through-entities and is not intended to be and should not be used by anyone other than these specified parties.


Carlos R. Diaz Negron, CPA

December 18, 2002
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2004



Stamp No. 1835602 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, 2002. 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 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 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's 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
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, 2002. 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.

Municipality of Adjuntas general-purpose financial statements include the operations of the Valle Verde Housing Project which received \$2,270,582 in federal awards which is not included in schedule during the year ended June 30, 2002. Our audit, described below, did not include the operations of Valle Verde Housing Project because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 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's 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):

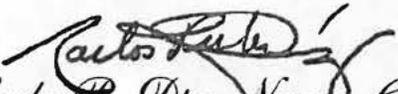
In our opinion, Municipality of Adjuntas, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2002.

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 solely for the information and use of the management and Municipal Assembly of the Municipality of Adjuntas, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Carlos R. Diaz Negrón, CPA

December 18, 2002
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2004

Stamp No. 1835603 was affixed
to the original of this report.



MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

**MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

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 X no
- Reportable condition(s) identified that are not considered to be material weaknesses? X yes __no

Noncompliance material to financial statement noted? __yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? __yes X no
- Report condition(s) identified that are not considered to be material weakness(es) __yes X no

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 X no

Identification of major programs:

CFA Number(s)

Name of Federal Program Cluster

14.218

Community Development Block Grant

93.600

Head Start

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

Audit qualified as low-risk audited? __yes X no

MUNICIPALITY OF ADJUNTAS
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2002

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 keeps the accrued vacations days and hours.

MUNICIPALITY OF ADJUNTAS
FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

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. 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 adequate records of fixed assets.

**MUNICIPALITY OF ADJUNTAS
FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

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, 2002

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, 2002

**MUNICIPALITY OF ADJUNTAS
STATUS OF PRIOR YEARS AUDIT
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

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, 2002, encompass unresolved findings mentioned in the audit for the fiscal year ended June 30, 2001. No cost was questioned on prior audit.

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Adjuntas
Oficina del Alcalde
Adjuntas, Puerto Rico 00601

Roberto Vera Monroig
Alcalde

Tel. (787) 829-3310
(787) 829-2590

EXHIBIT 1

December 20, 2002

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, 2002.

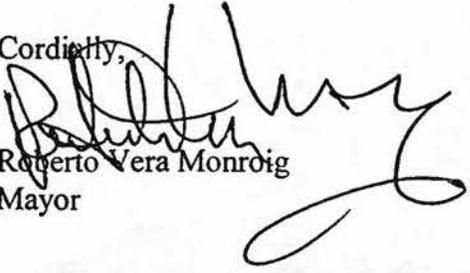
1. Vacations

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

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission
Month 06 / Day 30 / Year 2002
2. Type of Circular A-133 audit
1 [X] Single audit 2 [] Program-specific audit

3. Audit period covered
1 [X] Annual 2 [] Biennial 3 [] Other - Months
4. Date received by Federal clearinghouse
FEDERAL GOVERNMENT USE ONLY

5. Employer Identification Number (EIN)
a. Auditee EIN 660433570
b. Are multiple EINs covered in this report? 1 [] Yes 2 [X] No
If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)

6. AUDITEE INFORMATION
a. Auditee name MUNICIPALITY OF AGUADILLA
b. Auditee address (Number and street) PO BOX 1008
City AGUADILLA
State PR ZIP + 4 Code 00605-1008
c. Auditee contact Name CARLOS MENDEZ MARTINEZ
Title MAYOR
d. Auditee contact telephone (787) 891 - 1005
e. Auditee contact FAX (Optional) (787) 882 - 2250
f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)
a. Auditor name CPA DIAZ-MARTINEZ, PSC
b. Auditor address (Number and street) PO BOX 8369
City CAGUAS
State PR ZIP + 4 Code 00726-8369
c. Auditor contact Name JOSE E. DIAZ-MARTINEZ
Title PRESIDENT
d. Auditor contact telephone (787) 746 - 0510
e. Auditor contact FAX (Optional) (787) 746 - 0525
f. Auditor contact E-mail (Optional) CPADIAZMARTINEZ@HOTMAIL.COM

