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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE ADJUNTAS
AUDITORIA 2006-2007
30 DE JUNIO DE 2007

DEPARTAMENTO DE CONTABILIDAD
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
FOR THE YEAR ENDED JUNE 30, 2007**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
FOR THE YEAR ENDED JUNE 30, 2007**

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MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

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

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Legislative Body
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, 2007 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 have been furnish to me, and in my opinion, insofar as it relates to the amounts included for Valle Verde, are 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; the standards applicable to financial audits contained in Government Audit 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 opinion.

In my opinion, the financial statements referred to above present fairly, in all material respect 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, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

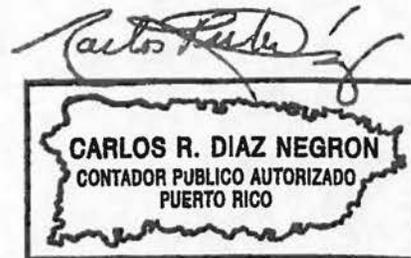
In accordance with Government Auditing Standards, I have also issued my report date December 19, 2007 on my consideration of **Municipality of Adjuntas'** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of 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 important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 42 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 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. Such information has been subjected to the auditing procedures applies in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relations to the basic financial statements taken as a whole.

December 19, 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2297327 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

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, 2007. Please read it in conjunction with the financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets amounting to \$20.5 million in the accompanying statement of net assets, of which most significant are capital assets and cash and cash equivalents amounting to \$10.28 million and \$6.66 million respectively.
- Also, the Statement of Net Assets for the Governmental Activities of the Municipality shows \$8.6 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 Municipality has defendant of a lawsuit filed by approximately 82 individuals who claims political harassment and discrimination. During June 30, 2005 the Municipality paid \$1,365,000 under operational loans to 20 out of 82 plaintiffs. On November 2006 the jury determined in favor of the 62 plaintiffs for the amount of \$12,500,000. This sum must be paid within one hundred and twenty days from entry of this judgment. During fiscal year 2007 the Municipality paid \$619,000 under operational loan to distribute to 62 plaintiffs
- The Statement of Governmental Activities shows that the net assets of the Municipality decreased by \$1,257,972 for the period ended June 30, 2007.
- During the year, the Municipality reported revenues of \$6.28 million in the General Fund of total revenues restricted and unrestricted of \$11.05 million.
- It is interesting to observe that in the Balance Sheet of Governmental Funds, the Municipality has in the State Legislative Joint Resolutions Fund, available cash totaling \$3.30 millions and total assets of \$4.79 millions to develop public works and perform special projects to benefit the Adjuntas' citizenship.
- The Municipality has reported total expenses amounting to \$12.90 million in the accompanying statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

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 page 14 through 16) 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 19. 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.

Overview of the Basic Financial Statements

The Municipality's financial statements include three components:

1. the government-wide financial statements
2. the fund financial statements
3. notes of the financial statements

These components are described below:

Government-wide financial statement: The Government-Wide Financial Statements are designed to provide to readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2007 even if cash involved have not been received or paid. The Government-Wide Financial Statements include: (1) the Statements of Net Assets and (2) the Statement of Activities.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

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 divide the Municipality 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.

Fund Financial Statement: Report the financial position and results of operations of the Municipality's governmental funds. The Fund Financial statement components are the Balance Sheet-government funds and the Statements of Revenues, Expenditures and Changes in Fund Balance. The Fund financial statements 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 of Activities) and governmental *funds* in a reconciliation on this report.

Notes to the Basic Financial Statement: The notes provide additional information that is essential to a full understanding of the data provided in government-wide and the fund financial statements.

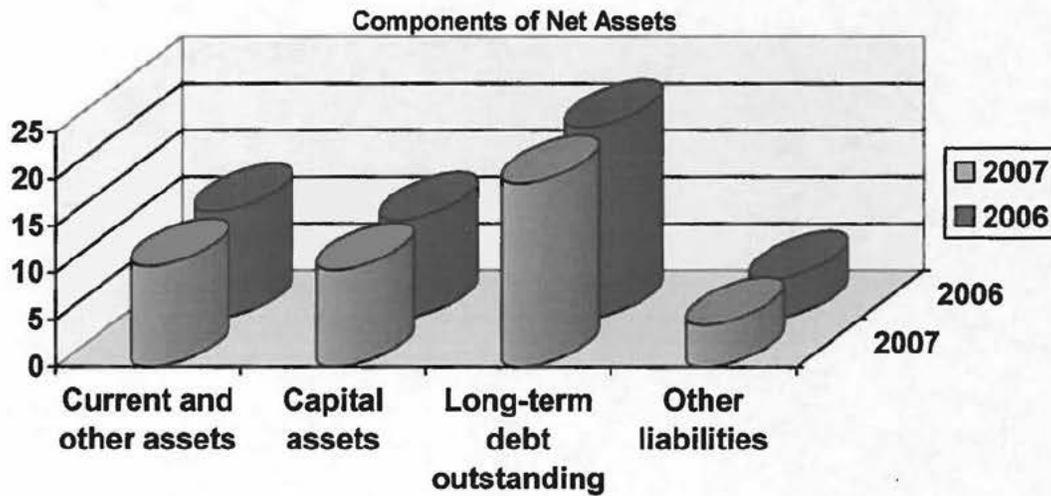
THE MUNICIPALITY AS A WHOLE

The Municipality's combined net assets decreased in the current year by \$ 1.3 millions, to total (\$3.6) 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

**Table 1
NET ASSETS
(in Million)**

	2006	2007
Current and other assets	\$11.4	\$ 9.72
Capital assets	10.5	10.28
Total assets	21.9	20.00
Long-term debt outstanding	(20.4)	(19.60)
other liabilities	(4.2)	(4.48)
Total liabilities	(24.6)	(24.08)
Net assets:		
Invested in capital assets, net of related debt	8.1	7.77
Restricted for:		
Debt services	.4	.40
Capital project	4.5	
Other specified purpose	.8	.76
Unrestricted	(16.5)	(13.01)
Net Assets	<u>\$ (2.7)</u>	<u>\$ (4.08)</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

**Table 2
CHANGES IN NET ASSETS
(in Million)**

Revenues	2006	2007
Program revenues:		
Charges for services		.5
Operating grants and contributions	1.8	1.3
Capital grants and contributions	2.3	2.9
General revenues:		
Property taxes	1.2	1.2
Municipal License tax	.3	.4
Gants and entitlements	4.5	5.2
Other income	.4	.8
Total Revenues	10.5	12.3
 Program Expenses:		
General Administration	3.6	4.7
Public safety	.2	.6
Education	1.5	.8
Public works	3.9	5.0
Health and welfare	.9	1.8
Housing	.5	.5
Other	12.5	.3
Total Expenses:	23.1	13.7
 Increase in Net Assets	 \$(12.6)	 \$ (1.4)

Net assets of the Municipality's governmental activities decreased by \$(1.4) 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.

Financial analysis of the Municipality's Governmental Funds

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental fund is to provide information on near-term inflow, outflow, and balance of spendable resources. Such information is useful in assessing the Municipality's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

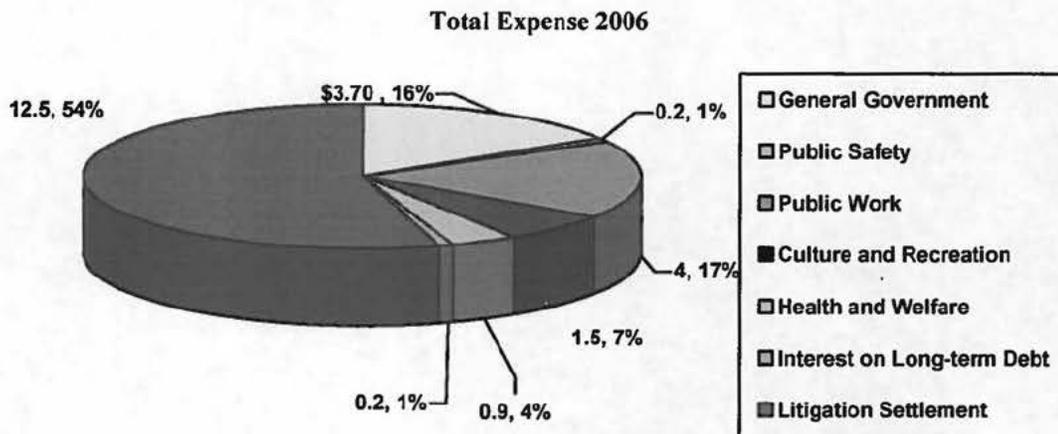
Governmental Activities

The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. 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.

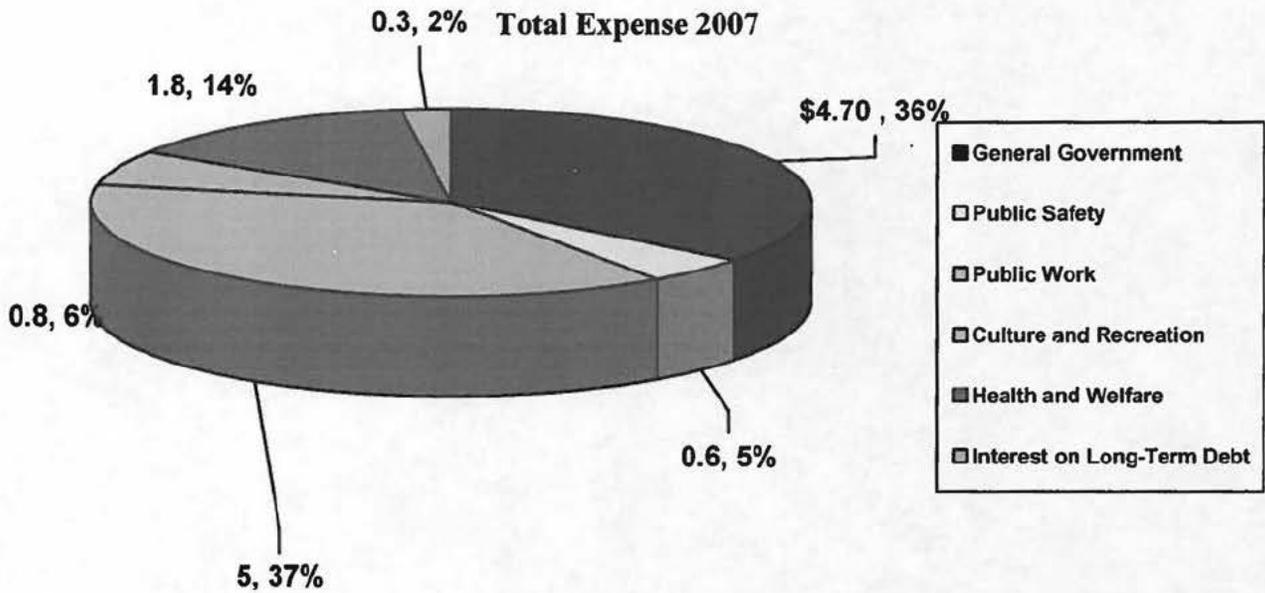
Expenses during the fiscal year ended June 30, 2007 was substantially related to the following:

**Table 3
Governmental Activities
(in Million)**

	Total expenses	
	2006	2007
General Government	\$ 3.7	\$4.7
Public Safety	.2	.6
Public Work	4.0	5.0
Culture, Recreation and Education	1.5	.8
Health and Welfare	.9	1.8
Litigation Settlement	12.5	
Interest on Long-term Debt	.2	.3
Totals	\$ 23.0	\$ 13.2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**



The cost of all governmental activities this year was \$12.3 million compared to \$23.0 million last year. Table 2 presents the cost of each of the Municipality of Adjuntas largest programs. The decrease is due to a litigation that was settled in 2006.

The major sources of general revenue are property taxes, municipal license taxes, and grant and contributions not restricted, which in total represent \$6.71 (88%) and \$5.9 (92%) of all revenues in 2007 and 2006, respectively.

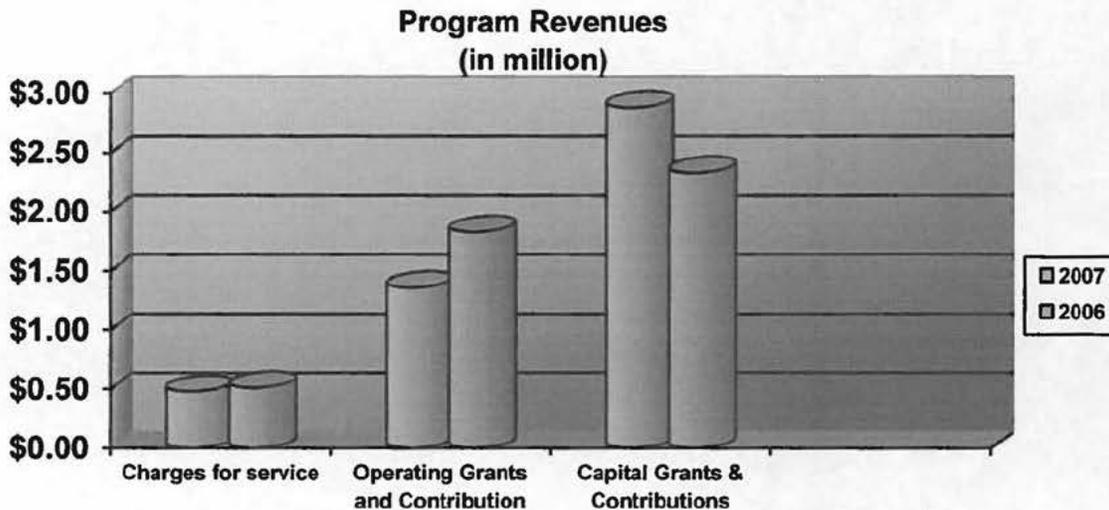
**Table 4
Governmental Activities
(in Million)**

	General Revenues By Major Sources	
	2006	2007
Property Taxes	\$1.17	\$1.17
Municipal License Taxes	.28	.37
Grants and Contributions	4.5	5.17
Totals	\$5.95	\$6.71

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

**Table 5
Governmental Activities
(in Million)**

	Program Revenues by major sources	
	2006	2007
Charges for Service	\$.51	\$.48
Operating Grants and Contribution	1.83	1.36
Capital Grants and Contributions	2.33	2.88
Totals	\$4.67	\$4.72



THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$4.64 million, which is less than last year total of \$6.52 million.

In addition, these other changes in fund balance should be noted:

- The Municipality experienced an increase in the other operating grants and contributions by \$.2 million
- This year the Municipality increased the property tax.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2006-2007 was approved on June 2006, 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.

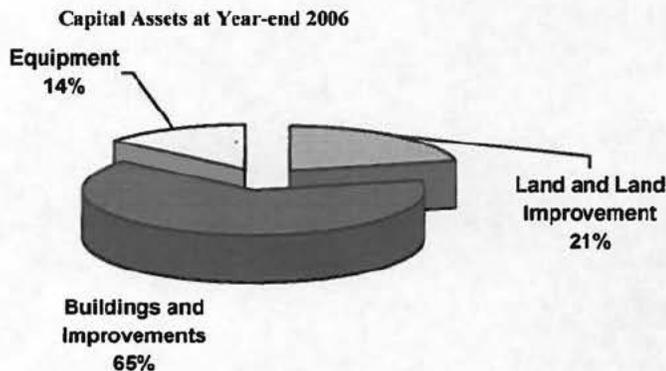
CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

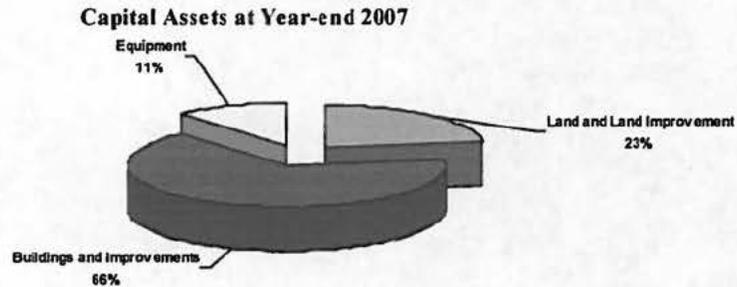
As of June 30, 2007, the Municipality of Adjuntas had \$8.9 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

**Table 6
Capital Assets at Year-End
(Net of depreciation, in Millions)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2007</u>
Land and land improvements	\$1.89	\$1.98
Buildings and improvements	5.72	5.69
Equipment	<u>1.24</u>	<u>.98</u>
Totals	<u>\$8.85</u>	<u>\$8.65</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**



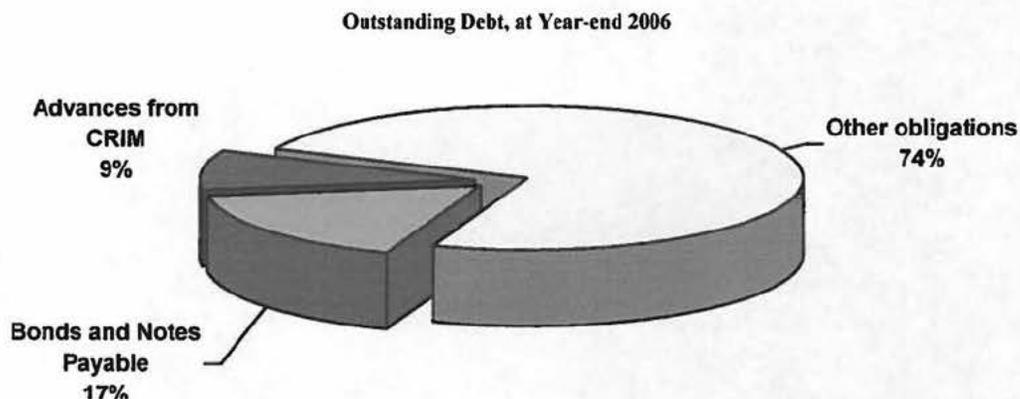
More detailed information about the Municipality's capital assets is presented in Note 8 to the financial statements.

Debt

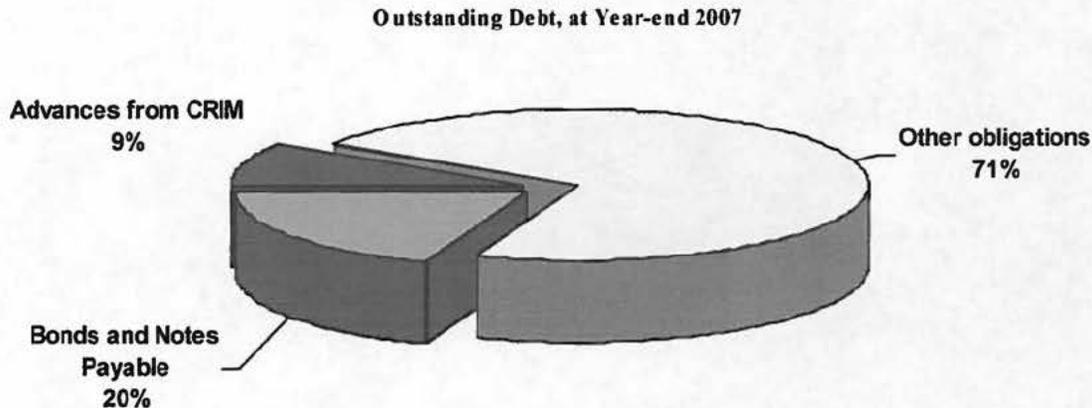
At year-end, the Municipality of Adjuntas had \$20.36 millions, in bonds, notes and other outstanding debts as shown in Table 7.

**Table 7
Outstanding Debt, at Year-End
(in Thousands)**

	Governmental Activities	
	2006	2007
Bonds and Notes payable	\$ 3.23	\$ 3.54
Advances from CRIM	1.68	1.66
Other obligations	13.90	12.95
Totals	\$18.81	\$18.15



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**



New bonds in the amount of \$.62 million were issued. The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave; and claims and judgments. More detailed information about the Municipality's long-term liabilities is presented in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2007, 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 various major projects as a part of the new administration governmental program.

Budgeted expenditures are expected to rise accordingly to the increase in budgeted revenues.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2008.

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
AS OF JUNE 30, 2007

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 6,668,510	\$ 6,949	\$ 6,675,459
Cash with fiscal agent	510,346		510,346
Accounts receivable:			
Other government agencies	1,059,016		1,059,016
Property taxes	646,368		646,368
Sale Tax	57,240		57,240
Other assets		6,623	6,623
Restricted cash		761,838	761,838
Capital assets, net	<u>8,646,322</u>	<u>1,637,785</u>	<u>10,284,107</u>
Total Assets	<u>17,587,802</u>	<u>2,413,195</u>	<u>20,000,997</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	1,142,943	69,039	1,211,982
Deferred revenue:			
Municipal patents	166,588		166,588
Federal funds	2,570,869		2,570,869
Due to other government agencies	521,023		521,023
Long-term debt:			
Due within one year	508,050	90,007	598,057
Due in more than one year	<u>17,638,359</u>	<u>1,371,986</u>	<u>19,010,345</u>
Total Liabilities	<u>22,547,832</u>	<u>1,531,032</u>	<u>24,078,864</u>
Net Assets:			
Invested in capital assets, net of related debt	7,598,573	175,792	7,774,365
Restricted for:			
Debt service	395,279		395,279
Revenue for replacement and others		761,838	761,838
Unrestricted	<u>(12,953,882)</u>	<u>(55,467)</u>	<u>(13,009,349)</u>
Total Net Assets	<u>\$ (4,960,030)</u>	<u>\$ 882,163</u>	<u>\$ (4,077,867)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<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	\$ 4,741,715	\$ 533	\$ 328,519		\$(4,412,663)
Public safety	550,139		1,132		(549,007)
Education, culture and recreational	820,565	350	11,059		(809,156)
Public works and sanitation	4,993,221			\$2,882,876	(2,110,345)
Health and welfare	1,775,341		1,022,420		(752,921)
Interest	<u>265,498</u>				<u>(265,498)</u>
Total governmental activities	13,146,479	883	1,363,130	2,882,876	(8,899,590)
Business type-activities:					
Housing	<u>542,645</u>	<u>474,178</u>			<u>(68,467)</u>
Total	<u>\$13,689,124</u>	<u>\$475,061</u>	<u>\$1,363,130</u>	<u>\$2,882,876</u>	<u>\$(8,968,057)</u>

(Continue)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	<u>\$(8,899,590)</u>	<u>\$(68,467)</u>	<u>\$(8,968,057)</u>
General revenue:			
Taxes:			
Property taxes	1,168,613		1,168,613
Municipal tax	369,330		369,330
Grants and entitlements	5,170,792		5,170,792
Licenses and permits	620,534		620,534
Interest	185,887		185,887
Rent	25,600		25,600
Other	<u>55,682</u>	<u> </u>	<u>55,682</u>
Total general revenues	<u>7,596,438</u>	<u> </u>	<u>7,596,438</u>
Changes in net assets	<u>(1,303,152)</u>	<u>(68,467)</u>	<u>(1,371,619)</u>
Net assets at beginning, as provisions reported	(3,133,305)	950,630	(2,182,675)
Restatement	<u>(523,573)</u>	<u> </u>	<u>(523,573)</u>
Net assets at beginning, as restated	<u>(3,656,878)</u>	<u>950,630</u>	<u>(2,706,248)</u>
Net assets at end	<u>\$(4,960,030)</u>	<u>\$882,163</u>	<u>\$(4,077,867)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

Cash flows from operating activities:	
Cash receivable from tenants and HUD	\$ 440,776
Interest	28,045
Other cash receivable	<u>1,038</u>
	<u>469,859</u>
Administrative	3,501
Management fees	(38,387)
Salaries and wages	(107,005)
Utilities	(17,239)
Operating and maintenance	(56,254)
Miscellaneous taxes and insurance	(60,795)
Interest on mortgage	<u>(104,306)</u>
	<u>(380,485)</u>
Net cash provided by operating activities	<u>89,374</u>
Cash flows from investing activities:	
Deposit to reserve for replacement and interest retained in account	(39,578)
Withdrawal from reserve for replacement	119,558
Deposits to and interest earned and retained for insurance escrow	(19,544)
Withdrawal from insurance escrow	21,524
Interest in residual receipt account	(67)
Purchase of fixed assets	<u>(88,374)</u>
Net cash used by investing activities	<u>(6,481)</u>
Net cash flows used by financing activities:	
Mortgage principal payments	<u>(85,309)</u>
Net decrease (increase) in cash	(2,416)
Cash at beginning of year	<u>9,365</u>
Cash at end of year	<u>\$ 6,949</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
PROPRIETARY FUND
STATEMENT OF CHAS FLOWS (CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007**

Cash flows from operating activities:

Change in the net assets	<u>\$ (68,467)</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	131,536
Increase (decrease) in:	
Receivables	(4,320)
Miscellaneous prepaid expenses	246
Tenant security deposits	1,761
Increase (decrease) in:	
Accounts payable – 30 days	38,412
Payroll	307
Accrued interest	(8,340)
Tenant security deposits	<u>(1,761)</u>
	<u>157,841</u>
Net cash provided by operating activities	<u>\$ 89,374</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2007**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash:					
Cash in bank including saving certificates of \$3,000,000	\$ 989,473		\$3,308,691	\$2,370,346	\$ 6,668,510
Cash with fiscal agent		\$ 387,095		123,251	510,346
Receivables:					
Amount due from:					
Governmental agencies	136,387			922,629	1,059,016
Other funds	1,183,510		1,489,405	1,384,711	4,057,626
Property tax	492,282	154,086			646,368
Sale tax	<u>57,240</u>				<u>57,240</u>
Total assets	<u>\$2,858,892</u>	<u>\$ 541,181</u>	<u>\$4,798,096</u>	<u>\$4,800,937</u>	<u>\$12,999,106</u>
Liabilities:					
Accounts payable and accrued expenses	\$ 411,485		\$ 168,657	\$ 501,200	\$1,081,342
Deferred revenues:					
Municipal patents	166,588				166,588
Property tax	464,696	\$145,452			610,148
Special funds				2,570,869	2,570,869
Others	136,387				136,387
Due to other fund	1,267,913		1,184,096	1,605,617	4,057,626
Due to other government agency	<u>252,189</u>				<u>252,189</u>
Total liabilities	<u>2,699,258</u>	<u>145,452</u>	<u>1,352,753</u>	<u>4,677,686</u>	<u>8,875,149</u>
Fund balance					
Reserve for:					
Debt service		395,729			395,729
Capital projects			3,445,343		3,445,343
Unreserved	<u>159,634</u>			<u>123,251</u>	<u>282,885</u>
Total fund balance	<u>159,634</u>	<u>395,729</u>	<u>3,445,343</u>	<u>123,251</u>	<u>4,123,957</u>
Total liabilities and fund balance	<u>\$2,858,892</u>	<u>\$ 541,181</u>	<u>\$4,798,096</u>	<u>\$4,800,937</u>	<u>\$12,999,106</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
AS OF JUNE 30, 2007**

Fund balances in governmental funds	\$ 4,123,957
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Amounts reported for governmental activities in the Statement of Net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,646,322
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Deferred revenue in the governmental funds that are recorded as revenue in the statement of net assets.	746,535
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Receivable recorded in the governmental activities are not available and therefore are not recorded in the funds financial statements.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Bonds and notes payable	(3,542,000)
Compensated absences	(645,448)
Claims and judgments payable	(11,881,000)
Advances from CRIM	(1,656,527)
Due to PR Health Insurance Administration	(421,434)
Accrued interest	(61,601)
Due to other agencies	<u>(268,834)</u>

<i>Net assets of governmental activities</i>	<u>\$ (4,960,030)</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:					
Taxes:					
Property taxes	\$ 895,953	\$ 269,243			\$ 1,165,196
Municipal taxes	369,330				369,330
Grants and entitlements	5,075,225		\$ 113,302	\$ 4,228,271	9,416,798
Licenses and permits	620,534				620,534
Interest	43,967	15,465	126,455		185,887
Rent	25,600				25,600
Other	<u>37,190</u>			<u>19,375</u>	<u>56,565</u>
Total revenues	<u>7,067,799</u>	<u>284,708</u>	<u>239,757</u>	<u>4,247,646</u>	<u>11,839,910</u>
Expenditures:					
General administration	2,908,460		42,705	2,264,703	5,215,868
Public safety	453,636			2,555	456,191
Educational and recreational	564,307		2,500	11,409	578,216
Public works	1,708,272		634,696	2,865,035	5,208,003
Health sanitation and welfare	642,967			1,104,600	1,747,567
Litigation				619,000	619,000
Debt service:					
Principal		305,000			305,000
Interest		<u>203,897</u>			<u>203,897</u>
Total expenditures	<u>6,277,642</u>	<u>508,897</u>	<u>679,901</u>	<u>6,867,302</u>	<u>14,333,742</u>
Excess of revenue over expenditures	<u>\$ 790,157</u>	<u>\$(224,189)</u>	<u>\$(440,144)</u>	<u>\$ (2,619,656)</u>	<u>\$ (2,493,832)</u>

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Excess of revenues over expenditures	<u>\$ 790,157</u>	<u>\$(224,189)</u>	<u>\$ (440,144)</u>	<u>\$(2,619,656)</u>	<u>\$(2,493,832)</u>
Other financing sources (uses):					
Operating transfer in	32,213	265,130		1,523,399	1,820,742
Operating transfer out	(1,788,529)	(13,721)		(18,492)	(1,820,742)
Proceeds from loan	<u> </u>	<u> </u>	<u> </u>	<u>619,000</u>	<u>619,000</u>
Total other financing sources	<u>(1,756,316)</u>	<u>251,409</u>	<u> </u>	<u>2,123,907</u>	<u>619,000</u>
Excess of revenues and other financing source over expenditures and other financing sources	<u>(966,159)</u>	<u>27,220</u>	<u>(440,144)</u>	<u>(495,749)</u>	<u>(1,874,832)</u>
Fund balance at beginning of year as prior reported	1,649,366	368,509	3,885,487	619,000	6,522,362
Restatement	<u>(523,573)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(523,573)</u>
Fund balance at beginning of year	<u>1,125,793</u>	<u>368,509</u>	<u>3,885,487</u>	<u>619,000</u>	<u>5,998,789</u>
Fund balance at end of year	<u>\$ 159,634</u>	<u>\$ 395,729</u>	<u>\$3,445,343</u>	<u>\$ 123,251</u>	<u>\$ 4,123,957</u>

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

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**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, 2007**

Net change in fund balances – total governmental funds **\$(1,874,832)**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

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. 719,366

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. 305,000

Amount receivable from other agencies that are not available in the funds financial statements. 157,895

Change in accrued expenses and deferred revenues which do not require the use of current financial resources:

Compensating absences	61,986
Litigation settlement	619,000
Deferred Revenues	3,417
Interest	(61,601)

Governmental funds report payments of other long-term debt as expenditures whereas the payment reduces the long-term is the obligate in the statement of net assets. 306,148

Proceed from issuance of a note was recorded as other financial sources in the funds financial statements, but the note increase long-term liabilities in the statement of net assets. (619,000)

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. (920,531)

Changes in Net Assets of Governmental Activities **\$(1,303,152)**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 personal 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 Legislative Body, 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). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organization 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 the Municipality's Legislative Body through the budgetary process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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 segment 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 statement segregates 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Proprietary fund financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund net assets, and a statements of cash flows for the proprietary fund which causes of a low income Housing project know as Valle Verde Housing.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net assets present increases (revenues) and decrease (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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) Capital projects

Represents the reservations of amounts available under state grant programs and loans for capital projects.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by 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 liability to the CRIM is recorded at June. 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

3. PROPERTY TAX (CONTINUED)

The annual rate for fiscal year 2007 is 8.53% for real property and 6.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected.

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, 2007, the amount due to CRIM amounting to \$1,656,527 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, 2007, \$166,588 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

5. INTERGOVERNMENTAL REVENUES (CONTINUED)

Total property tax receivable, net of an allowance for uncollectible accounts of \$1,290,570, amounted to \$646,368 at June 30, 2007. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2007:

	<u>General Fund</u>	<u>Debt service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$1,475,186	\$ 461,742	\$ 1,936,928
Less:			
Allowance for uncollectible accounts	<u>(982,904)</u>	<u>(307,656)</u>	<u>(1,290,560)</u>
Net property taxes receivable	<u>\$ 492,282</u>	<u>\$ 154,086</u>	<u>\$ 646,368</u>
Deferred (unavailable) property tax revenues in GFFS	<u>\$ 464,637</u>	<u>\$ 145,452</u>	<u>\$ 610,149</u>

6. DEFERRED REVENUE

Municipal license tax collected in the fiscal year 2006-2007 corresponding to the following fiscal year.	\$ 166,588
Portion of grants received for which qualifying expenditures have not been incurred.	2,560,132
Property tax receivable but not available.	<u>610,148</u>
	<u>\$3,336,868</u>

7. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Escrow deposit	\$ 20,113
Tenant security deposits	12,987
Reserve for replacement	722,625
Residual receipts	<u>6,113</u>
	<u>\$761,838</u>

Under the term of the Administrative Order, Valle Verde Housing (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' general operating account. Restricted funds are held in separate accounts and are not available for operating purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government	<u>Balance</u> <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,893,680	\$ 89,500		\$ 1,983,180
Capital assets being depreciated:				
Buildings	7,286,721	125,000		7,411,721
Equipment and vehicles	<u>3,182,285</u>	<u>504,866</u>		<u>3,687,151</u>
Total capital assets being depreciated	<u>10,469,006</u>	<u>629,866</u>		<u>11,098,872</u>
Less accumulated depreciation for:				
Buildings	1,571,710	154,543		1,726,253
Equipment and vehicles	<u>1,943,489</u>	<u>765,988</u>		<u>2,709,477</u>
Total	<u>3,515,199</u>	<u>920,531</u>		<u>4,435,730</u>
Total depreciable capital assets, net	<u>6,953,807</u>	<u>(290,665)</u>		<u>6,663,142</u>
Governmental activities capital assets net	<u>8,847,487</u>	<u>(201,165)</u>		<u>8,646,322</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	3,983,215	87,475		4,070,690
Equipment	<u>474,885</u>	<u>899</u>		<u>475,784</u>
	4,458,100	88,374		4,546,474
Less accumulated depreciation:				
Building and improvements and equipment	<u>3,140,012</u>	<u>131,536</u>		<u>3,271,548</u>
Total depreciation, capital, assets net	<u>1,318,088</u>	<u>(43,162)</u>		<u>1,274,926</u>
Business activities capital assets, net	<u>\$ 1,680,947</u>	<u>\$ (43,162)</u>	<u>\$</u>	<u>\$ 1,637,785</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

8. CAPITAL ASSETS (CONTINUED)

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General administration	\$ 51,876	
Public safety	93,948	
Public works	504,584	
Education, culture and recreation	242,349	
Health, sanitation and welfare	27,774	
Housing	<u> </u>	<u>\$131,536</u>
Total depreciation expense	<u>\$920,531</u>	<u>\$131,536</u>

9. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2007 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 and bonds payable	\$ 3,228,000	\$ 619,000	\$ 305,000	\$ 3,542,000	\$206,000
Other long-term debt:					
Claims and judgments payable	12,500,000		619,000	11,881,000	
Compensated absences	707,434		61,986	645,448	
Amount due to:					
CRIM	1,683,827		27,300	1,656,527	29,015
PR Health Insurance Administration	<u>700,282</u>	<u> </u>	<u>278,848</u>	<u>421,434</u>	<u>200,000</u>
Total	18,819,543	619,000	1,292,134	18,146,409	435,015
Business-type activities:					
Mortgage payable	<u>1,547,302</u>	<u> </u>	<u>85,309</u>	<u>1,461,993</u>	<u>90,007</u>
Total	<u>\$20,366,845</u>	<u>\$ 619,000</u>	<u>\$1,377,443</u>	<u>\$19,608,402</u>	<u>\$525,022</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

9. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

A. Notes and Bonds:

\$245,000 Public Improvement Serial Bond of 1988 payable in annual installments of \$15,000 to \$17,000 through January 2011 plus interest at 5%.	\$ 63,000
\$595,000 Public Improvement Serial Bonds of 1988 payable in annual installments ranging from \$35,000 to \$42,000 through January 1, 2011, plus interest at 5%.	153,000
\$200,000 Public Improvement Serial Bond of 1990 payable in annual installments ranging from \$10,000 to \$15,000 through January 1, 2015, plus interest at 5%.	95,000
\$465,000 Public Improvement Serial Bond of 1995 payable in annual installments ranging from \$45,000 to \$55,000 through July 1, 2009, plus interest at 6.20%	145,000
\$1,355,000 Special Obligation Note of 1993 payable in quarterly installments ranging from \$19,000 to \$20,000 through April 1, 2013, plus interest at Libor 90 days plus 1.25%.	457,000
\$400,000 Special Obligation Bond of 1996 payable in annual installments ranging from \$20,000 to \$40,000 through January 1, 2015, plus interest at Libor 90 days plus 1.25%	245,000
\$1,365,000 General Municipal Obligation Bond of 2004 payable in annual installments ranging from \$35,000 to \$85,000 through July 1, 2029 plus interest at 5%.	1,295,000
\$619,000 Special Obligation Note of 2006 payable in annual installments ranging from \$82,000 to \$106,000 through July 1, 2012, plus interest at Libor 90 days plus 1.25%.	470,000
\$619,000 General Municipal Obligation Bond of 2007 payable in annual installment ranging from \$9,000 to \$52,000 through July 1, 2031 plus interest at Libor 90 days plus 1.25%	<u>619,000</u>
	<u>\$3,542,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007**

9. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2007 are as follows:

Notes and Bonds Payable <u>Year ended June 30</u>	Governmental –type Activities	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 206,000	\$ 164,749
2009	334,000	186,197
2010	360,000	164,431
2011	321,000	125,796
2012	269,000	126,663
2013-2017	693,000	473,655
2018-2022	389,000	344,531
2023-2027	501,000	214,327
2028-2030	<u>469,000</u>	<u>61,205</u>
	<u>\$3,542,000</u>	<u>\$1,861,554</u>

Advances from CRIM

This amount represents the balance owed to CRIM at June 30, 2007 as described in Note 3 and is payable in monthly installments of \$10,922 through 2032 including interest at 6.1%. The advances from CRIM mature as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 29,015	\$ 102,050
2009	30,838	100,227
2010	32,775	98,290
2011	34,834	96,231
2012	37,023	94,022
2013-2017	223,065	432,262
2018-2022	302,509	352,818
2023-2027	410,246	245,081
2028-2032	<u>556,222</u>	<u>99,105</u>
	<u>\$1,656,527</u>	<u>\$1,620,076</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007**

9. LONG-TERM DEBTS (CONTINUED)

Health Reform Insurance Liability

The amount due to the Puerto Rico Health Insurance Administration is related with a unpaid balance from year ended at June 30, 1997 arose from with the implementation of Act No. 72 of September 7, 1993, which established contributions for the medical services covered by the Health Reform based on the operational budget of the municipalities. The unpaid balance will be amortized through the proportional participation of the municipalities to the annual increase in electronic lottery income which will be collected and withheld by the Treasury Department of Puerto Rico.

Business-type activities:

Mortgage note payable in monthly installments of \$17,157 including interest at 8% through 2018. The note is collateralized by land and building. The note matures as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 90,007	\$115,896
2009	97,626	108,277
2010	105,889	100,014
2011	114,852	91,051
2012	124,574	81,329
2013-2017	828,454	201,060
2018	<u>100,591</u>	<u>2,360</u>
	<u>\$,1461,993</u>	<u>\$699,987</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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 services 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

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 interest 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 benefits 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 and employer contributions to the above mentioned plans during the year ended June 30, 2007 amounted to approximately \$172,576 and \$205,089, respectively. 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, 2007, a copy of which can be obtained from the Retirement System.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007

11. CONTINGENCIES

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 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.

The Municipality has been named defendant of a lawsuit filed by approximately 82 individuals who claim political harassment and discrimination. On December 3, 2001 the jury determined in favor of 20 out of 82 plaintiffs for the amount of \$6,956,400. During the year the ended June 30, 2005, 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. In addition, the Puerto Rico Secretary of Justice ordered to the Puerto Rico Treasury Department to paid the remaining amount. For the remaining 62 plaintiffs, the parties informed the Court that they have settled the claims, and the Municipal Legislative Body approved the settlement. On November 2007, the parties stipulated to pay \$12,500,000 to the remaining 62 plaintiffs. This sum should be paid within one hundred and twenty days from the date of stipulation. During the year ended June 30, 2007, the Municipality obtained a loan amounting to \$619,000 which proceed was used to partially pay the amount due. However, the Municipality was unable to obtain financing to pay the balance due. Accordingly, a liability of \$11,881,000 has been recorded in the governmental activities financial statements.

12. RESTATEMENT

The fund balance of the general fund and net assets as previously reported in the 2006 financial statements have been restated to correct amount due from other agencies witch was overstated by \$523,573.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2007**

GENERAL FUND

	<u>ORIGINAL BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$ 815,370	\$ 815,370	\$ 895,953	\$ 80,583
Municipal tax	306,339	306,339	369,330	62,991
Grants and entitlements	5,073,234	5,073,234	5,075,225	1,991
Licenses and permits	281,380	281,380	620,534	339,154
Interest	118,000	118,000	76,180	(41,820)
Rent	55,050	55,050	25,600	(29,450)
Other	<u>452,277</u>	<u>452,277</u>	<u>37,190</u>	<u>(415,087)</u>
Total revenues	<u>7,101,650</u>	<u>7,101,650</u>	<u>7,100,012</u>	<u>(1,638)</u>
Expenditures:				
General administration	3,829,444	3,829,444	2,908,460	920,984
Public safety	477,344	477,344	453,636	23,708
Education, culture and Recreational	651,581	651,581	564,307	87,274
Public works and sanitation	1,438,684	1,438,684	1,708,272	(269,588)
Health and welfare	<u>694,597</u>	<u>694,597</u>	<u>642,967</u>	<u>51,630</u>
Total expenditures	<u>7,091,650</u>	<u>7,091,650</u>	<u>6,277,642</u>	<u>814,008</u>
Excess of revenue over expenditure	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 822,370</u>	<u>\$ 812,370</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISSON
JUNE 30, 2007

1. 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 Fund. 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 May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Public hearings are conducted at the Municipal Legislative Body 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 Legislative Body.
- 6) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions. No legal budget is adopted for other than general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISSON (CONTINUED)
JUNE 30, 2007

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

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

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles (GAAP) basis	\$7,067,799	\$6,277,642
Transfer in included as revenues in budgetary basis	<u>32,213</u>	<u> </u>
Budgetary basis	<u>\$7,100,012</u>	<u>\$6,277,642</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant/ State Grant	14.228	\$ 264,015
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	186,773
<u>US Department of Health and Human Services</u>		
Passes through:		
PR Department of Family:		
Direct Program:		
Head Start	93.600	852,385
<u>US Department of Agriculture</u>		
Passes through:		
Puerto Rico Department of Education		
Child an Adult Care Food Program	10.558	65,442
<u>US Department of Home and Security</u>		
Passes through:		
PR Office of Management and Budget (GAR)		
Public Assistance Grant	97.036	<u>1,061,154</u>
		 <u>\$2,429,769</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Adjuntas and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

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

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**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 Legislative Body
Municipality of Adjuntas
Adjuntas, Puerto Rico**

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Adjuntas**, as of and for the year ended June 30, 2007 which collectively comprise the Municipality of Adjuntas' basic financial statements and have issued my report there on dated December 19, 2007. Others auditors audited the financial statements of The Valle Verde Housing, as described in my report on Municipality of Adjuntas' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors. 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 Financing Reporting

In planning and performing my audit, I considered Municipality of Adjuntas' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Municipality of Adjuntas' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Adjuntas' internal control over financial reporting.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Adjuntas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Adjuntas' financial statements that is more than inconsequential will not be prevented or detected by Municipality of Adjuntas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Municipality of Adjuntas' internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Material

A part of obtaining reasonable assurance about whether Municipality of Adjuntas' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Municipality of Adjuntas's response to the findings in my audit is described in the accompanying schedule of finding's and questioned cost. We did not audit Municipality of Adjuntas's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Legislative Body, others within the entity, and 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.

December 19, 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2010



The stamp No. 2297328 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**

**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 Legislative Body
Municipality of Adjuntas
Adjuntas, Puerto Rico*

Compliance

I have audited the compliance of the Municipality of Adjuntas, 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, 2007. Municipality of Adjuntas' 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' management. My responsibility is to express an opinion on the Municipality of Adjuntas' compliance based on my audit. Municipality of Adjuntas' basic financial statements include the operations of the Valle Verde Housing (business type activities), which expensed \$906,164 in federal awards which is not included in the schedule during the year ended June 30, 2007. My audit described below did not include the operation of the business type activities because those statements were audited by other auditors.

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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Adjuntas' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Adjuntas' compliance with those requirements.

In my opinion, the Municipality of Adjuntas' 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, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedules of findings and questioned costs as item 01-07 to 05-07.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

Internal Control Over Compliance

The management of Municipality of Adjuntas, 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' 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 my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Municipality of Adjuntas' internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 01-07 to 05-07 to be significant deficiencies.

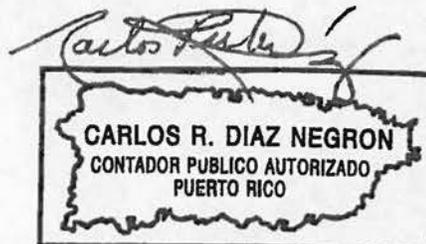
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. I do not consider any of the deficiencies described in the accompanying schedules of findings and questioned costs to be material weaknesses.

Municipality of Adjuntas's response to the findings in my audit is described in the accompanying schedule of finding's and questioned cost. We did not audit Municipality of Adjuntas's response and accordingly, I express no opinion on it.

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.

December 19, 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2297329 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

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 Xno
- Reportable condition(s) identified that is not considered to be material weaknesses? Xyes ___no

Noncompliance material to financial statement noted? ___yes Xno

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 Xyes ___no

Identification of major programs:

<u>CFA Number(s)</u>	<u>Name of Federal Program</u>
14.871	Section 8 – Housing Choice Voucher
14.228	Community Development Block Grants/State's Program
97.036	Public Assistant Grant

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

Audit qualified as low-risk audited? ___yes Xno

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION II – FINANCIAL STATEMENT FINDING

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 01-07 – Waiting List

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Special Tests and Provisions – Waiting List

Category:

Compliance

Condition:

During my examination, I noted that a Participant admitted to the program was not selected from the waiting list as required by the administrative plan. No documentation in the Participant's file was found for this determination.

Criteria:

24 CFR sections 5.410, 982.54(d), and 982.201 through 982.207 establish that the PHA must have written policies in its HCVP administrative plan for selecting applicants from the waiting list and PHA documentation must show that the PHA follows these policies when selecting applicants for admission from the waiting list. Except as provided in 24 CFR section 982.203 (Special admission (non-waiting list)), all families admitted to the program must be selected from the waiting list. "Selection" from the waiting list generally occurs when the PHA notifies a family whose name reaches the top of the waiting list to come in to verify eligibility for admission.

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations, and provisions of contracts grant awards could also questioned.

Questioned costs:

None

Recommendation:

I recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program. The internal control system should include at least that file should be revised the internal audit department.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 02-07 – Davis-Bacon Act

Federal Program

CFDA – 97.036 Public Assistance Grants

Compliance requirement:

Davis-Bacon Act

Category:

Compliance

Condition:

As part of my audit procedures we tested 16 disbursements to test the compliance with the Davis-Bacon Act for Public Assistance Grants program. In all disbursements amounting to \$521,755, neither the copy of the payroll nor the statement of compliance were found for examination.

Criteria:

The Davis-Bacon Act requires that all construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost:

None

Recommendation:

I recommend the Municipality to establish an adequate internal control system to ascertain compliance with the Davis-Bacon Act.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 03-07 – Davis-Bacon Act

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Davis-Bacon Act

Category:

Compliance

Condition:

As part of my audit procedures I tested 5 disbursements to test the compliance with the Davis-Bacon Act for Community Development Block Grant. In three disbursements amounting to \$23,750 neither the copy of the payroll nor the statement of compliance were not found for examination.

Criteria:

The Davis-Bacon Act requires that all construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost

None

Recommendation:

I recommend the Municipality to establish an adequate internal control system to ascertain compliance with the Davis-Bacon Act.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 04-07 – Procurement and Suspension and Debarment

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Procurement and Suspension and Debarment

Category:

Compliance

Condition:

As part of my audit procedures we tested 5 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In four of the 5 disbursements amounting \$279,269 we did not find that the Municipality complied with Suspension and Debarment requirement and in one disbursement amounting to \$16,461 the Municipality did not comply with the procurement requirement.

Criteria:

Procurement:

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 04-07 – Procurement and Suspension and Debarment (Continued)

Suspension and Debarment:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under nonprocurement suspension and debarment rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 (the “small purchase” or “simplified acquisition threshold”). A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date “covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost:

\$16,461

Recommendation:

I recommend the Municipality to establish an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 05-07 – Suspension and Debarment

Federal Program

CFDA – 97.036 Public Assistance Grants

Compliance requirement:

Suspension and Debarment

Category:

Compliance

Condition:

As part of my audit procedures we tested 16 disbursements to test the compliance with the Procurement and Suspension and Debarment for Public Assistance Grants program. In all disbursements amounting \$863,721 we did not find that the Municipality complied with this compliance requirement.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under nonprocurement suspension and debarment rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 (the "small purchase" or "simplified acquisition threshold"). A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date "covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Effect:

The Municipality could be exposed to administrative action by the grantor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 05-07 – Suspension and Debarment (continued)

Questioned cost:

None

Recommendation:

I recommend the Municipality to establish an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS**

EXHIBIT - I

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2007

**FEDERAL PROGRAMS CORRECTIVE ACTION PLAN
MUNICIPALITY OF ADJUNTAS**

Prepared March 2008

FINDING NO. 01-07 Waiting List - Section 8

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
The PHA does not select from waiting list in accordance with the PHA selection policies.	<ol style="list-style-type: none"> 1. Update written procedures. 2. Prepare the waiting list according to the priorities and preference order. 	<p>Establish supervision and quality control measures.</p> <p>Keep the waiting list manageable without creating a management burden.</p>	None	HCV Guidebook	Director & Technician program	Done		

FINDING NO. 02-07 Public Assistance Grants

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
Public Assistance Grant of Municipality of Adjuntas do not observed the compliance with Davis-Bacon Act. few copies of the payroll were found.	Obtain all copies of payroll for the all contractions contract in excess of \$2,000 finance by federal assistance Funds.	Maintain relationship with all Contractors that execute work to municipality and obtain all payrolls paid with federal assistance fund.	None	David-Bacon Act	Federal Program Director	June 30, 2008		

**MUNICIPALITY OF ADJUNTAS
CORRECTIVE ACTION PLAN**

FINDING NO. 03-07 Community Development Block Grant

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
Community Development Block Grant of Municipality of Adjuntas do not observed the compliance with Davis-Bacon Act, few copies of the payroll were found.	Obtain all copies of payroll for the all contractions contract in excess of \$2,000 finance by federal assistance Funds.	Maintain relationship with all Contractors that execute work to municipality and obtain all payrolls paid with federal assistance fund.	None	David-Bacon Act	Federal Program Director	June 30, 2008		

FINDING NO. 04-07Community Development Block Grant

Program Deficiency	Objectives	Key Tasks/Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
CDBG of Municipality do not complied with the Procurement and Suspension and Debarment	The Municipality will ensure that every purchased order or contract includes any clauses required by federal statutes and executive orders and their implementing regulations.	Establish an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.	None	A-102 Common Rule and OMB Circular A-110	Federal Program Director	June 30, 2008		

**MUNICIPALITY OF ADJUNTAS
CORRECTIVE ACTION PLAN**

FINDING NO. 05-07 Public Assistance Grants

Program Deficiency	Objectives	Key Tasks/Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
Public Assistance Grant of Municipality do not complied with the Procurement and Suspension and Debarment	The Municipality will ensure that every purchased order or contract includes any clauses required by federal statutes and executive orders and their implementing regulations.	Establish an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.	None	A-102 Common Rule and OMB Circular A-110	Federal Program Director	June 30, 2008		