

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

MUNICIPIO DE ADJUNTAS
AUDITORIA 2003-2004

30 DE JUNIO DE 2004

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**MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2004**

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**MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2004
INITIAL IMPLEMENTATION OF GASB No. 34**

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MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

Carlos R. Diaz Negrón

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Council
Municipality of Adjuntas
Adjuntas, Puerto Rico**

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the Municipality of Adjuntas as of and for the year ended June 30, 2004 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report has been furnish to me, and in my opinion, insofar as it relates to the amounts included for Valle Verde, is based solely on the report of the other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the Municipality of Adjuntas as of June 30, 2004, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Municipality of Adjuntas has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of and for the year ended June 30, 2004.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Government Auditing Standards, I have also issued a report dated November 13, 2004, in my consideration of Municipality of Adjuntas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts grants agreements and other matters. The purposes of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 31 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Adjuntas's basic financial statements. 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 basic financial statements of the Municipality of Adjuntas. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 13, 2004
Agua Buenas, Puerto Rico

License No. 1339
Expire December 1, 2007

The stamp No. 2002155 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANAGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

MANAGEMENT AND DISCUSSION ANALYSIS

Our discussion and analysis of the Municipality of Adjuntas (Municipality) financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2004. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The financial statements presented in this report are adopting for the first time the financial reporting and presentation required as part of the Governmental Accounting Standard Board Statement No. 34 (GASB 34).
- The Statement of Net Assets for the Governmental Activities of the Municipality of Adjuntas for the year ended June 30, 2004 reflects that the financial condition is strongly solid. As noticed in the assets section, the Municipality has a current working capital ratio of 2.42 to 1, which denotes enough current assets for paying its current debts.
- Also, the Statement of Net Assets for the Governmental Activities of the Municipality shows \$8.7 millions in capital assets without debts. It represents that the capital assets of the Municipality are not pledged with neither long nor short-term liabilities.
- The Statement of Governmental Activities shows that the net assets of the Municipality increased by \$3.7 millions for the period ended June 30, 2004. In the case of the Business-Type Activities, the net assets were reduced in \$50,364, basically for the effect of the depreciation expense, which totaled \$129,857.
- The more significant financial consideration related to the financial statements as a whole can be seen in the Statement of Revenues, Expenditures and Changes in Fund Balance of the General Governmental Fund. That report reflects that the Municipality ended its operations at June 30, 2004 with an excess of revenues over expenditures (surplus) of \$498,818. The operational surplus for the period ended June 30, 2004 for \$498,818 along with the accumulated surplus at the beginning of the year for \$1,441,522, totaled an accumulated surplus at the end of the year for \$1,940,340. See also the Balance Sheet for the General Fund as of June 30, 2004, which shows an accumulated surplus totaling \$1,940,340 as of June 30, 2004.
- It is also interesting to observe that in the Balance Sheet of Governmental Funds, the Municipality has in the State Legislative Joint Resolutions Fund, available cash totaling \$4.9 millions to develop public works and perform special projects to benefit the Adjuntas' citizenship.

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANAGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 through 11) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

Reporting the Municipality as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one way to measure the Municipality's financial health or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Adjuntas.

In the Statement of Net Assets and the Statement of Activities, we grouped the Municipality's activities into:

- **Governmental Activities** – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.
- **Business Activities** – The Municipality owns to Valle Verde Housing Project (Project), a housing development consisting of land, buildings and other improvements, which leases its 96 rental units to low and moderate income individuals in Adjuntas. The Project operates under Section 515 of USDA Rural Development (USDA-RD) Housing of the National Housing Act with HUD Section 8 Housing Assistance Payment Program.

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

Reporting the Municipality's Most Significant Funds

The Fund financial statements begin on page 12 and provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants. The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement on Activities) and governmental funds in Reconciliation of the Governmental Funds on page 13 and 16 of this report.

THE MUNICIPALITY AS A WHOLE

The Municipality's combined net assets increased in the current year by \$3.7 millions, to total \$10.4 million at end of year. Table 1 and 2 focus on the net assets and changes in net assets of the Municipality's governmental and business-type activities for the current year. Because this is the first year of the GASB No. 34 implementation no comparative analysis is presented.

**Table 1
Net Assets
(In Millions)**

Cash and other current assets	\$ 8.4
Other assets	.8
Capital assets	<u>10.6</u>
Total assets	<u>19.8</u>
Short-term debt	3.6
Long-term debt	<u>5.8</u>
Total liabilities	<u>9.4</u>
Net Assets:	
Invested in capital assets, net of related debt	8.9
Restricted for:	
Debt service	.3
State and federal programs	5.7
Revenue for replacement and others	.8
Unrestricted	<u>(5.3)</u>
Total net assets	<u>\$10.4</u>

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

**Table 2
Changes in Net Assets
(In Millions)**

Revenues	
Program revenues:	
Charge for services	\$.7
Operating grants and contributions	2.9
Capital grants and contributions	.2
General revenues:	
Property taxes	1.5
Municipal license tax	.3
Grants and entitlements	9.7
Other income	<u>.7</u>
Total Revenues	<u>16.0</u>
Program Expenses:	
General administration	3.5
Public safety	.2
Education	1.8
Public works	3.4
Health and welfare	1.2
Housing	.5
Other	<u>1.7</u>
Total Expenses:	<u>12.3</u>
Increase in Net Assets	<u>\$ 3.7</u>

Net assets of the Municipality's governmental activities increased by \$3.7 millions in the current year. *Unrestricted* net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Governmental Activities

The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas established an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. These efforts along with a reduction in the administrative and general expenses resulted in a benefit for the Municipality. Accordingly, for the period ended June 30, 2004 the Municipality had an increase in net assets for \$3.7 millions. Also, the Mayor of the Municipality implemented an adequate budget control and record keeping, which benefits the Municipality in its management decisions and operations. These are the main reasons to end operations with a significant surplus.

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2003-2004 was approved on June 2003, the financial decisions were taken based on the available appropriations. However, during the course of the year, the Municipal Legislative Body revised the Municipality of Adjuntas' budget to adjust the original projections to the actual needs of the citizenship. The budget amendments fall into various categories. The first category includes transfers between expenditure accounts and the second one includes revisions to the amount of budget originally approved. The latest is related to additional revenues collected during the year, which exceeds the expectations originally included in the budget.

During the year ended June 30, 2004, the Mayor of the Municipality and the Municipal Legislative Body increased the Municipality's budget for \$620,000. They also authorized various transfers among expenditure accounts based on the needs that arose during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2004, the Municipality of Adjuntas had \$70.7 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

**Table 3
Capital Assets at Year-End
(Net of depreciation, in Millions)**

	<u>Governmental Activities</u>
Land and land improvements	\$ 1.9
Buildings and improvements	6.6
Equipment	<u>2.2</u>
Totals	<u>\$10.7</u>

The City's fiscal year 2004 capital budget calls for it to spend at least another \$1.3 million for capital projects. More detailed information about the Municipality's capital assets is presented in Note 8 to the financial statements.

The Municipality has elected to recognize the infrastructure prospectively since GASB 34 implementation date.

**MUNICIPALITY OF ADJUNTAS, PUERTO RICO
MANGEMENT'S DISCUSIÓN AND ANÁLISIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

Long-Term Debt

At year-end, the Municipality had \$6.1 millions, in bonds, notes and other outstanding debts as shown in Table 4.

**Table 4
Outstanding Debt, at Year-end
(In Millions)**

	<u>Governmental Activities</u>
Bonds payable	\$.7
Notes payable	1.0
Mortgage notes payable	1.7
Other	<u>2.7</u>
 Totals	 <u>\$6.1</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2004 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2004, is the increase in the estimated of municipal license and construction taxes. For these two revenue accounts the Municipality considered the taxes to be collected for the construction of a school in Barrio Yahuecas, the construction of Road No. 10-from Adjuntas to Utuado and other minor projects.

It is also very important to notice, that the Municipal Legislative Body set aside \$860,000 of the available accumulated surplus at June 30, 2004, through the Resolution No. 19 approved on May 3, 2004 for the construction of a bridge from Road 123 to the Municipal Coliseum.