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official

Date Month Day Year

Printed Name/Title of certifying official

Signature of auditor

Date Month Day Year

CPA DIAZ-MARTINEZ, PSC 12/16/02

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
 1 Yes - **Identify Cognizant Agency in Part I, Item 9** 2 No - **SKIP to Part II, Item 1**
9. Indicate which **Federal** awarding agency provided the predominant amount of direct funding in **fiscal year 2000**. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.
- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No
3. Is a reportable condition disclosed? 1 Yes 2 No - **SKIP to Item 5**
4. Is any reportable condition reported as a material weakness? 1 Yes 2 No
5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No
3. What is the dollar threshold to distinguish Type A and Type B programs? (\$ __ .520(b)) **\$ 316,463**
4. Did the auditee qualify as a low-risk auditee? (\$ __ .530) 1 Yes 2 No
5. Is a reportable condition disclosed for any major program? (\$ __ .510(a)(1)) 1 Yes 2 No - **SKIP to Item 7**
6. Is any reportable condition reported as a material weakness? (\$ __ .510(a)(1)) 1 Yes 2 No
7. Are any known questioned costs reported? (\$ __ .510(a)(3) or (4)) 1 Yes 2 No
8. Was a Summary Schedule of Prior Audit Findings prepared? (\$ __ .315(b)) 1 Yes 2 No

9. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)
- | | | | |
|--|---|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input checked="" type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 523,000 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
1	4 .218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	\$ 2,675,841 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .221	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	URBAN DEVELOPMENT ACTION GRANT	\$ 34,334 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .231	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EMERGENCY SHELTER GRANT PROGRAM	\$ 48,196 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	4 .239	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME INVESTMENT PARTNERSHIP PROGRAM	\$ 474,628 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 945,633 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6 .595	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WEED AND SEED	\$ 8,879 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 96,622 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
1	6 .710	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS-UNIVERSAL HIRING G	\$ 50,414 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8	3 .544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 71,089 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A

TOTAL FEDERAL AWARDS EXPENDED →

\$ 10,548,776 .00

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § __ .510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act
- E. Eligibility

- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income

- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

- O. None
- P. Other

⁴ N/A for NONE

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS - Continued (Page 3 - #2 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)			Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²								
9	3	.044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 145,047 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3	.045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART C	\$ 117,256 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3	.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 5,348,975 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	N	02-III-01
9	4	.006	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MARTIN LUTHER KING DAYS OF SCIENCES	\$ 3,245 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	4	.013	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	VISTA PROJECT SUPPORT	\$ 5,617 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →					\$ 10,548,776 .00	<i>IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS</i>			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- | | | | |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management | K. Real property acquisition and relocation assistance | O. None |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking | L. Reporting | P. Other |
| C. Cash management | H. Period of availability of Federal funds | M. Subrecipient monitoring | |
| D. Davis - Bacon Act | I. Procurement and suspension and debarment | N. Special tests and provisions | |
| E. Eligibility | J. Program income | | |

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

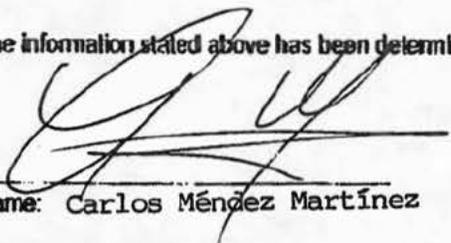
IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF THE YEAR ENDED JUNE 30, 2002

FINDING NUMBER	RESPONSIBLE INDIVIDUAL	MANAGEMENT VIEWS	CORRECTIVE ACTION PLAN	ANTICIPATED COMPLETION DATE
02-111-01	Head Start Program	The Head Start Program did not obtain for various Centers, the required licenses issued by the Puerto Rico Fire Department and the Administration of Families and children.	Enclosed copies of letters to Health and Human Services Department requiring the licenses of these Head Start Centers. In records of these centers, exist evidence that annually, the same licenses are renew though with the goverment process	

The information stated above has been determined to be accurate based upon information available as of _____



Name: Carlos Méndez Martínez

Position: Mayor

Date: _____

RECIBIDO
 UNIDAD DE CORREO
 02 DEC 27 PM 3:09
 OFIC. DEL COMISIONADO
 CASAS/105, MUNICIPALIDAD



ESTADO LIBRE ASOCIADO DE PUERTO RICO
MUNICIPIO DE AGUADILLA
PROYECTO HEAD START - AGUADILLA

Edificio 503 - Ramey - Apartado 250122
Aguadilla, Puerto Rico 00604-0122

Teléfonos:
890-8257 / 5214 Recepcionista
890-5296 Tel./Fax
890-8330 890-5375

2 de diciembre de 2002

Sra. Evelyn Moya
Supervisora
Cuerpo de Bomberos
Apartado # 396
Aguadilla, P.R. 00605

Estimada Sra. Moya:

Solicito su acostumbrada cooperación en las visitas de inspección a los centros de nuestro proyecto para la renovación de las licencias.

AGUADA

FECHA DE VENCIMIENTO

Atalaya	5 febrero 2002
Cerro Gordo	2 mayo 2002
Espinal	2 mayo 2002
Guaniquilla	26 abril 2002
Lagunas	21 mayo 2002
Moropó	17 enero 2002
Tablonal	2 mayo 2002
Villarubia	2 mayo 2002

AGUADILLA

A. Stahl I	26 abril 2002
A. Stahl II	26 abril 2002
Aponte	23 oct. 2002
Cabán II	10 marzo 2001
Caimital	14 marzo 2001
Esteves I-II	6 marzo 2002
José de Diego	26 enero 2002
Joya II	28 oct. 2002
Joya III	8 marzo 2001
Joya IV	19 marzo 2002
Las Muñecas	17 abril 2002
Montaña I-II	20 sept. 2002
Palmar	29 agosto 2001
Playuelas	30 agosto 2001

Pupo Jiménez
San Antonio
Villanueva I

14 marzo 2001
20 sept. 2002
20 sept. 2002

MOCA

Cuchillas
Marías
Rocha

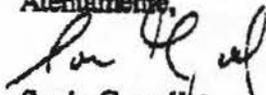
9 mayo 2002
24 enero 2002
9 mayo 2002

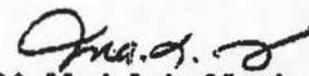
RINCON

Estelas
Puntas

26 enero 2002
13 sept. 2002

Atentamente,


Sonia González
Coordinadora Educativa


V.*B.*: María Luisa Morales
Directora

mt

20 2 76101

MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

**FOR DISCUSSION
 PURPOSES ONLY**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 02-11-01
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA NO. 83.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES THROUGH A STATE - ADMINISTRATION OF FAMILIES AND CHILDREN
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	The Head Start Program did not obtain for various Centers, the required licenses issued by the Puerto Rico Fire Department, the Health Department and the Administration of Families and Children.
CRITERIA	Code of Federal Regulations, 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 - Compliance Supplement, state that the facilities used by Head Start grantees must comply with applicable State and local requirements concerning licenses. The State requirement for the operation of Head Start center include a license granted by the Puerto Rico Fire Department, Health Department and Administration of Families and Children of the Puerto Rico Family Department.
CAUSE	The Head Start Center's failed to obtain or renew the required license issued by the Puerto Rico Fire Department, Health Department and/or the Administration of Families and Children of the Puerto Rico Family Department.
EFFECT	Municipality is not in compliance with 45 CFR, Part 1306, Subpart C, Section 1306.30 (c) and OMB Circular A-133 - Compliance Supplement.
RECOMMENDATION	We recommend management to perform the required improvements and obtain the required licenses from the state agencies.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE