

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE ADJUNTAS

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2003

**MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS

	Page
GENERAL PURPOSE FINANCIAL STATEMENTS	
Independent auditor's report	1 - 2
FINANCIAL STATEMENTS:	
Combined balance sheet - all fund types and account groups	3 - 4
Combined statement of revenues, expenditures and changes in fund equity - all governmental fund types	5
Combined statement of revenues, expenditures and changes in fund equity - all proprietary fund types	6
Combined statement of cash flows - all proprietary fund types	7
Statement of revenues and expenditures - budget and actual	8
Notes to financial statements	9-24
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	25
Schedule of expenditures of federal awards	26
Notes to schedule of expenditures of federal awards	27
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	28 -30

TABLE OF CONTENTS (CONTINUED):

	Page
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE OMB CIRCULAR A-133	31 -33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	34
SECTION I. - SUMMARY OF AUDITOR'S RESULTS	35
SECTION II. - FINANCIAL STATEMENTS FINDINGS	36-38
SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS	39
STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS	40-41
EXHIBIT 1 - MANAGEMENT RESPONSE TO FINDINGS	

MUNICIPALITY OF ADJUNTAS
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

INDEPENDENT AUDITOR'S REPORT

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

I 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, 2003 as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

Except as discussed in the third paragraph, I conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

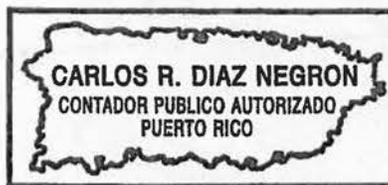
Because of the inadequacy of the Municipality's accounting records related to fixed assets I was unable to form an opinion regarding the amount at which they (stated at \$9,933,605) are presented in the accompanying combined general purpose financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In my opinion, except for the effects for the adjustments, if any, as might have been determined to be necessary I had 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, 2003, 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, I have also issued my report dated November 7, 2003, on my consideration of Municipality of Adjuntas internal control over financial reporting and my 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 my audit.

My 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 my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



November 7, 2003
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2004

The stamp No. **1928032** of the Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

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	\$2,012,073	\$ 850,355		\$ 4,487			\$ 2,866,915
Restricted cash				804,931			804,931
Cash with fiscal agent			\$139,266				139,266
Accounts receivable:							
Due from other fund	163,933						163,933
Due from governmental entity	42,646	1,336,133					1,378,779
Property and equipment				2,034,388	\$9,933,605		11,967,993
Other assets:							
Amount to be provided for payment of:							
Accrued vacations						\$ 494,131	494,131
Retirement of general long-term debt						1,834,914	1,834,914
Other long-term debt						2,390,481	2,390,481
Amount available in debt service fund						139,266	139,266
Escrow accounts and other				8,162			8,162
	<u>\$2,218,652</u>	<u>\$2,186,488</u>	<u>\$139,266</u>	<u>\$2,851,968</u>	<u>\$9,933,605</u>	<u>\$4,858,792</u>	<u>\$22,188,771</u>

(continue)

**MUNICIPALITY OF ADJUNTAS
COMBINED BALANCE SHEET-
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2003**

LIABILITIES AND FUND EQUITY

	<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	\$ 575,351	\$ 136,056		\$ 63,928			\$ 775,335
Deferred revenue	201,779	45,189					246,968
Due to other funds		163,933					163,933
Notes and bonds payable				1,761,790		\$1,974,180	3,735,970
Accrued vacations						494,131	494,131
Other long-term debt						2,390,481	2,390,481
	<u>777,130</u>	<u>345,178</u>		<u>1,825,718</u>		<u>4,858,792</u>	<u>7,806,818</u>
Fund equity:							
Investment in general fixed assets					\$9,933,605		9,933,605
Reserved for:							
Debt service			\$139,266				139,266
By state statutes		1,841,310					1,841,310
Undesignated	1,441,522						1,441,522
Retained earnings, unreserved				1,026,250			1,026,250
	<u>1,441,522</u>	<u>1,841,310</u>	<u>139,266</u>	<u>1,026,250</u>	<u>9,933,605</u>		<u>14,381,953</u>
Total liabilities and fund equity	<u>\$2,218,652</u>	<u>\$2,186,488</u>	<u>\$ 139,266</u>	<u>\$2,851,968</u>	<u>\$9,933,605</u>	<u>\$4,858,792</u>	<u>\$22,188,771</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, 2003