We expect to end the operations for the fiscal year on June 30, 2005 with an additional surplus based on the economies in various budgeted expenditures accounts, that the management has identified during the present year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at the Municipality of Adjuntas, PO Box 1009, Adjuntas, Puerto Rico 00601.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF NET ASSETS
JUNE 30, 2004**

PRIMARY GOVERNMENT

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 981,556	\$ 11,407	\$ 992,963
Cash with fiscal agent	265,100		265,100
Accounts receivable other agencies	1,377,596		1,377,596
Other assets		5,296	5,296
Restricted cash	5,745,383	794,865	6,540,248
Capital assets, net	<u>8,733,044</u>	<u>1,920,148</u>	<u>10,653,192</u>
Total Assets	<u>\$17,102,679</u>	<u>\$2,731,716</u>	<u>\$19,834,395</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	\$ 2,933,887	\$ 59,230	\$ 2,993,117
Deferred revenue	273,530		273,530
Long-term debt:			
Due within one year	244,392	69,856	314,248
Due in more than one year	<u>4,208,143</u>	<u>1,626,744</u>	<u>5,834,887</u>
Total Liabilities	<u>7,659,952</u>	<u>1,755,830</u>	<u>9,415,782</u>
Net Assets:			
Invested in capital assets, net of related debt	8,733,044	223,548	8,956,592
Restricted for:			
Debt service	265,100		265,100
State and federal programs	5,745,556		5,745,556
Revenue for replacement and others		794,865	794,865
Unrestricted	<u>(5,300,973)</u>	<u>(42,527)</u>	<u>(5,343,500)</u>
Total Net Assets	<u>\$9,442,727</u>	<u>\$ 975,886</u>	<u>\$10,418,613</u>

The accompanying notes are an integral part of these financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ 3,472,899		\$1,397,595		\$(2,075,304)
Public safety	276,071		124,442		(151,629)
Education, culture and recreational	1,846,686		1,212,772		(633,914)
Public works and sanitation	3,455,229	\$234,914		\$261,523	(2,958,792)
Health and welfare	1,203,741		244,154		(959,587)
Litigation settlement	1,500,000				(1,500,000)
Interest	<u>203,326</u>				<u>(203,326)</u>
Total governmental activities	<u>11,957,952</u>	<u>234,914</u>	<u>2,978,963</u>	<u>261,523</u>	<u>(8,482,552)</u>
Business type-activities:					
Housing	<u>544,511</u>	<u>484,912</u>			<u>(59,599)</u>
Total business-type activities	<u>544,511</u>	<u>484,912</u>			<u>(59,599)</u>
Total	<u>\$12,502,463</u>	<u>\$719,826</u>	<u>\$2,978,963</u>	<u>\$261,523</u>	<u>\$(8,542,151)</u>

(Continue)

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2004**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	<u>\$(8,482,552)</u>	<u>\$ (59,599)</u>	<u>\$(8,542,151)</u>
General revenue:			
Taxes:			
Property taxes	1,532,893		1,532,893
Municipal tax	317,369		317,369
Grants and entitlements	9,693,984		9,693,984
Other	<u>719,877</u>	<u>9,235</u>	<u>729,112</u>
Total general revenues	<u>12,264,123</u>	<u>9,235</u>	<u>12,273,358</u>
Changes in net assets	3,781,571	(50,364)	3,731,207
Net assets at beginning	<u>5,661,156</u>	<u>1,026,250</u>	<u>6,687,406</u>
Net assets at end	<u>\$ 9,442,727</u>	<u>\$ 975,886</u>	<u>\$10,418,613</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	STATE LEGISLATIVE JOINT RESOLUTIONS FUND	DISASTER ASSISTANCE PROGRAM FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENT FUNDS
Cash:						
Cash in bank	\$ 981,383		\$4,977,239	\$ 40,584	\$ 727,733	\$ 6,726,939
Cash with fiscal agent		\$265,100				265,100
Receivables:						
Amount due from:						
Other governmental agencies				853,476	524,120	1,377,596
Other funds	<u>1,930,790</u>					<u>1,930,790</u>
Total assets	<u>\$2,912,173</u>	<u>\$265,100</u>	<u>\$4,977,239</u>	<u>\$894,060</u>	<u>\$1,251,853</u>	<u>\$10,300,425</u>
Liabilities:						
Accounts payable and accrued expenses	\$ 758,782		\$ 106,052		\$ 35,072	\$ 899,906
Deferred revenues	213,051			\$ 3,244	57,235	273,530
Due to other fund			<u>141,580</u>	<u>890,816</u>	<u>898,394</u>	<u>1,930,790</u>
Total liabilities	<u>971,833</u>		<u>247,632</u>	<u>894,060</u>	<u>990,701</u>	<u>3,104,226</u>
Fund balance						
Reserve for:						
Debt service		\$265,100				265,100
Encumbrances	860,000					860,000
Designated capital projects			4,729,607		261,152	4,990,759
Unreserved	<u>1,080,340</u>					<u>1,080,340</u>
Total fund balance	<u>1,940,340</u>	<u>265,100</u>	<u>4,729,607</u>		<u>261,152</u>	<u>7,196,199</u>
Total liabilities and fund balance	<u>\$2,912,173</u>	<u>\$265,100</u>	<u>\$4,977,239</u>	<u>\$ 894,060</u>	<u>\$1,251,853</u>	<u>\$10,300,425</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund balances in governmental funds	\$ 7,196,199
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,733,044
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(1,714,000)
Compensated absences	(1,004,864)
Advances from CRIM	(1,733,671)
Litigation settlement	(1,500,000)
Other accrued liabilities	<u>(533,981)</u>
 <i>Net assets of governmental activities</i>	 <u>\$ 9,442,727</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS	DISASTER ASSISTANCE PROGRAM FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
Taxes:						
Property taxes	\$1,285,780	\$247,113				\$ 1,532,893
Municipal taxes	317,369					317,369
Grants and entitlements	4,566,753		\$4,848,307		\$3,519,411	12,934,471
Other	845,329	1,478	27,512		80,472	954,791
Total Revenues	<u>7,015,231</u>	<u>248,591</u>	<u>4,875,819</u>		<u>3,599,883</u>	<u>15,739,524</u>
Expenditures:						
General administration	2,833,808				690,139	3,523,947
Public safety	261,196				10,539	271,735
Education and recreational	424,005				1,208,872	1,632,877
Public works	1,347,968					1,347,968
Health sanitation and welfare	855,684		104,787		237,152	1,197,623
Capital outlays			1,792,406	\$ 538,174	1,104,252	3,434,832
Debt service:						
Principal	33,592	260,180				293,772
Interest	158,707	99,292				257,999
Total expenditures	<u>5,914,960</u>	<u>359,472</u>	<u>1,897,193</u>	<u>538,174</u>	<u>3,250,954</u>	<u>11,960,753</u>
Excess of revenue over expenditures	<u>1,100,271</u>	<u>(110,881)</u>	<u>2,978,626</u>	<u>(538,174)</u>	<u>348,929</u>	<u>3,778,771</u>

(Continue)

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

	GENERAL FUND	DEBT SERVICE FUND	STATE LEGISLATIVE JOINT RESOLUTIONS FUND	DISASTER ASSISTANCE PROGRAM	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENT FUNDS
Excess of revenues over expenditures	<u>\$1,100,271</u>	<u>\$(110,881)</u>	<u>\$2,978,626</u>	<u>\$(538,174)</u>	<u>\$348,929</u>	<u>\$3,778,771</u>
Other financing sources (uses):						
Operating transfer in	1,362	238,077		538,174		777,613
Operating transfer out	<u>(602,815)</u>	<u>(1,362)</u>	_____	_____	<u>(173,436)</u>	<u>(777,613)</u>
Total other financing sources	<u>(601,453)</u>	<u>236,715</u>	_____	<u>538,174</u>	<u>(173,437)</u>	_____
Excess of revenues and other financing source over expenditures and other financing sources	498,818	125,834	2,978,626		175,493	3,778,771
Fund balance at beginning of year	<u>1,441,522</u>	<u>139,266</u>	<u>1,750,981</u>	_____	<u>85,659</u>	<u>3,417,428</u>
Fund balance at end of year	<u>\$1,940,340</u>	<u>\$265,100</u>	<u>\$4,729,607</u>	\$ _____	<u>\$261,152</u>	<u>\$7,196,199</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

