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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2008**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
FOR THE YEAR ENDED JUNE 30, 2008**

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MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008



Gobierno Municipal de Adjuntas
Departamento de Finanzas y Presupuesto
Apartado 1009
Adjuntas, Puerto Rico 00601



Sr. Jorge I. Quiles Feliciano
Director de Finanzas

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28 de abril de 2009

Sr. Raymond Vega Clemente
Sub-Comisionado Auxiliar
Asesoramiento, Reglamento
e Intervención Fiscal
O C A M
PO Box 70167
San Juan, Puerto Rico 00936-8167

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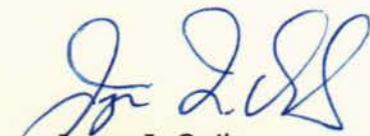
Estimado señor Vega:

Reciba un saludo cordial de todos los que trabajamos en la Administración Municipal de Adjuntas, que dirige nuestro Alcalde Jaime H. Barlucea Maldonado.

Adjunto el correspondiente "Single Audit" al 30 de junio de 2008, para su edificación y tracto correspondiente.

Con nuestro saludo y respeto, quedo

Cordialmente,


Jorge I. Quiles
Director de Finanzas

C-514

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, 2008 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, 2008, 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):

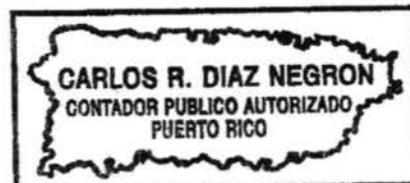
In accordance with Government Auditing Standards, I have also issued my report date December 5, 2008 on my consideration of **Municipality of Adjuntas'** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements 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 14 and 43 through 45 are not a 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 5, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2373635 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, 2008**

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, 2008. Please read it in conjunction with the financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets amounting to \$25.4 million in the accompanying statement of net assets, of which most significant are capital assets and cash and cash equivalents amounting to \$9.05 million and \$13.39 million respectively.
- Also, the Statement of Net Assets for the Governmental Activities of the Municipality shows \$11.69 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 is the 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. In 2008 the Municipality paid \$633,000.
- The Statement of Governmental Activities shows that the net assets of the Municipality increased by \$1,192,984 for the period ended June 30, 2008.
- During the year, the Municipality reported revenues of \$8.08 million in the General Fund of total revenues restricted and unrestricted of \$12.06 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 \$1.31 millions and total assets of \$3.80 millions to develop public works and perform special projects to benefit the Adjuntas' citizenship.
- The Municipality has reported total expenses amounting to \$12.08 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, 2008**

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 15 through 17) 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 20. 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, 2008 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 report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008

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-governmental 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

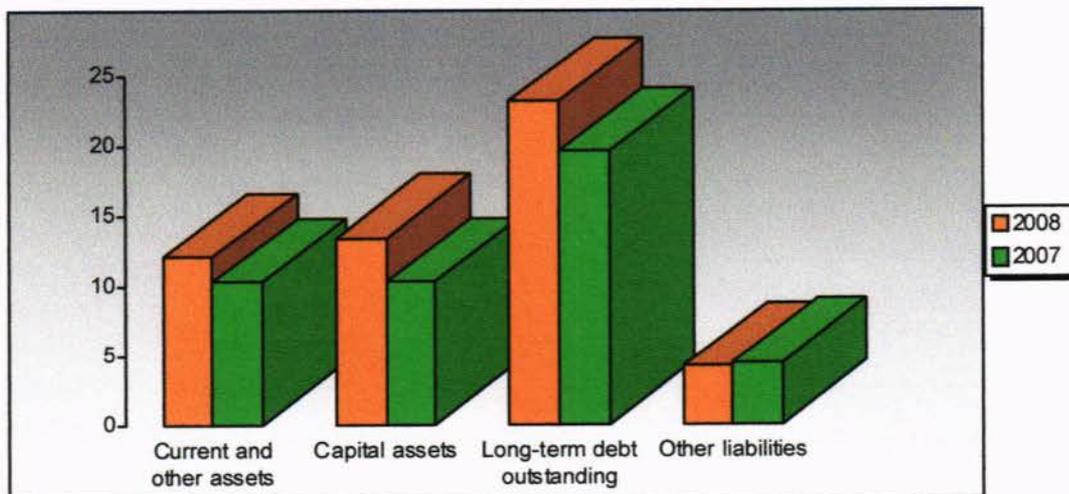
The Municipality's combined net assets deficiency decreased in the current year by \$1.70 millions, to total (\$1.86) million at end of year. Table 1 and 2 focus on the net assets and changes in net assets of the Municipality's governmental and business-type activities for the current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

	<u>2007</u>	<u>2008</u>
Current and other assets	\$ 10.22	\$ 12.09
Capital assets	<u>10.28</u>	<u>13.39</u>
Total assets	<u>20.50</u>	<u>25.48</u>
Long-term debt outstanding	-19.6	-21.72
other liabilities	<u>-4.46</u>	<u>-5.62</u>
Total liabilities	<u>\$(24.06)</u>	<u>\$(27.34)</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 7.77	\$ 10.74
Restricted for:		
Debt services	0.41	0.31
Capital project		
Other specified purpose	0.76	0.81
Unrestricted	<u>-12.5</u>	<u>-13.72</u>
Net Assets	<u>\$(3.56)</u>	<u>\$(1.86)</u>

Components of Net Assets



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

Revenues	<u>2007</u>	<u>2008</u>
Program revenues:		
Charges for services	\$ 0.40	\$ 0.42
Operating grants and contributions	1.30	1.27
Capital grants and contributions	2.80	2.13
General revenues:		
Property taxes	1.10	1.29
Municipal taxes	0.30	1.21
Grants and entitlements	4.30	5.98
Other income	<u>1.30</u>	<u>0.98</u>
Total Revenues	<u>\$ 11.50</u>	<u>\$13.28</u>
Program Expenses:		
General Administration	\$ 3.30	\$ 5.39
Public safety	0.60	0.53
Education, culture and recreational	0.80	0.77
Public works	5.00	2.85
Health and welfare	1.80	1.83
Housing	0.50	.45
Other	<u>0.90</u>	<u>0.27</u>
Total Expenses:	<u>12.90</u>	<u>12.09</u>
Increase in Net Assets	<u>\$ (1.40)</u>	<u>\$ 1.19</u>

Net assets deficiency of the Municipality's governmental activities decreased by \$1.63 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, 2008**

Governmental Activities

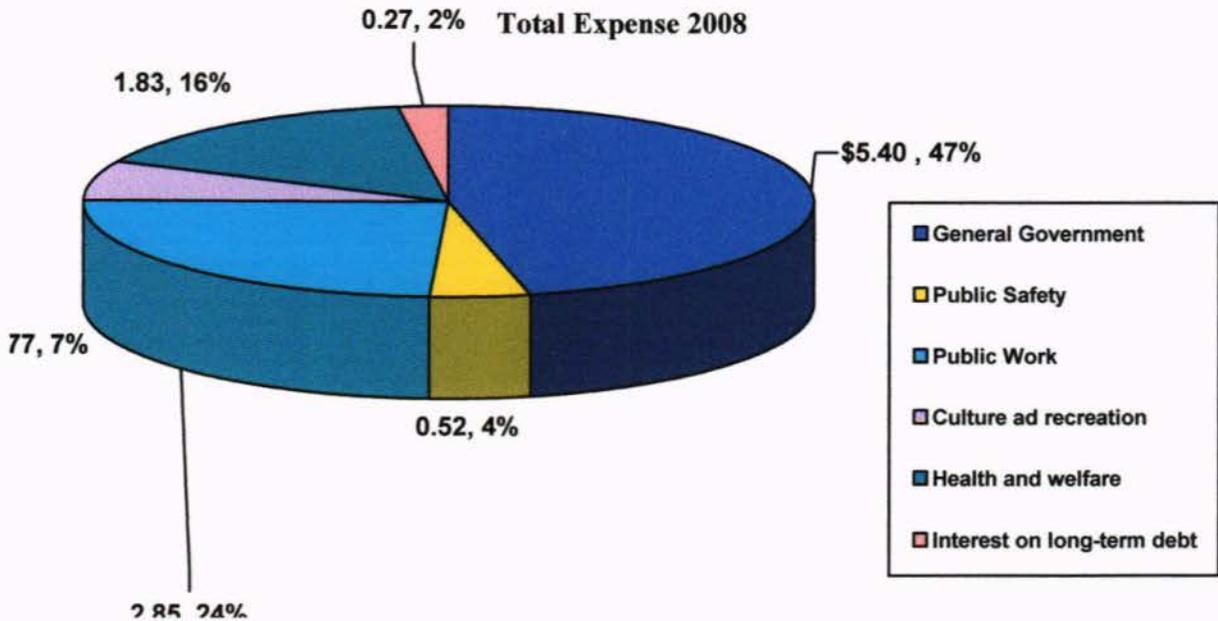
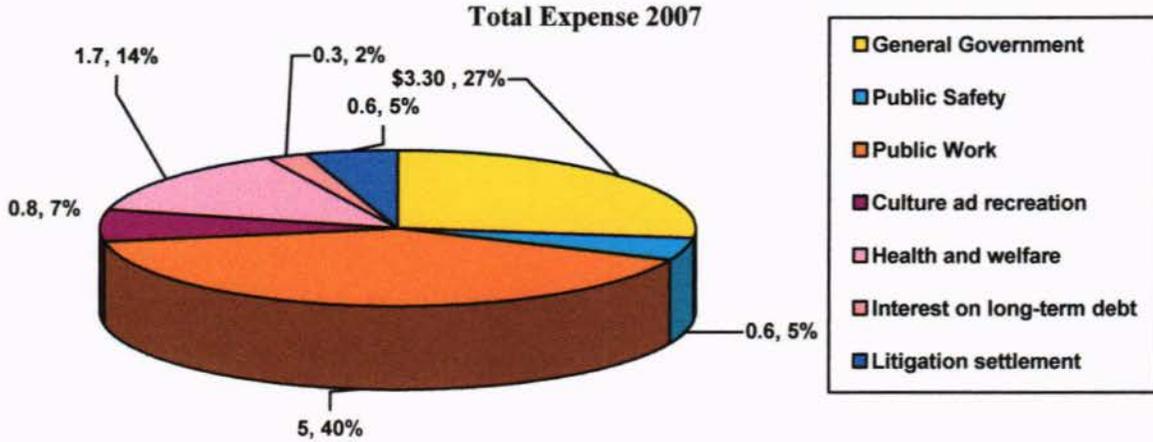
The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. 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, 2008 was substantially related to the following:

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

	Total expenses	
	<u>2007</u>	<u>2008</u>
General Government	\$ 3.30	\$ 5.40
Public Safety	0.60	0.52
Public Work	5.00	2.85
Education, culture and recreation	0.80	0.77
Health and welfare	1.70	1.83
Litigation settlement	0.60	-
Interest on long term debt	<u>0.30</u>	<u>0.27</u>
Totals	<u>\$12.30</u>	<u>\$11.64</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**



The cost of all governmental activities this year was \$11.64 million compared to \$12.3 million last year. Table 2 presents the cost of each of the Municipality of Adjuntas largest programs.

The major sources of general revenue are property taxes, municipal sales taxes, and grant and contributions not restricted, which in total represent \$8.2 (87%) and \$5.9 (86%) of all revenues in 2008 and 2007, respectively.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

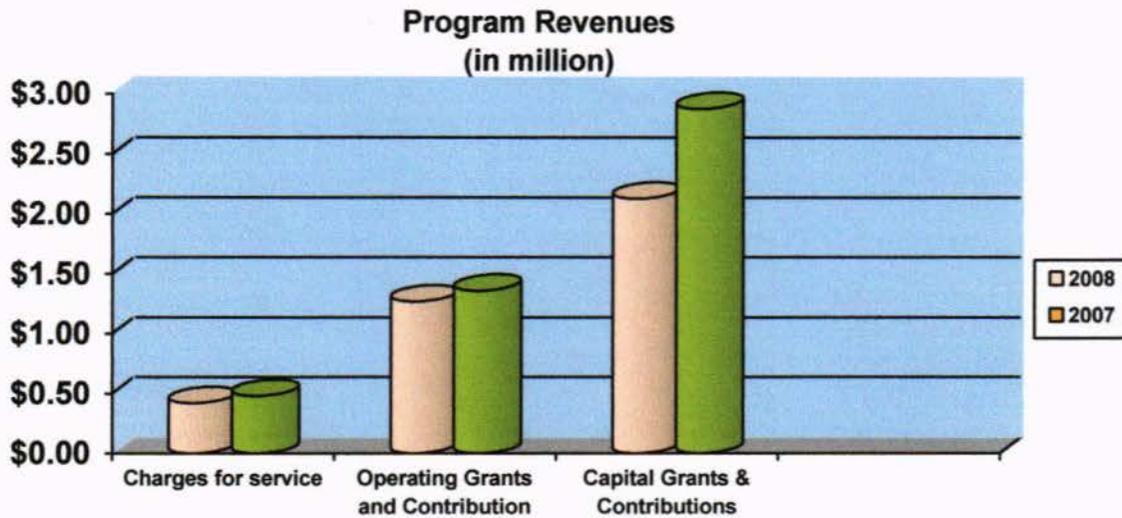
**Table 4
Governmental Activities
(in Million)**

	General Revenues By major sources	
	<u>2007</u>	<u>2008</u>
Property taxes	\$1.17	\$1.29
Municipal sales taxes	.37	.95
Grants and contributions	<u>4.38</u>	<u>5.97</u>
Totals	<u>\$5.92</u>	<u>\$8.21</u>

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

	Program Revenues by major sources	
	<u>2007</u>	<u>2008</u>
Charges for service	\$.48	\$.42
Operating Grants and Contribution	1.36	1.27
Capital Grants and Contributions	<u>2.88</u>	<u>2.13</u>
Totals	<u>\$4.72</u>	<u>\$3.82</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**



THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$6.19 million, which is more than last year total of \$4.67 million.

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

- The Municipality has a proceeds for issue a long term debt of \$4,322 note fund.
- This year the Municipality increases the property tax and sales tax collections.

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2007-2008 was approved on June 2007, 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

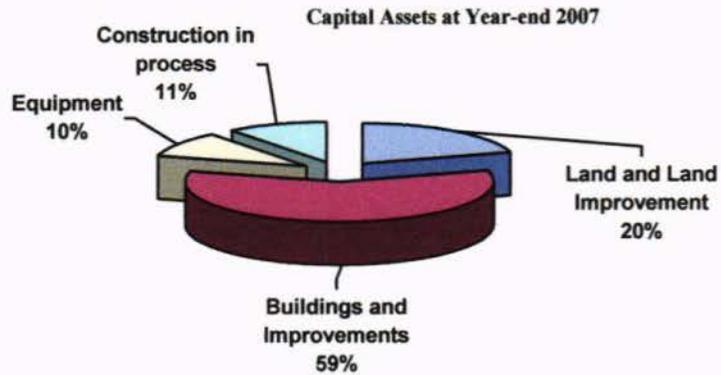
As of June 30, 2008, the Municipality of Adjuntas had \$11.69 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

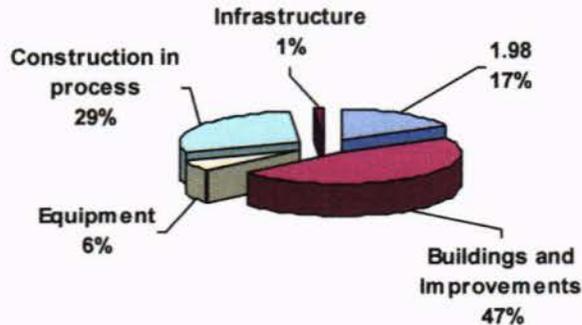
**Table 6
Capital Assets at Year-End
(Net of depreciation, in Millions)**

Governmental Activities

	<u>2007</u>	<u>2008</u>
Land and land improvements	\$ 1.98	\$ 1.98
Buildings and improvements	5.68	5.53
Construction in process	1.03	3.33
Infrastructure		0.16
Equipment	<u>0.98</u>	<u>0.68</u>
Totals	<u>\$9.67</u>	<u>\$11.68</u>



Capital Assets at Year-end 2008



More detailed information about the Municipality's capital assets is presented in Note 9 to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

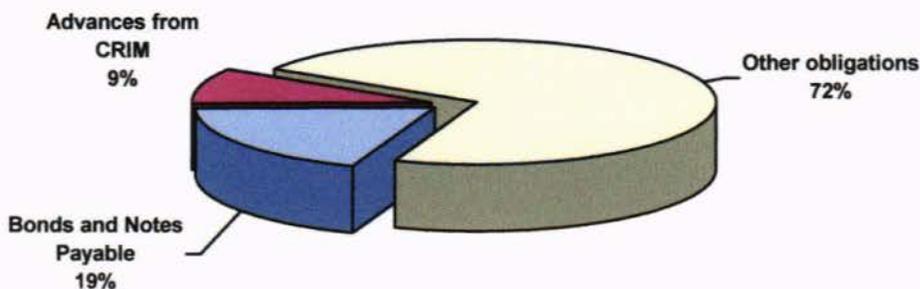
Debt

At year-end, the Municipality of Adjuntas had \$21.74 millions, in bonds, notes and other outstanding debts as shown in Table 7.

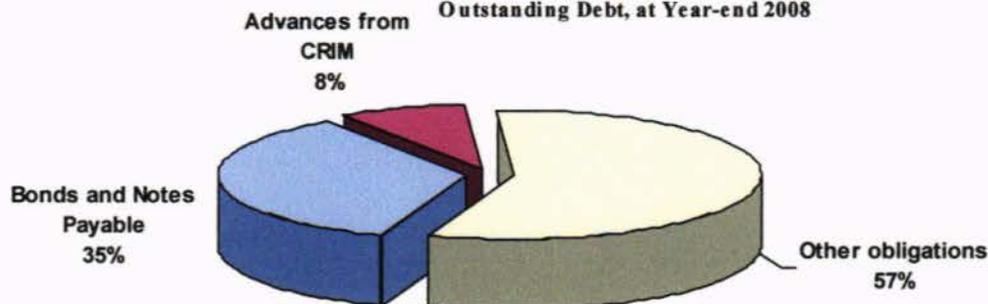
**Table 7
Outstanding Debt, at Year-End
(in Thousands)**

	Governmental Activities	
	<u>2007</u>	<u>2008</u>
Bonds and Notes payable	\$ 3.54	\$ 7.63
Advances from CRIM	1.66	1.78
Other obligations	<u>13.22</u>	<u>12.34</u>
Totals	<u>\$18.42</u>	<u>\$21.75</u>

Outstanding Debt, at Year-end 2007



Outstanding Debt, at Year-end 2008



New bonds in the amount of \$4.41 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 10 to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2009 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2008, 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 2009.

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, 2008

ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 4,063,841	\$ 1,183	\$ 4,065,024
Cash with fiscal agent	4,992,466		4,992,466
Accounts receivable:			
Other government agencies	1,310,378	180,669	1,491,047
Property taxes	695,010		695,010
Sale Tax	27,107		27,107
Other assets		9,025	9,025
Restricted cash		806,517	806,517
Capital assets, net	<u>11,694,624</u>	<u>1,703,319</u>	<u>13,397,943</u>
Total Assets	<u>22,783,426</u>	<u>2,700,713</u>	<u>25,484,139</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	1,564,077	272,866	1,836,943
Deferred revenue	2,032,745		2,032,745
Due to other government agencies	347,967		347,967
Long-term debt:			
Due within one year	1,300,730	96,628	1,397,358
Due in more than one year	<u>20,453,505</u>	<u>1,272,052</u>	<u>21,725,557</u>
Total Liabilities	<u>25,699,024</u>	<u>1,641,546</u>	<u>27,340,570</u>
Net Assets:			
Invested in capital assets, net of related debt	10,406,305	334,638	10,740,943
Restricted for:			
Debt service	634,820		634,820
Revenue for replacement and others		806,517	806,517
Unrestricted	<u>(13,956,723)</u>	<u>(81,988)</u>	<u>(14,038,711)</u>
Total Net Assets (deficiency)	<u>\$ (2,915,598)</u>	<u>\$1,059,167</u>	<u>\$ (1,856,431)</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, 2008

<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	\$ (5,395,973)		\$ 225,000		\$(5,170,973)
Public safety	(529,849)				(529,849)
Education, culture and recreational	(765,940)		811,866		45,926
Public works and sanitation	(2,846,016)			\$1,952,807	(893,209)
Health and welfare	(1,833,134)		235,331		(1,597,803)
Interest	<u>(271,131)</u>		<u> </u>	<u> </u>	<u>(271,131)</u>
Total governmental activities	(11,642,043)		1,272,197	1,952,807	(8,417,039)
Business type-activities:					
Housing	<u>(445,147)</u>	<u>\$419,515</u>	<u> </u>	<u>180,669</u>	<u>155,037</u>
Total	<u>\$(12,087,190)</u>	<u>\$419,515</u>	<u>\$1,272,197</u>	<u>\$2,133,476</u>	<u>\$(8,262,002)</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, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$(8,417,039)	\$ 155,037	\$(8,262,002)
General revenue:			
Taxes:			
Property taxes	1,286,622		1,286,622
Municipal tax	263,234		263,234
Sale tax	950,695		950,695
Grants and entitlements	5,971,797		5,971,797
Licenses and permits	700,871		700,871
Interest	83,382	20,152	103,534
Rent	26,432		26,432
Other	<u>149,986</u>	<u>1,815</u>	<u>151,801</u>
Total general revenues	<u>9,433,019</u>	<u>21,967</u>	<u>9,454,986</u>
Changes in net assets	<u>1,015,980</u>	<u>177,004</u>	<u>1,192,984</u>
Net assets at beginning, as provisions reported	(4,960,029)	882,163	(4,077,866)
Restatement	<u>1,028,451</u>	<u> </u>	<u>1,028,451</u>
Net assets at beginning, as restated	<u>(3,931,578)</u>	<u>882,163</u>	<u>(3,049,415)</u>
Net assets at end	<u>\$(2,915,598)</u>	<u>\$1,059,167</u>	<u>\$(1,856,431)</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, 2008

Cash flows from operating activities:	
Cash receivable from tenants and HUD	\$415,453
Interest	20,152
Other cash receivable	<u>1,815</u>
	<u>437,420</u>
Administrative	(48,649)
Management fees	(32,444)
Salaries and wages	(106,260)
Utilities	(19,296)
Operating and maintenance	(44,116)
Miscellaneous taxes and insurance	(21,420)
Interest on mortgage	<u>(50,313)</u>
	<u>322,498</u>
Net cash provided by operating activities	
Cash flows from investing activities:	
Deposit to reserve for replacement and interest retained in account	(42,086)
Deposits to and interest earned and retained for insurance escrow	(22,732)
Withdrawal from insurance escrow	20,731
Interest in residual receipt account	(93)
Purchase of fixed assets	<u>(2,624)</u>
Net cash used by investing activities	<u>(46,804)</u>
Net cash flows used by financing activities:	
Mortgage principal payments	(93,313)
Checks drawn in excess of cash balance	<u>19,430</u>
	<u>(73,883)</u>
Net decrease in cash	(5,765)
Cash at beginning of year	<u>6,949</u>
Cash at end of year	<u>\$ 1,184</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
PROPRIETARY FUND
STATEMENT OF CHAS FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:

Change in the net assets	<u>\$ 177,004</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	133,757
Increase (decrease) in:	
Receivables	(184,864)
Miscellaneous prepaid expenses	1,794
Tenant security deposits	(499)
Increase (decrease) in:	
Accounts payable	(9,547)
Payroll	(2,033)
Accrued interest	(703)
Tenant security deposits	<u>13</u>
	<u>(62,082)</u>
 Net cash provided by operating activities	 <u>\$ 114,922</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUND</u>	<u>\$4,322,000 NOTE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash:						
Cash in bank including	\$ 966,972		\$1,317,356		\$1,779,513	\$ 4,063,841
Cash with fiscal agent		\$592,971		\$3,947,754	451,741	4,992,466
Receivables:						
Amount due from:						
Governmental agencies	448,619	31,691			830,068	1,310,378
Other funds	573,859		2,485,604		1,005,557	4,065,020
Property tax	538,887	156,123				695,010
Sale tax	<u>27,107</u>					<u>27,107</u>
Total assets	<u>\$ 2,555,444</u>	<u>\$ 780,785</u>	<u>\$3,802,960</u>	<u>\$3,947,754</u>	<u>\$4,066,879</u>	<u>\$15,153,822</u>
Liabilities:						
Accounts payable and accrued expenses	\$ 247,260		\$ 667,932		\$ 527,511	\$ 1,442,703
Deferred revenues	1,084,760	\$ 145,965			1,875,065	3,105,790
Due to other fund	1,905,608		1,158,740		1,000,672	4,065,020
Due to other government agency	<u>347,967</u>					<u>347,967</u>
Total liabilities	<u>3,585,595</u>	<u>145,965</u>	<u>1,826,672</u>		<u>3,403,248</u>	<u>8,961,480</u>
Fund balance						
Unreserved (deficit)	(1,030,151)	634,820	1,976,288	\$3,947,754		5,528,711
Unreserved, reported in non major:						
Other purposes					<u>663,631</u>	<u>663,631</u>
Total fund balance	<u>(1,030,151)</u>	<u>634,820</u>	<u>1,976,288</u>	<u>3,947,754</u>	<u>663,631</u>	<u>6,192,342</u>
Total liabilities and fund balance	<u>\$ 2,555,444</u>	<u>\$ 780,785</u>	<u>\$3,802,960</u>	<u>\$3,947,754</u>	<u>\$4,066,879</u>	<u>\$15,153,822</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, 2008**

Fund balances in governmental funds	\$ 6,192,342
 <i>Amounts reported for governmental activities in the Statement of Net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,694,624
Deferred revenue in the governmental funds that are recorded as revenue in the statement of net assets.	1,073,045
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(7,631,000)
Compensated absences	(825,054)
Claims and judgments payable	(11,366,793)
Advances from CRIM	(1,775,089)
Accrued interest	(121,374)
Due to other agencies	(156,299)
<i>Net assets of governmental activities</i>	<u>\$ (2,915,598)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS</u>	<u>\$4,322,000 NOTE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:						
Taxes:						
Property taxes	\$ 913,964	\$ 199,868				\$ 1,113,832
Municipal taxes	263,234					263,234
Sale Tax	629,191	321,504				950,695
Grants and entitlements	5,400,638		\$ 100,000		\$3,274,729	8,775,367
Licenses and permits	700,871					700,871
Interest	11,273	14,531	22,118	\$ 27,409	8,051	83,382
Rent	26,432					26,432
Other	<u>138,145</u>				<u>11,841</u>	<u>149,986</u>
Total revenues	<u>8,083,748</u>	<u>535,903</u>	<u>122,118</u>	<u>27,409</u>	<u>3,294,621</u>	<u>12,063,799</u>
Expenditures:						
General administration	4,680,362		34,876		1,121,662	5,836,900
Public safety	478,932					478,932
Educational and recreational	593,021					593,021
Public works	1,659,576		1,556,297	374,246	1,548,377	5,138,496
Health sanitation and welfare	671,718				1,153,989	1,825,707
Litigation						
Debt service:						
Principal		328,000				328,000
Interest		<u>211,358</u>				<u>211,358</u>
Total expenditures	<u>8,083,609</u>	<u>539,358</u>	<u>1,591,173</u>	<u>374,246</u>	<u>3,824,028</u>	<u>14,412,414</u>
Excess of revenue over expenditures	<u>\$ 139</u>	<u>\$(3,455)</u>	<u>\$(1,469,055)</u>	<u>\$(346,837)</u>	<u>\$(529,407)</u>	<u>\$(2,348,615)</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, 2008

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUND</u>	<u>\$4,322,000 NOTE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Excess of revenues over expenditures	\$ 139	\$(3,455)	\$(1,469,055)	\$ (346,837)	\$ (529,407)	\$(2,348,615)
Other financing sources (uses):						
Operating transfer in	41,619	255,829			975,714	1,273,162
Operating transfer out	(1,231,543)	(13,283)		(27,409)	(927)	(1,273,162)
Proceeds from loan				4,322,000	95,000	4,417,000
Total other financing sources	<u>(1,189,924)</u>	<u>242,546</u>		<u>4,294,591</u>	<u>1,069,787</u>	<u>4,417,000</u>
Excess of revenues and other financing source over expenditures and other financing sources	<u>(1,189,785)</u>	<u>239,091</u>	<u>(1,469,055)</u>	<u>3,947,754</u>	<u>540,380</u>	<u>2,068,385</u>
Fund balance at beginning of year	<u>159,634</u>	<u>395,729</u>	<u>3,445,343</u>		<u>123,251</u>	<u>4,123,957</u>
Fund balance at end of year	<u>\$(1,030,151)</u>	<u>\$ 634,820</u>	<u>\$ 1,976,288</u>	<u>\$3,947,754</u>	<u>\$ 663,631</u>	<u>\$ 6,192,342</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances – total governmental funds **\$2,068,385**

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.	2,597,767
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.	328,000
Amount receivable from other agencies that are not available in the governmental funds financial statements.	112,534
Change in accrued expenses and deferred revenues which do not require the use of current financial resources:	
Compensating absences	(179,606)
Litigation settlement	514,207
Deferred revenue	326,510
Interest	(59,773)
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.	302,872
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.	(4,417,000)
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	<u>(577,916)</u>
<i>Changes in Net Assets of Governmental Activities</i>	<u>\$ 1,015,980</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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. No depreciation is recorded the year of acquisition.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POST EMPLOYMENT BENEFITS

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of it's retirees employees. Substantially all of the employees may become eligible for these benefits of they reach normal retirement to while working for the Municipality. For the fiscal year ended June 30, 2008, post employment benefits retirees amounted to \$65,610. These benefits are recorded as expenditures when paid in the general fund.

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.

Restatement

The net assets as presented in 2007 financial statements has been restated to record unrecorded capital asset amounted to \$1,028,451.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

3. PROPERTY TAX (CONTINUED)

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.

The annual rate for fiscal year 2008 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, 2008, the amount due to CRIM amounting to \$1,775,089 is presented as other long-term debt (see Note 9).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

3. PROPERTY TAX (CONTINUED)

Total property tax receivable, net of an allowance for uncollectible accounts of \$1,796,060, amounted to \$695,010 at June 30, 2008. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2008:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$ 1,936,371	\$ 554,699	\$ 2,491,070
Less:			
Allowance for uncollectible accounts	<u>(1,397,484)</u>	<u>(398,576)</u>	<u>(1,796,060)</u>
Net property taxes receivable	<u>\$ 538,887</u>	<u>\$ 156,123</u>	<u>\$ 695,010</u>
Deferred (unavailable) property tax revenues in GFFS	<u>\$ 503,443</u>	<u>\$ 145,965</u>	<u>\$ 649,408</u>

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, 2008, \$157,680 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue.

5. SALE TAX

The Municipal Legislature approved the Ordinance no. 3, series 2006-07 establishing a sales tax to 1.5% effective November 15, 2006. Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5% of which 1% is collected by the Municipalities and the remaining .5% is collected by the Treasury Department of the Commonwealth of Puerto Rico. This Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security service.

6. 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. In addition, 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, 2008

7. DEFERRED REVENUE

Municipal license tax collected in the fiscal year 2007-2008 corresponding to the following fiscal year.	\$ 157,680
Portion of grants received for which qualifying expenditures have not been incurred.	<u>1,875,065</u>
	2,032,745
Property tax receivable but not available in the governmental fund financial statements	649,408
Amount due from other agencies but not available in governmental fund financial statements	<u>423,637</u>
	<u>\$3,105,790</u>

8. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:	
Escrow deposit	\$ 22,114
Tenant security deposits	13,486
Reserve for replacement	764,711
Residual receipts	<u>6,206</u>
	<u>\$ 806,517</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 leave 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, 2008

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital asset, not being depreciated:				
Land	\$ 1,983,180			\$ 1,983,180
Construction in progress	<u>1,028,451</u>	<u>\$ 2,304,996</u>		<u>3,333,447</u>
	<u>3,011,631</u>	<u>2,304,996</u>		<u>5,316,627</u>
Capital assets being depreciated:				
Buildings	7,411,721			7,411,721
Equipment and vehicles	3,687,151	127,864		3,815,015
Infrastructure		<u>164,907</u>		<u>164,907</u>
Total capital assets being depreciated	<u>11,098,872</u>	<u>292,771</u>		<u>11,391,643</u>
Less accumulated depreciation for:				
Buildings	1,726,253	154,966		1,881,219
Equipment and vehicles	<u>2,709,477</u>	<u>422,950</u>		<u>3,132,427</u>
Total	<u>4,435,730</u>	<u>577,916</u>		<u>5,013,646</u>
Total depreciable capital assets, net	<u>6,663,142</u>	<u>(285,145)</u>		<u>6,377,997</u>
Governmental activities capital assets net	<u>9,674,773</u>	<u>2,019,851</u>		<u>11,694,624</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	362,859			362,859
Construction in progress		<u>196,667</u>		<u>196,667</u>
	<u>362,859</u>	<u>196,667</u>		<u>559,526</u>
Capital assets being depreciated:				
Building and improvements	4,070,690			4,070,690
Equipment	<u>475,784</u>	<u>2,625</u>		<u>478,409</u>
	4,546,474	2,625		4,549,099
Less accumulated depreciation:				
Building and improvements and equipment	<u>3,271,548</u>	<u>133,758</u>		<u>3,405,306</u>
Total depreciation, capital, assets net	<u>1,274,926</u>	<u>(131,133)</u>		<u>1,143,793</u>
Business activities capital assets, net	<u>\$ 1,637,785</u>	<u>\$ 65,534</u>	<u>\$</u>	<u>\$ 1,703,319</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

9. 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	\$ 41,366	
Public safety	50,917	
Public works	305,287	
Education, culture and recreation	172,919	
Health, sanitation and welfare	7,427	
Housing	<u> </u>	<u>\$133,757</u>
Total depreciation expense	<u>\$577,916</u>	<u>\$133,757</u>

10. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2008 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	\$ 3,542,000	\$4,417,000	\$ 328,000	\$ 7,631,000	\$ 222,000
Other long-term debt:					
Claims and judgments payable	11,881,000	105,793	620,000	11,366,793	600,000
Compensated absences	645,448	179,606		825,054	350,000
Amount due to:					
CRIM	1,656,527	153,720	35,158	1,775,089	36,981
PR Health Insurance Administration	421,434		421,434		
PR Electrical Power Authority	76,166		23,801	52,365	28,560
PR Department of	<u>192,668</u>		<u>88,734</u>	<u>103,934</u>	<u>63,189</u>
Total	18,415,243	4,856,119	1,517,127	21,754,235	1,300,730
Business-type activities:					
Mortgage payable	<u>1,461,993</u>		<u>93,313</u>	<u>1,368,680</u>	<u>96,628</u>
Total	<u>\$19,877,236</u>	<u>\$4,856,119</u>	<u>\$1,610,440</u>	<u>\$23,122,915</u>	<u>\$1,397,358</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

10. 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%.	\$ 48,000
\$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%.	118,000
\$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%.	85,000
\$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%	100,000
\$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%.	380,000
\$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%	225,000
\$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%.	1,260,000
\$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%.	388,000
\$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%	610,000
\$95,000 General Municipal Obligation Note of 2008 payable in annual installments ranging from \$10,000 to \$5,000 though July 1, 2014 plus interest at LIBOR 90 days plus 1.25%	95,000
\$4,322,000 Special Obligation Note of 2008 payable in annual installments of \$85,000 to \$367,000 through July 1, 2003 plus interest at 7.25%.	<u>4,322,000</u>
	<u>\$7,631,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2008 are as follows:

	<u>Governmental –type Activities</u>	
Notes and Bonds Payable	<u>Principal</u>	<u>Interest</u>
<u>Year ended June 30</u>		
2009	\$ 222,000	\$ 310,430
2010	435,000	483,219
2011	407,000	436,929
2012	360,000	431,562
2013	378,000	408,680
2014-2018	1,049,000	1,815,998
2019-2023	1,225,000	1,445,636
2024-2028	1,632,000	965,336
2029-2033	<u>1,923,000</u>	<u>339,366</u>
	<u>\$7,631,000</u>	<u>\$6,637,156</u>

Advances from CRIM

This amount represents the balance owed to CRIM at June 30, 2008 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>Principal</u>	<u>Interest</u>
<u>Year ended June 30</u>		
2009	\$ 36,981	\$ 109,412
2010	38,918	107,093
2011	40,977	104,651
2012	43,164	102,080
2013	45,491	99,372
2014-2018	267,792	450,788
2019-2023	352,229	356,790
2024-2028	466,741	232,716
2029-2032	<u>482,796</u>	<u>69,881</u>
	<u>\$1,775,089</u>	<u>\$1,632,783</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

10. 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>
2009	\$ 96,628	\$109,256
2010	100,018	105,866
2011	103,575	102,309
2012	107,254	98,625
2013	111,074	94,810
2014-2018	<u>850,131</u>	<u>196,451</u>
	<u>\$1,368,680</u>	<u>\$707,317</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

11. 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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

11. RETIREMENT SYSTEM (CONTINUED)

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.

Defined Contribution Plan

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, 2008 amounted to approximately \$161,527 and \$202,447, 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, 2008, a copy of which can be obtained from the Retirement System.

12. CONTINGENCIES

Claims and Judgments:

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

12. CONTINGENCIES (CONTINUED)

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 pay 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 2008, the parties stipulated to pay \$12,500,000 to the remaining 62 plaintiffs. This sum should have been paid within one hundred and twenty days from the date of stipulation.

As of June 30, 2008, the balance of such liability amounted to \$11,261,000 which has been recorded in the governmental activities financial statements.

Valle Verde Project:

Based on a comprehensive Asbestos-Containing Materials (ACM) Survey engaged by the Valle Verde project's management agent, it was determined that the project's buildings contain asbestos materials that need to be removed in accordance with Puerto Rico Environmental Quality Board (EQB) regulation with the use of proper engineering controls. Until removal, the material should not be disturbed. Therefore, the project's management developed an Operation & Maintenance (O&M) Plan to properly manage the asbestos materials. Such O&M plan should remain in force until the asbestos materials are removed. The estimated total costs of removal the material containing asbestos are not accrued in the financial statements.

On May 19, 2008, construction began for various improvements to the project's facilities and infrastructure, including the removal of asbestos containing materials. As of June 30, 2008, the total estimated costs of construction are \$3,362,121, which includes estimated asbestos removal costs of \$463,608. The estimated construction cost will be paid with resources to be provided by two capital project grants totaling \$2,763,637 awarded by Puerto Rico Department of Housing. In addition, resources totaling \$600,000 from the project's reserve for replacement account were authorized and committed by HUD to cover the remaining construction costs.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	
Revenues:				
Taxes:				
Property taxes	\$ 906,104	\$906,104	\$ 913,962	\$ 7,858
Municipal tax	306,339	306,339	263,234	(43,105)
Sale tax	516,000	516,000	629,191	113,191
Grants and entitlements	5,303,511	5,303,511	5,400,638	97,127
Licenses and permits	152,130	152,130	700,871	548,741
Interest	56,000	56,000	24,556	(31,444)
Rent	33,000	33,000	26,432	(6,568)
Other	<u>367,730</u>	<u>367,730</u>	<u>138,145</u>	<u>(229,585)</u>
Total revenues	<u>7,640,814</u>	<u>7,640,814</u>	<u>8,097,029</u>	<u>456,215</u>
Expenditures:				
General administration	4,202,860	3,697,085	5,911,905	(2,214,820)
Public safety	565,450	489,637	478,932	10,705
Education, culture and Recreational	705,257	631,296	593,021	38,275
Public works and sanitation	1,221,621	2,131,284	1,659,576	471,708
Health and welfare	<u>945,626</u>	<u>691,512</u>	<u>671,718</u>	<u>19,794</u>
Total expenditures	<u>7,640,814</u>	<u>7,640,814</u>	<u>9,315,152</u>	<u>(1,674,338)</u>
Excess of revenue over expenditure	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$(1,218,123)</u>	<u>\$(1,218,123)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2008

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) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) 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.
- 5) 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 COMPARISON (CONTINUED)
JUNE 30, 2008

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	\$8,083,748	\$8,083,609
Transfer in included as revenues in budgetary basis	<u>13,281</u>	<u>1,231,543</u>
Budgetary basis	<u>\$8,097,029</u>	<u>\$9,315,152</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

	<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	\$ 804,374
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	199,025
<u>US Department of Health and Human Services</u>		
Direct Program:		
Head Start	93.600	870,597
<u>US Department of Agriculture</u>		
Passes through:		
Puerto Rico Department of Education		
Child and Adult Care Food Program	10.558	84,368
<u>US Department of Home and Security</u>		
Passes through:		
PR Office of Management and Budget (GAR)		
Public Assistance Grant	97.036	<u>426,115</u>
		<u>\$2,384,479</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

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**

PO BOX 408, RAFAEL LASA NO. 44, AGUAS BUENAS, PR 00703 - TEL. 787-732-8020 - FAX: 787-732-0685 - E MAIL: cardiaz@prca.net

**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, 2008 which collectively comprise the Municipality of Adjuntas' basic financial statements and have issued my report there on dated December 5, 2008. 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.

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

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. I consider the deficiency described in the accompanying schedule of finding and questioned cost as finding 01-08 to be significant deficiencies in internal control over financial reporting.

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 and, accordingly, would not necessary disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Material

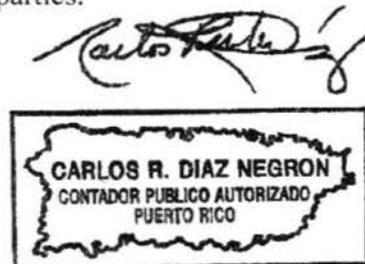
A part of obtaining reasonable assurance about whether Municipality of Adjuntas' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material 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 instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as finding 01-08.

Municipality of Adjuntas' response to the findings identified in my audit are described in the accompanying schedule of finding's and questioned cost. We did not audit Municipality of Adjuntas' 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 5, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2010



The stamp No. 2373636 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, 2008. 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 \$1,760,549 in federal awards which is not included in the schedule during the year ended June 30, 2008. 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.

As described in item 04-08 in the accompanying schedule of findings and questioned cost the Municipality of Adjuntas did not comply with requirements regarding Procurement and Suspension and Debarment that is applicable to the HUD Community Development Block Grant. Compliance with such requirement is necessary in my opinion, for Municipality of Adjunta to comply with the requirement applicable to that program.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

In my opinion, except for the noncompliance described in the preceding paragraph, 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, 2008. The results of my auditing procedures also disclosed other 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 items 02-08 to 03-08.

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 and other that I consider material weakness.

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 02-08 to 04-08 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. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost, I consider item 04-08 to be a material weakness.

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

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

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 5, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2373637 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, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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
- Significant deficiency (s) identified that is not considered a material weaknesses. Xyes ___no

Noncompliance material to financial statement noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Xyes ___no
- Significant deficiency (s) identified that are not considered to be material weakness (es) Xyes ___no

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

Unqualified

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

Identification of major programs:

CFA Number(s)

Name of Federal Program

93.600
14.228

97.036

Head start
Community Development Block
Grants/State's Program
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, 2008

SECTION II – FINANCIAL STATEMENT FINDING

Finding No. 01-08 - General Fund Deficit:

As of June 30, 2008, the Municipality closed with an accumulated deficit of \$1,030,151 in the general fund as presented in the statement of revenue, expenditures and changes in fund balance-governmental funds.

The deficit was caused by the overstatement of the estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.

The Article 7.011(a) of Autonomous Municipal Act (Law 81), as amended, stay that if the Municipal closes its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.

We recommend that the Municipality take the necessary measures to reduce the accumulated deficit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 02-08 – 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 I examined 9 disbursements to test the compliance with the Davis-Bacon Act for Public Assistance Grants program. In six disbursements amounting to \$521,755, the contracts do not state that the contractor is required to submit such information. However, the contractor submitted the payrolls to the Municipality 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, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 03-08 – 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 7 disbursements to test the compliance with the Davis-Bacon Act for Community Development Block Grant. In all disbursements tested amounting to \$605,656 the contracts do not state that the contractor is required to submit such information.

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, 2008

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

Finding No. 04-08 – 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 7 disbursements to test the compliance with the procurement and suspension and debarment requirement for Community Development Block Grant program. In two of the seven disbursements amounting \$70,235 I found that the Municipality did not comply with suspension a debarment requirement and in one disbursement amounting to \$39,060 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, 2008

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

Finding No. 04-08 – 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:

\$39,060

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

**FINDING AND QUESTIONED COSTS
CORRECTIVE ACTION PLAN**

FOR THE YEAR ENDED JUNE 30, 2008

**Finding and Questioned Costs
Municipality of Adjuntas
Corrective Action Plan**

Prepared March 2009

FINDING NO. 01-08 General Fund Deficit

Program Deficiency	Objectives	Key Tasks/Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
The Municipality closed with an accumulated deficit of \$1,030,151 in the general fund as presented in the statement of revenue, expenditure and changes in fund balance governmental fund.	To prepare a balance budget of income and expenses to offer services to the community	Verify the budget frequently to avoid closed with deficit	None	Section 3 of the Revised Regulation Over Basic Standard for Municipalities of Puerto Rico	Mayor, Director of Finance	June 30, 2009		

FINDING NO. 02-08 Public Assistance Grants – CFDA – 97.036

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, obtain all payrolls paid and other documents necessary with federal assistance fund. To prepare a check list with all document required to contractors before making payment.	None	Davis-Bacon Act	Federal Program Director and Municipal Secretary	June 30, 2009		

Finding and Questioned Costs
Municipality of Adjuntas
 Corrective Action Plan

FINDING NO. 03-08 Community Development Block Grant CFDA – 14.228

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 does 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, obtain all payrolls paid and other documents necessary with federal assistance fund. To prepare a check list with all document required to contractors before making payment.	None	Davis-Bacon Act	Federal Program Director and Municipal Secretary	June 30, 2009		

FINDING NO. 04-08Community Development Block Grant CFDA – 14.228

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, Municipal Secretary and Finance Department Staff	June 30, 2009		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS**

EXHIBIT - II

**SCHEDULE OF PRIOR YEAR FINDING
FEDERAL PROGRAM CORRECTIVE ACTION PLAN**

FOR THE YEAR ENDED JUNE 30, 2008

**Schedule of Prior Finding
Municipality of Adjuntas
Federal Programs Corrective Action Plan**

Repared March 2009

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.	1. Update written procedures. 2. Prepare the waiting list according to the priorities and preference order.	Establish supervision and quality control measures. Keep the waiting list manageable without creating a management burden.	None	HCV Guidebook	Director & Technician program	Done	June 30, 2008	Corrected

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	Davis-Bacon Act	Federal Program Director	June 30, 2010		

Municipality of Adjuntas
Corrective Action Plan

FINDING NO. O3-07 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	Davis-Bacon Act	Federal Program Director	June 30, 2010		

FINDING NO. O4-07 Community Development Block Grant

Program Deficiency	Objectives	Key Tasks/Action Items	Obstacles	Resources	Lead Staff	Completion Target Date	Actual Completion Date	Implementation Progress/Comments
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, 2010		

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, 2010		