	<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	\$ 837,579		\$ 89,704	\$ 927,283
Patents	333,927			333,927
Grants and contributions	4,386,620	\$3,789,393		8,176,013
Other income	<u>632,248</u>	<u>18,030</u>	<u>1,563</u>	<u>651,841</u>
	<u>6,190,374</u>	<u>3,807,423</u>	<u>91,267</u>	<u>10,089,064</u>
Expenditures:				
General government	2,597,411	1,310,639		3,908,050
Public work	981,900			981,900
Health, sanitation and welfare	866,267	275,106		1,141,373
Public safety	411,595	317,561		729,156
Capital outlay		1,416,410		1,416,410
Recreation and education	254,043	984,590		1,238,633
Debt service:				
Principal retirement			311,405	311,405
Interest charges			118,643	118,643
Other long term debt	<u>279,832</u>			<u>279,832</u>
	<u>5,391,048</u>	<u>4,304,306</u>	<u>430,048</u>	<u>10,125,402</u>
Excess of revenue over (under) expenditures	<u>799,326</u>	<u>(496,883)</u>	<u>(338,781)</u>	<u>(36,338)</u>
Other financial sources:				
Transfer in	816,667	579,920	255,418	1,652,005
Transfer out	(831,010)	(819,540)	(1,455)	(1,652,005)
Transfer other long-term debt	<u>128,825</u>			<u>128,825</u>
	<u>114,482</u>	<u>(239,620)</u>	<u>253,963</u>	<u>128,825</u>
	913,808	(736,503)	(84,818)	92,487
Fund equity as of July 30, 2002	<u>527,714</u>	<u>2,577,813</u>	<u>224,084</u>	<u>3,329,611</u>
Fund equity as of July 30, 2003	<u>\$1,441,522</u>	<u>\$1,841,310</u>	<u>\$139,266</u>	<u>\$ 3,422,098</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND EQUITY-
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003**

	<u>PROPRIETARY FUND TYPE</u>
	<u>ENTERPRISE</u>
Revenues:	
Rent	\$ 484,508
Financial	8,701
Other	<u>2,782</u>
	<u>495,991</u>
Expenses:	
Administrative	111,407
Utilities	12,042
Operating and maintenance	123,402
Taxes and insurance	47,696
Depreciation	136,195
Interests	<u>145,479</u>
	<u>576,221</u>
Change in fund equity	(80,230)
Fund equity at beginning of year	<u>1,106,480</u>
Fund equity at end of year	<u>\$1,026,250</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
 COMBINED STATEMENT OF CASH FLOWS-
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003**

**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 \$(80,230)

Adjustment to reconcile change in net assets
 to net cash provided by operating activities:

Depreciation 136,195

Decrease in escrow accounts and others 50

Increase in accounts payable and accrued
 expenses 22,214

158,459

Net cash provided by operating activities

78,229

Cash flows from investing activities:

Deposits to reserve for replacement and
 interest retained in account (33,750)

Withdrawals of reserve for replacement 31,015

Deposit to insurance escrow and interest
 retained in account (30,746)

Interest earned and retained in residual receipts (132)

Withdrawal from escrow deposit account 21,157

Purchase of fixed assets (4,885)

Net cash used by investing activities

(17,341)

Cash flows from financing activities:

Mortgage principal payments (59,599)

Net cash used by financing activities

(59,599)

Net increase in cash

1,289

Cash at beginning of year

3,198

Cash at end of year

\$ 4,487

See notes to financial statements.

MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	<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	\$ 816,739	\$ 837,579	\$ 20,840	\$174,630	\$345,230	\$170,600
Patents	375,000	333,927	(41,073)			
Grants and contributions	4,350,240	4,386,620	36,380			
Other income	<u>486,500</u>	<u>633,703</u>	<u>147,203</u>			
	<u>6,028,479</u>	<u>6,191,829</u>	<u>163,350</u>	<u>174,630</u>	<u>345,230</u>	<u>170,600</u>
Expenditures:						
General government	2,934,249	2,748,418	185,831			
Public works	1,061,404	981,900	79,504			
Health and sanitation and welfare	909,427	866,267	43,160			
Public safety	417,839	411,595	6,244			
Education and recreation	272,347	254,043	18,304			
Debt service, principal and interest payment	<u>433,213</u>	<u>255,418</u>	<u>177,795</u>	<u>174,630</u>	<u>430,048</u>	<u>(255,418)</u>
	<u>6,028,479</u>	<u>5,517,641</u>	<u>510,838</u>		<u>430,048</u>	<u>(255,418)</u>
Excess of revenue over (under expenditures)	<u>\$ - 0 -</u>	<u>\$ 674,188</u>	<u>\$ 674,188</u>	<u>\$</u>	<u>\$(84,818)</u>	<u>\$ (84,818)</u>

See notes to financial statements.

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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.

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 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.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Method of presentation (continued)

Fund accounting (continued):

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.

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:

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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. These committed amounts generally become liabilities in future periods as goods or services received.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Risk financing:

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$113,280. The current insurance policies have not been canceled or terminated. The CRIM, also, deducted \$156,663 for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

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.

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.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2003, cash retained by the GDB amounted to \$139,266.

C) Restricted deposit:

Cash in the Enterprises Fund included restricted deposits as follows:

Escrow deposit	\$ 29,215
Tenant security deposits	15,054
Reserve for replacement	754,833
Residual receipts	<u>5,829</u>
	<u>\$804,931</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

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

Under the term of the Administrative Order the Project is required to set aside specified amounts and the surplus cash deposits for the replacement of property and other project expenditures as approved by USDA-Rural Development.

The Project maintains a restricted cash account for insurance escrow. In addition, all tenant security deposits are deposited into a separate bank account and held in trust for the tenants until they vacate the property. Any amounts not returned to the tenant due to lease violations are transferred to the Projects's general operating account. Restricted funds are held in separate accounts and are not available for operating purposes.

3. 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%

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 \$201,779, corresponding to the next fiscal year municipal license.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

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.

5. PROPERTY, PLANT AND EQUIPMENT:

A summary of changes in general fixed assets transactions for the year ended June 30, 2003 is as follows:

	<u>BALANCE JULY 1, 2002</u>	<u>ADDITIONS</u>	<u>DISPOSAL</u>	<u>BALANCE JUNE 30, 2003</u>
Land and building	\$6,923,291			\$6,923,291
Automobiles	1,574,811	\$ 25,952		1,600,763
Machinery and equipment	<u>1,304,818</u>	<u>105,126</u>	<u>\$393</u>	<u>1,409,551</u>
	<u>\$9,802,920</u>	<u>\$131,078</u>	<u>\$393</u>	<u>\$9,933,605</u>

A summary of Enterprise Fund's property and equipment at June 30, 2003 is as follows:

Land and improvements	\$ 362,859
Building and improvements	4,194,867
Furniture and equipments	<u>224,935</u>
	4,782,661
Accumulated depreciation	<u>(2,748,273)</u>
	<u>\$2,034,388</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

6. NOTES AND BONDS PAYABLE:

Outstanding Debt:

At June 30, 2003 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 \$76,000 to \$80,000 through April 1, 2013 plus interest at variable rate.	\$ 761,000
\$245,000, 1988 public improvements serial bonds due in annual installments of \$12,000 to \$17,000, through January 1, 2011, plus interest at 5%.	115,000
\$595,000 public improvements serial bonds due in annual installments of \$29,000 to \$42,000, through January 1, 2011 plus interest at 5%.	279,000
\$200,000, public improvements serial bonds due in annual installments of \$8,000 to \$15,000, through January 1, 2015, plus interest at 5%.	129,000
\$465,000 public improvements bonds due in annual installments of \$30,000 to \$55,000 through July 1, 2009, plus interest at 7.65%.	285,000
\$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%.	315,000
\$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>90,180</u>
	<u>\$1,974,180</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

6. NOTES AND BONDS PAYABLE (CONTINUED):

Enterprise Fund Debt:

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

\$1,761,790

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, 2002	\$2,285,585	\$1,821,389	\$ 738,560
Less repayments	(311,405)	(59,599)	(279,837)
Additions	<u> </u>	<u> </u>	<u>1,931,753</u>
Balance, June 30, 2003	<u>\$1,974,180</u>	<u>\$1,761,790</u>	<u>\$2,390,481</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>
2004	\$ 258,180	\$ 64,396
2005	178,000	69,856
2006	185,000	75,779
2007	193,000	82,204
2008	201,000	104,754
Thereafter	<u>959,000</u>	<u>1,364,801</u>
	<u>\$1,974,180</u>	<u>\$1,761,790</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

7. OTHER LONG-TERM DEBT

Other long-term debt consists of the following:

	<u>BALANCE JUNE 30, 2002</u>	<u>ADDITION</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30, 2003</u>
Puerto Rico Department of Labor	\$229,888	\$ 128,325	\$162,000	\$ 196,213
Puerto Rico Water and Sewer Authority	339,192	25,633	40,000	324,825
Puerto Rico Authority of Electric Power	169,480			169,480
Advances from CRIM	<u> </u>	<u>1,777,795</u>	<u>77,832</u>	<u>1,699,963</u>
	<u>\$738,560</u>	<u>\$1,931,753</u>	<u>\$279,832</u>	<u>\$2,390,481</u>

In June 6, 2000, the Municipality and the Commonwealth of Puerto Rico signed an agreement for the payment amount due to the Puerto Rico Department of Labor. The debt is payable in an initial installment of \$134,000, thirty five monthly installments of \$17,750 and a final installment of \$17,724. The outstanding balance under this payment plan amounted to \$67,888 as of June 30, 2003. The payment plan included unemployment benefits paid up to March 31, 2000.

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

Advance from CRIM represents the balance owned to CRIM at June 30, 2003 as described in Note 8, and that will be repaid through a financing obtained by the CRIM as authorize by law and as explained in that Note.

8. PROPERTY TAXES:

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property located in the Municipality.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

8. PROPERTY TAXES (CONTINUED):

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.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuring fiscal year. Throughout the year the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Management believes, based in part on the experience from prior years, that when received, the preliminaries and final settlements from CRIM will not show a significant difference from the estimate and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

8. PROPERTY TAXES (CONTINUED):

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 2000. As of June 30, 2003 the amount due to CRIM amounting to \$ 1,699,963 is presented other long-term debt in the note general long-term debt account group.

9. COMPENSATED ABSENCES

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.

Unpaid vacation time accumulated is fully vested to the employee from the first day of work. Upon retirements, an employee receives compensation for all accumulated and unpaid sick at the current rate, if the employee has at least 10 years of service with the Municipality.

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 \$6,600 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 approximately \$152,044 for the year ended June 30, 2003.

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

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. Litigation

1. The Municipality has been named defendant of a lawsuit filed by approximately 80 individuals who allege political harassment and discrimination. On December 3, 2001 the jury determined in favor of 20 out of 80 plaintiffs for the amount of \$6,956,400. The Municipality appealed the jury's decision. The remaining 60 plaintiffs should wait for the 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, 2003**

12. FUND EQUITY (RESERVES AND DESIGNATION) (CONTINUED):

Designated by state statutes

Represents the reservation of amount to be used for future expenditure for capital and special projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed .

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	\$6,190,374	\$5,391,098	\$ 91,267	\$430,048
Transfer out/in recorded as revenue/expense on the budgetary basis	<u>1,455</u>	<u>126,593</u>	<u>253,963</u>	<u> </u>
Budgetary basis	<u><u>\$6,191,829</u></u>	<u><u>\$5,517,641</u></u>	<u><u>\$345,230</u></u>	<u><u>\$430,048</u></u>

MUNICIPALITY OF ADJUNTAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

14. ENTERPRISE FUNDS:

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

The project operates under Section 515 of USDA Rural Development (USDA-RD) Housing Act with HUD Section 8 Housing Assistance Payments Program (new construction). The properties are operated subject to Section 8 Housing Assistance Payments agreements with the US Department of Housing and Urban Development (HUD), and a significant portion of the Projects's rental income is received from this agency.

The agreement was effective in 1985, with terms of five years, with seven renewal options of five years each.

HUD has agreed to pay the Project the difference between the contract rent, as defined in the agreement, and that portion of rent payable by qualified tenants. In addition, HUD has agreed to pay a portion of the contract rent to the project during certain vacancy periods.

15. NEW REPORTING STANDARD

In June 2000, 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 Municipality of Adjuntas is required to implement this standard for the fiscal year ending June 30, 2004. The Municipality 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, 2003

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

	<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	\$ 496,075
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	<u>235,792</u>
		<u>731,867</u>
<u>US Department of Health and Human Services</u>		
Direct Program:		
Administration for Children, Youth and Families, Head Start	93.600	977,200
Passed through:		
Puerto Rico Family Department:		
Child Care and Development Block Grant	93.575	<u>104,394</u>
		<u>1,081,594</u>
<u>US Department of Justice</u>		
Direct program:		
Police Corps	16.712	171,319
Edward Byne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	<u>53,583</u>
		<u>224,902</u>
<u>US Department of Commerce</u>		
Direct Program:		
Grant for Public Works and Economic Development	11.300	<u>214,207</u>
<u>US Department of Agriculture</u>		
Direct Program:		
Child and Adult Care Food Program	10.558	<u>24,903</u>
<u>Federal Emergency Management Agency</u>		
Direct Program:		
Public Assistance Grant	83.544	<u>168,360</u>
		<u>\$2,445,833</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

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**

Carlos R. Diaz Negrón

Certified Public Accountant

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

**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**

I have audited the general purpose financial statements of **Municipality of Adjuntas Puerto Rico**, as of and for the year ended June 30, 2003 and have issued my report there on dated November 7, 2003, which was qualified because of the inadequacy of the Municipality's accounting record related to fixed assets. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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

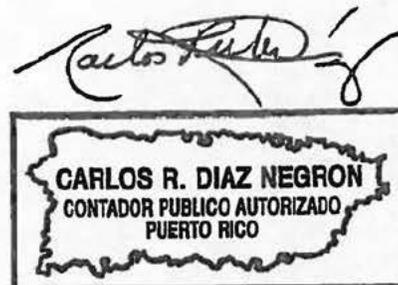
In planning and performing my audit, I considered Municipality of Adjuntas internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my 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. My 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, I 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.

November 7, 2003
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2004



The stamp No. 1928033 of the Society of Certified Public Accountants 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

I 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, 2003. 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. My responsibility is to express an opinion on Municipality of Adjuntas, Puerto Rico's compliance based on my 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 the schedule of expenditures of federal awards during the year ended June 30, 2003. My 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.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion. My 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 my 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, 2003.

Internal Control Over Compliance

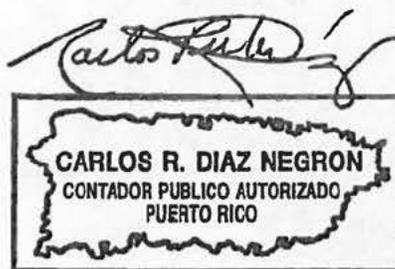
The management of Municipality of Adjuntas, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Municipality 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 my 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.

My 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. I noted no matters involving the internal control over compliance and its operation that I 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.

November 7, 2003
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2004



The stamp No. 1928034 of the Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

**MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

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

14.871
83.544
93.600

Section 8 - Housing Choices Voucher
Public Assistance Grants
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, 2003**

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, 2003**

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, 2003**

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, 2003**

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, 2003

**MUNICIPALITY OF ADJUNTAS
STATUS OF PRIOR YEARS AUDIT
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

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, 2003, encompass unresolved findings mentioned in the audit for the fiscal year ended June 30, 2002. 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
December 1, 2003

Tel. (787) 829-2910
(787) 829-2595

EXHIBIT I

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 findings included in the Single Audit for the period ended at June 30, 2003.

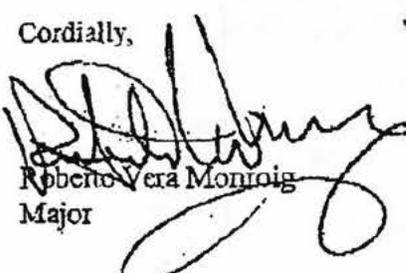
1. Vacations

The Municipality keeps a manual record of the accrued vacations and sick leave benefits for the employees, because the Q&M accounting system does not provide for it. 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 annual basis, a physical inventory of the property plant and equipment pertaining to the Municipality. This information was entered into the computerized accounting system.

Cordially,


Roberto Vera Monroig
Mayor