Net change in fund balances – total governmental funds	\$ 3,778,771
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	1,491,210
Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net assets.	260,180
Change in accrued interest expense which does not require the use of current financial resources.	54,675
Change in accrued compensating absences.	(68,346)
Change in other accrued expenses	156,538
Governmental funds report payments of other long-term debt as expenditures where as the payment reduces the long term is the obligate in the statement of net assets.	33,590
Accrual for litigation settlement	(1,500,000)
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	<u>(425,047)</u>
<i>Changes in Net Assets of Governmental Activities</i>	<u>\$3,781,571</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004**

1. ORGANIZATION

The Municipality of Adjuntas (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Assembly, which has twelve members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the Municipality has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Adjuntas, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Legislative Body through the budgetary process.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

3) State Legislative Joint Resolutions Fund

This fund accounts for revenue sources provided by the Commonwealth of Puerto Rico Legislature for the development of capital projects and other community services.

4) Disaster Assistance Program Fund

This fund accounts for revenue sources for the development of capital project under the Disaster Assistance Program granted by US Department of Home and Security.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net assets.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality has elected to not capitalize infrastructure acquired before the implementation date of GASB 34 (July 1, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	50-40 years
Equipment and vehicles	5-10 years
Infrastructure	40 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reservation of fund balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Debt/ service

Represents net assets available to finance future debt service payments.

2) State and federal programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

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, 2004 amounted to approximately \$93,773. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$240,385 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates

Budgets and budgetary accounting

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General and Debt service funds. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means for financing them.
- 3) Public hearings are conducted at the Municipal Legislative Room to obtain citizens comments
- 4) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 5) The Municipal Legislative Body approves, by ordinance, budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Assembly.
- 6) Unused appropriations for the annual budgeted funds lapse at the end of the year.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

3. PROPERTY TAX

According to the Public Act No. 83, enacted on August 30, 1991, known as Act of Municipal Property Tax, the Municipal Revenues Collection Center (CRIM) is responsible for the assessment, administration and collection of all the real and personal property located in the Municipality.

Annually, the CRIM notifies the Municipality the estimated basic and additional special taxes to be collected during the next fiscal year and advances the Municipality the basic tax. These advances are amortized through the subsequent collection of the basic property tax and the related debt or receivable is recorded in the General fund when CRIM notifies the Municipality the final settlement.

Property taxes are levied annually over the assessed value of the property at the beginning of the calendar year, which amounts to 6.33% for the personal property and 8.33% for the real property. The assessed value of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grants business with a volume of less than \$150,000 full personal property tax exemption up to \$50,000 of the assessed value of the property.

Also, property tax laws grant, under certain circumstances, a tax exemption for the first \$15,000 of the assessment value of the principal residence occupied by its owner. Nevertheless, the Department of the Treasury pays to 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 exemption. Of the total tax imposed, 1.03% belongs to the CRIM and the remaining to the Municipality. From this amount, 4% for personal property and 6% for real property is known as the basic tax and is recorded in the General fund. The remaining 1.30% is known as the additional special tax which is used to pay the public debt and is retained by the CRIM for such purposes. The additional tax is recorded as revenue in the Debt service fund when collected by the CRIM and reported to the Municipality.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable or 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.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

3. PROPERTY TAX (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 increase in the subsidy from the central government to the municipalities was 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, 1999. As of June 30, 2004, the amount due to CRIM amounting to \$1,733,671 is presented as other long-term debt (see Note 9).

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2004, \$213,051 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

6. DEFERRED REVENUE

Municipal Tax

The deferred revenue of \$213,051 in the general fund is related to the municipal license tax collected in the fiscal year 2003-2004 corresponding to the following fiscal year.

Federal Government

The deferred revenue presented in other governmental funds is the portion grants received for which qualifying expenditures have not been incurred.

7. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Escrow deposit	\$ 29,937
Tenant security deposits	14,944
Reserve for replacement	744,081
Residual receipts	<u>5,903</u>
	<u>\$794,865</u>

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 leave violations are transferred to the Projects' general operating account. Restricted funds are held in separate accounts and are not available for operating purposes. Substantially all restricted funds are invested in saving accounts, certificates of deposits and money market funds.

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,373,680	\$ 220,000	\$ _____	\$ 1,593,680
Capital assets being depreciated:				
Buildings	6,304,721	395,000	_____	6,699,721
Equipment and vehicles	<u>1,848,351</u>	<u>876,210</u>	_____	<u>2,724,561</u>
Total capital assets being depreciated	<u>8,153,072</u>	<u>1,271,210</u>	_____	<u>9,424,282</u>
Less accumulated depreciation for:				
Buildings	(1,122,373)	(140,251)	_____	(1,262,624)
Equipment and vehicles	<u>(737,498)</u>	<u>(284,796)</u>	_____	<u>(1,022,294)</u>
Total	<u>(1,859,871)</u>	<u>(425,047)</u>	_____	<u>(2,284,918)</u>
Total depreciable capital assets, net	<u>6,293,201</u>	<u>846,163</u>	_____	<u>7,139,364</u>
Governmental activities capital assets net	<u>7,666,881</u>	<u>1,066,163</u>	_____	<u>8,733,044</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	<u>362,859</u>	_____	_____	<u>362,859</u>
Capital assets being depreciated:				
Building and improvements	3,959,140	8,050	_____	3,967,190
Equipment	<u>460,662</u>	<u>7,567</u>	_____	<u>468,229</u>
	<u>4,419,802</u>	<u>15,617</u>	_____	<u>4,435,419</u>
Less accumulated depreciation:				
Building and improvements and equipment	<u>(2,748,273)</u>	<u>(129,857)</u>	_____	<u>(2,878,130)</u>
Total depreciation, capital, assets net	<u>1,671,529</u>	<u>(114,240)</u>	_____	<u>1,557,289</u>
Business activities capital assets, net	<u>\$2,034,388</u>	<u>\$(114,240)</u>	_____	<u>\$1,920,148</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

8. CAPITAL ASSETS (CONTINUED)

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

	Governmental Activities	Business-Type Activities
General administration	\$ 37,143	
Public safety	4,336	
Public works	163,639	
Education, culture and recreation	213,811	
Health, sanitation and welfare	6,118	
Housing	_____	<u>\$129,857</u>
Total depreciation expense	<u>\$425,047</u>	<u>\$129,857</u>

9. LONG-TERM DEBTS

Governmental activities:

A. Bonds:

\$245,000 public improvement serial bond of 1988 payable in annual installments of \$13,000 to \$17,000 through January 2011 plus interest at 5%.	\$103,000
\$595,000 public improvement serial bonds of 1988 payable in annual installments ranging from \$31,000 to \$42,000 through January 1, 2011, plus interest at 5%.	250,000
\$200,000 public improvement serial bond of 1991 payable in annual installments ranging from \$8,000 to \$15,000 through January 1, 2015, plus interest at 5%.	121,000
\$465,000 public improvement serial bond of 1995 payable in annual installments ranging from \$35,000 to \$55,000 through July 1, 2009, plus interest at 6.20%	<u>255,000</u>
	<u>729,000</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

9. LONG-TERM DEBTS (CONTINUED)

B. Notes:

\$1,355,000 Special Fund for Loans to Governmental Entities payable in quarterly installments ranging from \$19,000 to \$20,000 through April 1, 2013, plus interest at 8%.	\$685,000
\$400,000 Special Fund for Loans to Governmental Entities payable in annual installments ranging from \$15,000 to \$40,000 through January 1, 2015, plus interest at 4.5%	<u>300,000</u>
	<u>985,000</u>
	<u>\$1,714,000</u>

The annual debt service requirements to maturity bonds and notes payables of June 30, 2004 are as follows:

	<u>Governmental –type Activities</u>	
<u>Bonds Payable</u> <u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 87,000	\$ 38,075
2006	89,000	33,423
2007	97,000	28,487
2008	105,000	23,075
2009	107,000	17,337
2010-2014	229,000	23,405
2015	<u>15,000</u>	<u>750</u>
	<u>\$729,000</u>	<u>\$164,552</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

9. LONG-TERM DEBTS (CONTINUED)

<u>Notes Payable</u> <u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 72,000	\$ 63,360
2006	96,000	69,960
2007	96,000	62,280
2008	96,000	54,600
2009	100,000	46,800
2010-2014	455,000	111,200
2015-2016	<u>70,000</u>	<u>9,200</u>
	<u>\$985,000</u>	<u>\$417,400</u>

Advances from CRIM

These amounts represent the balance owed to CRIM at June 30, 2004 as described in Note 3 and is payable in monthly installments of \$2,537 through 2032 including interest at 6.1%. The advances from CRIM matures as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 11,897	\$ 53,635
2006	24,910	106,155
2007	26,475	104,590
2008	28,138	102,927
2009	29,907	101,159
2010-2004	180,196	475,131
2015-2019	244,382	410,945
2020-2024	331,430	323,897
2025-2028	449,487	205,842
2029-2032	<u>406,849</u>	<u>51,880</u>
	<u>\$1,733,671</u>	<u>\$1,936,161</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

9. LONG-TERM DEBTS (CONTINUED)

Business-type activities:

Mortgage note payable in monthly installments of \$17,157 including interest at 8%. The note is collateralized by land and building. \$1,696,600

Mortgage note payable matures as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 69,856	\$ 136,028
2006	75,779	130,105
2007	82,204	123,680
2008	104,754	101,130
2009	106,592	99,292
2010-2014	640,164	389,256
2015-2018	<u>617,251</u>	<u>103,343</u>
	<u>\$1,696,600</u>	<u>\$1,082,834</u>

Long-term liability activity for the year ended June 30, 2004 was as follows:

Primary Government Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Notes Payable	\$1,166,180		\$181,180	\$ 985,000	\$ 72,000
Bonds Payable	<u>808,000</u>		<u>79,000</u>	<u>729,000</u>	<u>87,000</u>
Total bonds and notes	<u>1,974,180</u>		<u>260,180</u>	<u>1,714,000</u>	<u>159,000</u>
Other long-term debt:					
Compensated absences	936,518	\$68,346		1,004,864	73,495
Amount due to CRIM	<u>1,767,263</u>		<u>33,592</u>	<u>1,733,671</u>	<u>11,897</u>
	<u>2,703,781</u>	<u>68,346</u>	<u>33,592</u>	<u>2,738,535</u>	<u>85,392</u>
Total	4,677,961	68,346	293,772	4,452,535	244,392
Business-type activities:					
Mortgage payable	<u>1,761,790</u>		<u>65,190</u>	<u>1,696,600</u>	<u>69,856</u>
Total	<u>\$6,439,751</u>	<u>\$68,346</u>	<u>\$358,962</u>	<u>\$6,149,135</u>	<u>\$314,248</u>

**MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004**

10. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined, otherwise they will receive 75 percent of the average compensation, as defined.

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

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

10. RETIREMENT SYSTEM (CONTINUED)

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among others, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment received a refund of their contributions. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interests thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions to the above mentioned plans during the year ended June 30, 2004 amounted to approximately \$152,551. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System.

MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2004

11. CONTINGENCIES AND SUBSEQUENT EVENT

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

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 trial for the remaining 60 plaintiffs has not commenced.

The Municipality is defendant and /or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position .

During subsequent year the Municipality paid the amount of \$1,500,000 to the plaintiffs. This amount was paid under an operating loan of \$1,365,000 and the remaining amount was paid with general funds. The loan will be payable in monthly installments ranging from \$35,000 to \$50,000 plus interest as determined by the Governmental Development Bank through 2029.

In addition, the Puerto Rico Secretary of Justice ordered to the Puerto Rico Treasure Department to paid the remaining amount.

At present, the additional amount that the Municipality will be paying, if any, can not be determined.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

GENERAL FUND				
	ORIGINAL BUDGET	BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$ 778,405	\$ 778,405	\$1,285,780	\$507,375
Municipal tax	375,000	375,000	317,369	(57,631)
Grants and entitlements	4,494,680	4,494,680	4,566,753	72,073
Other	<u>396,500</u>	<u>1,016,500</u>	<u>846,691</u>	<u>(169,809)</u>
Total revenues	<u>6,044,585</u>	<u>6,664,585</u>	<u>7,016,593</u>	<u>352,008</u>
Expenditures:				
General administration	2,802,373	2,975,919	2,833,808	142,111
Public safety	349,728	282,228	261,196	21,032
Education, culture and Recreational	440,969	439,159	424,005	15,154
Public works and sanitation	1,130,723	1,549,773	1,671,538	(121,765)
Health and welfare	888,190	880,190	855,684	24,506
Debt service	<u>432,602</u>	<u>537,316</u>	<u>430,376</u>	<u>106,940</u>
Total expenditures	<u>6,044,585</u>	<u>6,664,585</u>	<u>6,476,607</u>	<u>187,978</u>
Excess of revenue over expenditure	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 539,986</u>	<u>\$ 539,986</u>

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$ 845,305
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	237,552
<u>US Department of Justice</u>		
Direct program:		
Edward Byne Memorial		
State and Local Law Enforcement		
Assistant Discretionary Grants Programs	16.580	19,254
<u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	79,511
<u>US Department of Health and Human Services</u>		
Passes through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	140,187
Direct Program:		
Administration for Children Youth and Families		
Head Start	93.600	964,805
<u>US Department of Home and Security</u>		
Passes through:		
PR Office of Management and Budget (GAR)		
Public Assistance Grant	97.036	393,220
<u>US Department of Transportation</u>		
Passes through:		
PR Highway Authority		
Federal Transit Capital Investment Grant	20.500	<u>148,446</u>
		<u>\$2,828,280</u>

MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the 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-133, Audit of States, Local Governments and Non profit organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**REPORT 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 NÚM. 44, AGUAS BUENAS, PUERTO RICO 00703 - TEL.(787) 732-8020 - FAX (787) 732-0685

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

**To the Honorable Mayor and
Municipal Council
Municipality of Adjuntas
Adjuntas, Puerto Rico**

I have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Adjuntas, Puerto Rico**, as of and for the year ended June 30, 2004 which collectively comprise the Municipality of Adjuntas's basic financial statements and have issued my report there on dated November 12, 2004. 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.

Internal Control Over Financial Reporting

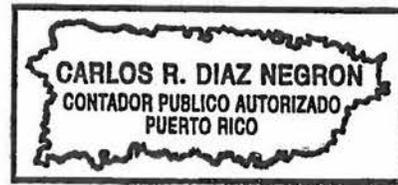
In planning and performing our audit, we considered the Municipality of Adjuntas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Adjuntas's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standard.

This report is intended solely for the information and use of the management and the Municipal Legislative Body 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 13, 2004
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2007

The stamp No. 2002156 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

Carlos R. Diaz Negrón

Certified Public Accountant

P.O. BOX 408 - RAFAEL LASA NÚM. 44, AGUAS BUENAS, PUERTO RICO 00703 - TEL.(787) 732-8020 - FAX (787) 732-0685

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

**To the Honorable Mayor and
Municipal Council
Municipality of Adjuntas
Adjuntas, Puerto Rico**

Compliance

I have audited the compliance of the **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, 2004. Municipality of Adjuntas, Puerto Rico's 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 the Municipality of Adjuntas, Puerto Rico's management. My responsibility is to express an opinion on the Municipality of Adjuntas, Puerto Rico's compliance based on my audit.

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):

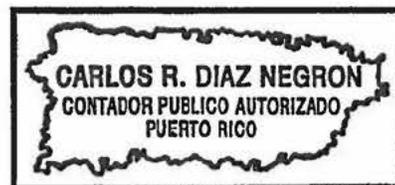
In my opinion, Municipality of Adjuntas, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2004.

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 the 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 reportable 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 caused by error or fraud 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 the Municipal Legislative Body 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 13, 2004
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2007

The stamp No. 2002157 of the Puerto Rico 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, 2004

**MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION I. - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? ___yes X 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-1331 ___yes X no

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.871
97.036
93.575
14.228

Section 8 – Housing Choices Voucher
Public Assistant Grant
Child Care and Development Block Grant
Community Development Block

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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION II. - FINANCIAL STATEMENTS FINDING

NONE

MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE