

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2011**

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

HOJA DE COTEJO INFORME DE AUDITORIA (SINGLE AUDIT)

MUNICIPIO Aosuntás
FECHA DEL INFORME 9 de febrero de 2012
PERIODO 01 de julio de 2010 al 30 de junio de 2011.
FIRMA Carlos R. Díaz Negron

RESUMEN DE LOS RESULTADOS DEL REMOTO ("DESK REVIEW")

En mi opinión:

1. El informe reúne los "Standards" generalmente aceptados para auditorías gubernamentales, excepto por (marcar si es apropiado):

Falta reunir los requisitos informativos concernientes:

| | |
|---|-----|
| Informe Financiero | () |
| Informe de Cumplimiento | () |
| Informe de Control Interno | () |
| Posibles hallazgos no identificados en el Informe | () |
| Otros (Especifique) | () |

2. El informe reúne los requisitos de la Circular OMB-A- 133, excepto por (marcar si es apropiado) :

Falta incluir todos los todos los fondos "CDBG" ()

3. Clasificación de la Opinión:

| | |
|-------------|-----|
| Unqualified | () |
| Qualified | (X) |
| Disclaimer | () |

MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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**

We 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, 2011 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. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Valle Verde Project. Those statements were audited by other auditors whose report have been furnish to us, and in our opinion, insofar as it relates to the amounts included for Valle Verde Project, are based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Governmental Audits Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respect the respective financial position of the governmental activities, the business type activities each major funds, and the aggregate remaining fund information of the Municipality of Adjuntas as of June 30, 2011, 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.

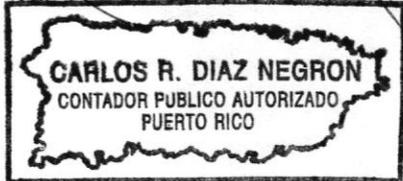
INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Governmental Auditing Standards, we have also issued our report dated December 20, 2011, on our consideration of the Municipality of Adjuntas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposed 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 also not a required part of the basic financial statements. The information in the accompanying schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

February 9, 2012
Aguas Buenas, Puerto Rico
License No. 1339
Expire December 1, 2013

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

The stamp No. **E3003** 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, 2011

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, 2011. Please read it in conjunction with the financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets amounting to \$40.10 million in the accompanying statement of net assets, of which most significant are capital assets and cash and cash equivalents amounting to \$24.15 million and \$13.79 million respectively.
- Also, the Statement of Net Assets for the Governmental Activities of the Municipality shows \$21.64 millions in capital assets without debts. It represents that the capital assets of the Municipality are not pledged with neither long nor short-term liabilities.
- The Municipality has defendant of a lawsuit filed by approximately 82 individuals who claims political harassment and discrimination. During June 30, 2005 the Municipality paid \$1,365,000 under operational loans to 20 out of 82 plaintiffs. On November 2006 the jury determined in favor of the 62 plaintiffs for the amount of \$12,500,000. This sum must be paid within one hundred and twenty days from entry of this judgment. During fiscal year 2007 the Municipality paid \$619,000 under operational loan to distribute to 62 plaintiffs. In 2008 the Municipality paid \$633,000 and in the fiscal year 2010 the Municipality paid \$632,000 to the plaintiffs. As of June 20, 2011 the balance of such liability amounted to approximately \$5,348,365 which has been recorded. Such amount was paid in full, subsequent to balance sheet date.
- During the year, the Municipality reported revenues of \$8.93 million in the General Fund of total revenues restricted and unrestricted of \$14.25 million.
- The Municipality has reported total expenses amounting to \$11.75 million in the accompanying statement of activities.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011 even if cash involved have not been received or paid. The Government-Wide Financial Statements include: (1) the Statements of Net Assets and (2) the Statement of Activities.

The Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into:

- Governmental activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

Fund Financial Statement: Report the financial position and results of operations of the Municipality's governmental funds. The Fund Financial statement components are the Balance Sheet-government funds and the Statements of Revenues, Expenditures and Changes in Fund Balance. The Fund financial statements provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

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 increased in the current year by \$ 3.17 millions, to total \$11.37 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.

Table 1
NET ASSETS
(in Million)

| | <u>2010</u> | <u>2011</u> |
|-----------------------------|------------------|------------------|
| Current and other assets | \$12.22 | \$15.96 |
| Capital assets | <u>21.42</u> | <u>24.14</u> |
| Total assets | <u>\$33.64</u> | <u>\$40.10</u> |
| Long-term debt outstanding | (21.10) | (19.08) |
| other liabilities | (4.34) | (\$9.65) |
| Total liabilities | <u>(\$25.44)</u> | <u>(\$28.73)</u> |
| Net assets: | | |
| Invested in capital assets, | | |
| net of related debt | 18.32 | 17.39 |
| Restricted for: | | |
| Debt services | 0.89 | 1.83 |
| Capital project | 4.08 | 0.88 |
| Other specified purpose | 2.43 | 4.39 |
| Unrestricted | <u>(17.52)</u> | <u>(13.12)</u> |
| Net Assets | <u>\$8.20</u> | <u>\$11.37</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Components of Net Assets

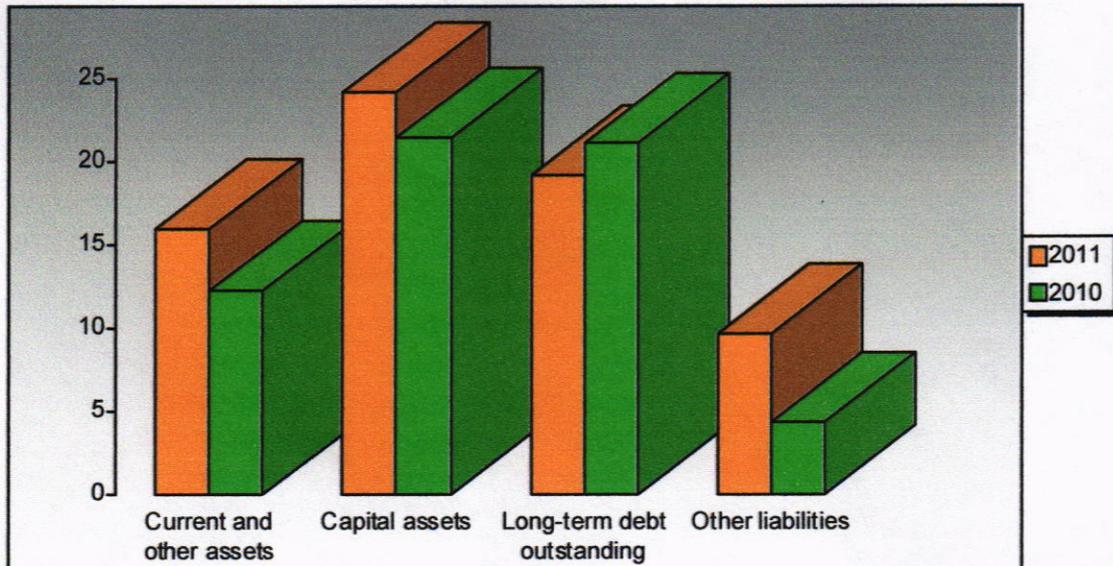


Table 2
CHANGES IN NET ASSETS
(in Million)

| Revenues | <u>2010</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Program revenues: | | |
| Charges for services | \$ 0.45 | \$ 0.46 |
| Operating grants and contributions | 1.58 | 1.59 |
| Capital grants and contributions | 2.54 | 2.35 |
| General revenues: | | |
| Property taxes | 1.20 | 1.24 |
| Municipal License tax | 1.76 | 2.82 |
| Gants and entitlements | 5.78 | 6.06 |
| Other income | <u>0.27</u> | <u>0.39</u> |
| Total Revenues | <u>\$13.58</u> | <u>\$14.91</u> |
| Program Expenses: | | |
| General Administration | \$ 4.91 | \$ 6.41 |
| Public safety | 0.64 | 0.61 |
| Culture, Tourism, Recreation and Education | 0.80 | 0.88 |
| Public works | 1.10 | 0.65 |
| Health and welfare | 1.90 | 2.35 |
| Housing | | 0.41 |
| Other | <u>0.56</u> | <u>0.44</u> |
| Total Expenses: | <u>\$ 9.91</u> | <u>\$11.75</u> |
| Increase in Net Assets | <u>\$ 3.67</u> | <u>\$ 3.16</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Net assets of the Municipality's governmental activities increased by \$3.16 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 spend able 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.

Governmental Activities

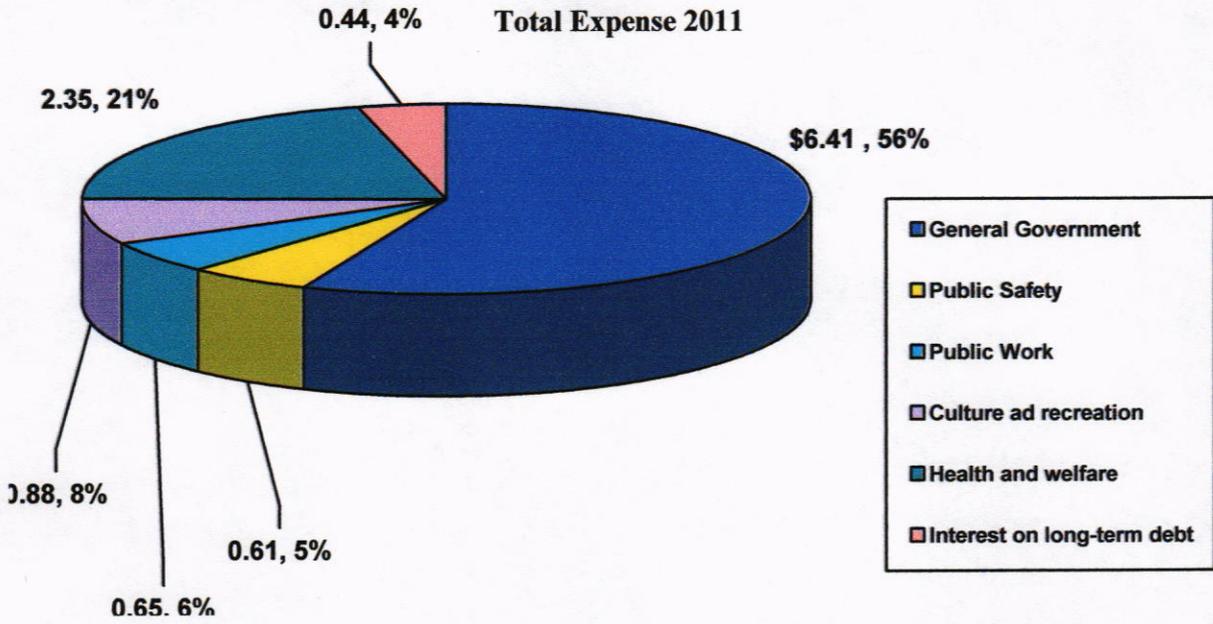
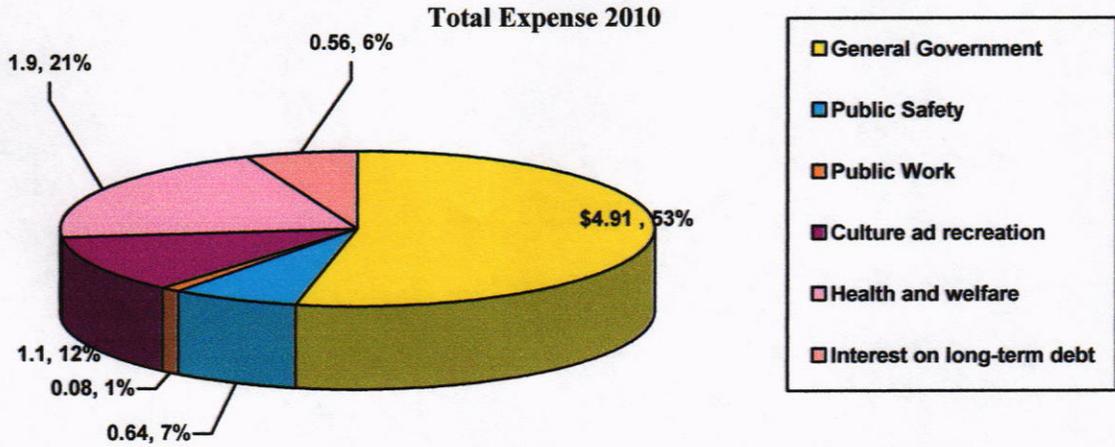
The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. Also, the Mayor of the Municipality implemented an adequate budget control and record keeping, which benefits the Municipality in its management decisions and operations.

Expenses during the fiscal year ended June 30, 2011 was substantially related to the following:

Table 3
Governmental Activities
(in Million)

| | Total expenses | |
|-----------------------------------|----------------|----------------|
| | <u>2010</u> | <u>2011</u> |
| General Government | \$4.91 | \$ 6.41 |
| Public Safety | 0.64 | 0.61 |
| Public Work | 0.08 | 0.65 |
| Culture, recreation and education | 1.10 | 0.88 |
| Health and welfare | 1.90 | 2.35 |
| Interest on long term debt | <u>0.56</u> | <u>0.44</u> |
| Totals | <u>\$9.91</u> | <u>\$11.34</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011



The cost of all governmental activities this year was \$11.34 million compared to \$9.91 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 \$9.40 and \$12.57 of all revenues in 2011 and 2010, respectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Table 4
Governmental Activities
(in Million)

| | General Revenues | |
|--------------------------|-------------------------|----------------------|
| | By major sources | |
| | <u>2010</u> | <u>2011</u> |
| Property taxes | \$ 1.27 | \$1.25 |
| Municipal License taxes | 1.76 | 2.09 |
| Grants and contributions | <u>9.54</u> | <u>6.06</u> |
| Totals | <u>\$12.57</u> | <u>\$9.40</u> |

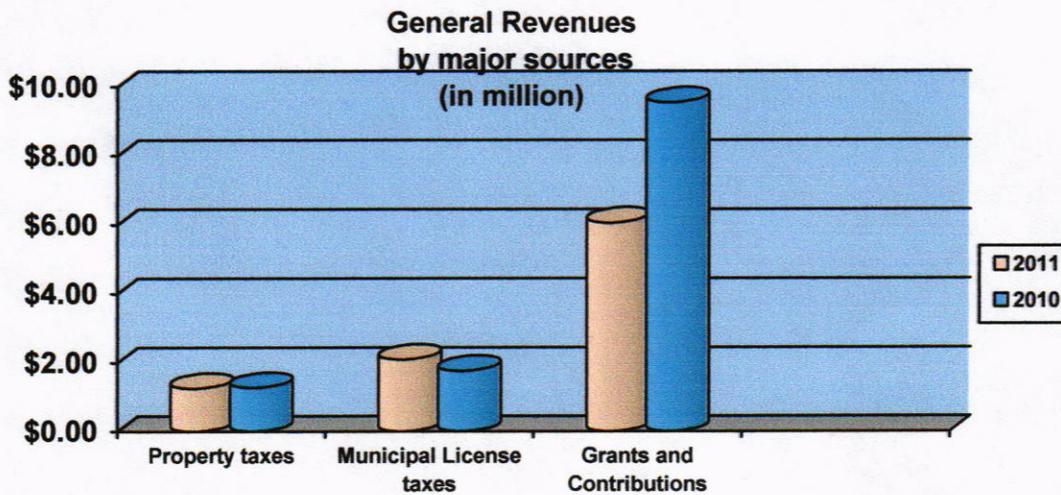
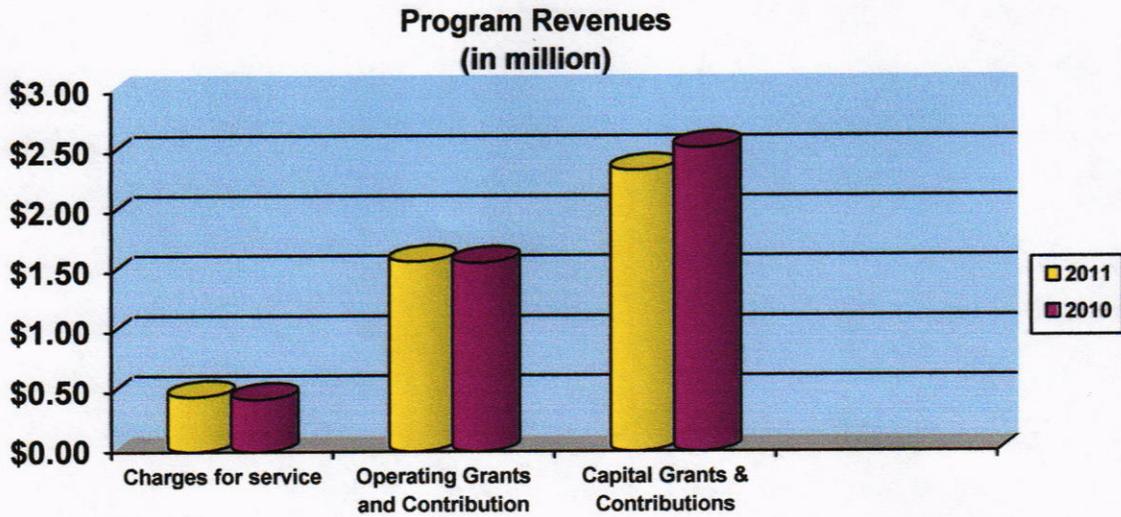


Table 5
Governmental Activities
(in Million)

| | Program Revenues | |
|-----------------------------------|-------------------------|----------------------|
| | by major sources | |
| | <u>2010</u> | <u>2011</u> |
| Charges for service | \$.44 | \$.46 |
| Operating Grants and Contribution | 1.58 | 1.59 |
| Capital Grants and Contributions | <u>2.54</u> | <u>2.35</u> |
| Totals | <u>\$4.56</u> | <u>\$4.40</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011



THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$11.48 million.

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2010-2011 was approved on June 2010, 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, 2011, the Municipality of Adjuntas had \$21.64 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

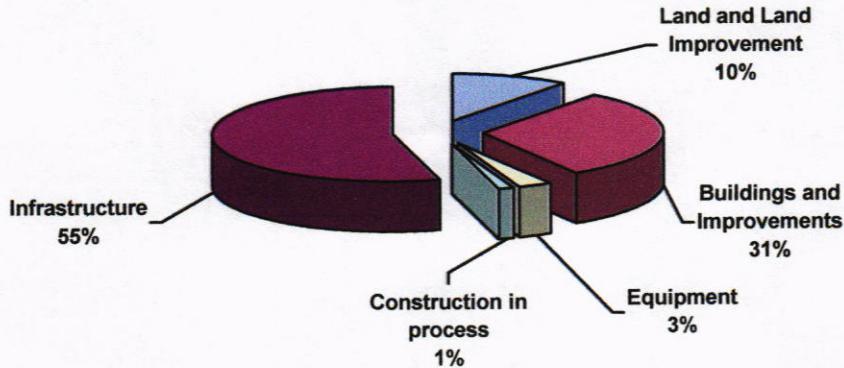
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

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

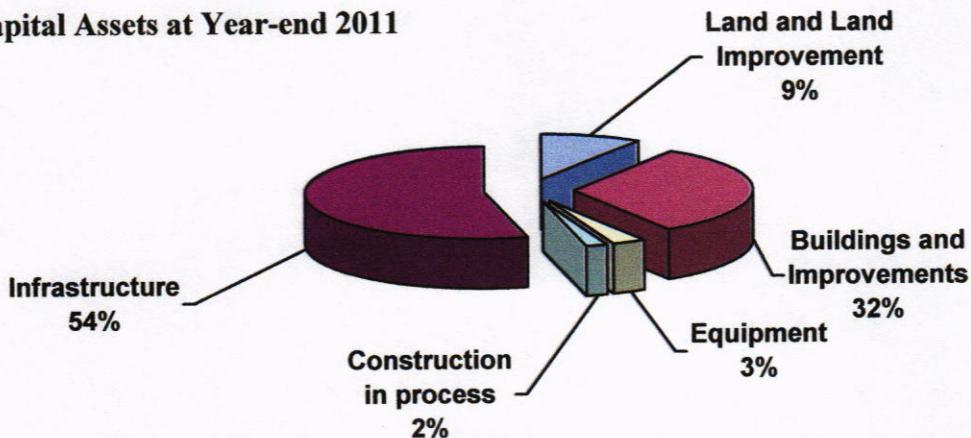
Governmental Activities

| | <u>2010</u> | <u>2011</u> |
|----------------------------|-----------------------|-----------------------|
| Land and land improvements | \$ 1.98 | \$ 1.98 |
| Buildings and improvements | 5.86 | 6.93 |
| Construction in process | .25 | .43 |
| Infrastructure | 10.27 | 11.65 |
| Equipment | <u>0.59</u> | <u>0.65</u> |
| Totals | <u>\$18.95</u> | <u>\$21.64</u> |

Capital Assets at Year-end 2010



Capital Assets at Year-end 2011



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

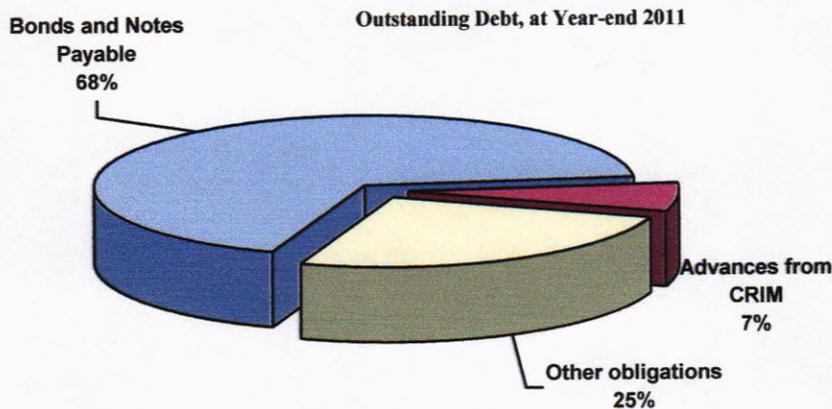
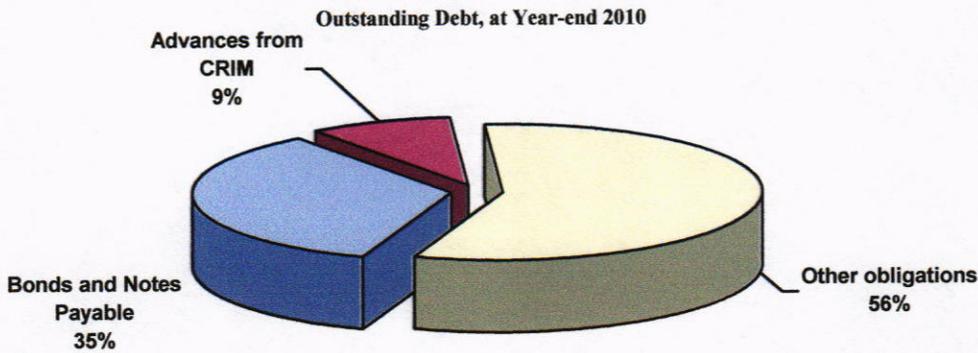
More detailed information about the Municipality's capital assets is presented in Note 9 to the financial statements.

Debt

At year-end, the Municipality of Adjuntas had \$24.61 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>2010</u> | <u>2011</u> |
| Bonds and Notes payable | \$ 6.76 | \$16.68 |
| Advances from CRIM | 1.70 | 1.66 |
| Other obligations | <u>11.10</u> | <u>6.27</u> |
| Totals | <u>\$19.56</u> | <u>\$24.61</u> |



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2012 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2011, 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 2012.

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, 2011

| ASSETS | <u>PRIMARY GOVERNMENT</u> | | |
|---|------------------------------------|-------------------------------------|----------------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| Cash and cash equivalents | \$ 5,097,604 | \$ 339,876 | \$ 5,437,480 |
| Cash with fiscal agent | 8,349,749 | | 8,349,749 |
| Accounts receivable: | | | |
| Other government agencies | 360,111 | 654,456 | 1,014,567 |
| Property taxes | 1,063,941 | | 1,063,941 |
| Sale tax | 75,373 | | 75,373 |
| Other receivable | | 15,743 | 15,743 |
| Capital assets, net | <u>21,639,914</u> | <u>2,505,474</u> | <u>24,145,388</u> |
| Total Assets | <u>36,586,692</u> | <u>3,515,549</u> | <u>40,102,241</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | 573,480 | 251,185 | 824,665 |
| Deferred revenue | 1,748,379 | | 1,748,379 |
| Due to other government agencies | 173,575 | | 173,575 |
| Long-term debt: | | | |
| Due within one year | 6,777,530 | 123,563 | 6,901,093 |
| Due in more than one year | <u>17,828,920</u> | <u>1,254,368</u> | <u>19,083,288</u> |
| Total Liabilities | <u>27,101,884</u> | <u>1,629,116</u> | <u>28,731,000</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 15,913,617 | 1,472,613 | 17,386,230 |
| Restricted for: | | | |
| Debt service | 1,827,456 | | 1,827,456 |
| Capital projects | 884,356 | | 884,356 |
| Other purpose | 4,103,754 | 286,878 | 4,390,632 |
| Unrestricted | <u>(13,244,375)</u> | <u>126,942</u> | <u>(13,117,434)</u> |
| | <u>\$ 9,484,808</u> | <u>\$1,886,433</u> | <u>\$11,371,241</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, 2011**

| <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 | \$ (6,411,797) | | \$ 118,741 | | \$(6,293,056) |
| Public safety | (608,806) | | 69,000 | | (539,806) |
| Culture, education, tourism and recreation | (888,543) | | | | (888,543) |
| Public works | (649,755) | | | \$2,231,370 | 1,581,615 |
| Health, sanitation and welfare | (2,346,211) | | 1,403,686 | | (942,525) |
| Interest | <u>(440,249)</u> | <u> </u> | <u> </u> | <u> </u> | <u>(440,249)</u> |
| Total governmental activities | (11,345,361) | <u> </u> | <u>1,591,427</u> | <u>2,231,370</u> | <u>(7,522,564)</u> |
| Business type-activities: | | | | | |
| Capital outlay | | | | | |
| Housing | (405,833) | \$462,794 | | 120,970 | 177,931 |
| Interest | <u>(1,525)</u> | <u> </u> | <u> </u> | <u> </u> | <u>(1,525)</u> |
| Total Business - Type Activities | <u>(407,358)</u> | <u>462,794</u> | <u> </u> | <u>120,970</u> | <u>176,406</u> |
| Total | <u><u>\$(11,752,719)</u></u> | <u><u>\$462,794</u></u> | <u><u>\$1,591,427</u></u> | <u><u>\$2,352,340</u></u> | <u><u>\$(7,346,158)</u></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, 2011

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>TOTAL</u> |
|---------------------------|------------------------------------|-------------------------------------|-----------------------|
| Net (expense)/revenue | <u>\$ (7,522,564)</u> | <u>\$ 176,406</u> | <u>\$ (7,346,158)</u> |
| General revenue: | | | |
| Taxes: | | | |
| Property taxes | 1,249,313 | | 1,249,313 |
| Municipal tax | 444,051 | | 444,051 |
| Sale tax | 1,646,036 | | 1,646,036 |
| Construction excise Taxes | 730,929 | | 730,929 |
| Grants and entitlements | 6,055,572 | | 6,055,572 |
| Interest | 152,289 | 7,395 | 159,684 |
| Rent | 62,105 | | 62,105 |
| Other | <u>158,039</u> | <u>9,235</u> | <u>167,274</u> |
| Total general revenues | <u>10,498,334</u> | <u>16,630</u> | <u>10,514,964</u> |
| Changes in net assets | 2,975,770 | 193,036 | 3,168,806 |
| Net assets at beginning | <u>6,509,038</u> | <u>1,693,397</u> | <u>8,202,435</u> |
| Net assets at end | <u>\$ 9,484,808</u> | <u>\$1,886,433</u> | <u>\$11,371,241</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 AS OF JUNE 30, 2011

| | | STATE LEGISLATIVE JOINT | RESOLUTIONS FUND | \$6,023,000 LOAN | \$4,120,000 LOAN | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------|-------------------------------|---------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| Cash: | | | | | | | |
| Cash in bank | \$2,165,407 | | \$ 866,754 | | | \$2,065,443 | \$ 5,097,604 |
| Cash with fiscal agent | | | | \$178 | \$4,103,754 | 2,679,038 | 8,349,749 |
| Receivables: | | | | | | | |
| Amount due from: | | | | | | | |
| Governmental agencies | 30,591 | | | | | 329,520 | 360,111 |
| Other funds | 544,451 | 2,636,636 | | | | 1,042,434 | 4,223,521 |
| Property tax | 851,157 | | | | | | 1,063,941 |
| Sale tax | 27,480 | | | | | | 75,373 |
| Total assets | <u>\$3,619,086</u> | <u>\$ 3,503,390</u> | <u>\$178</u> | <u>\$4,103,754</u> | <u>\$6,116,435</u> | <u>\$19,170,299</u> | |
| Liabilities: | | | | | | | |
| Accounts payable and accrued expenses | \$ 11,407 | \$ 49,785 | | | | \$ 459,978 | \$ 521,170 |
| Deferred revenues | 928,371 | | | | | 1,643,581 | 2,776,102 |
| Due to other fund | 2,091,268 | 1,196,562 | | | | 935,691 | 4,223,521 |
| Due to other government agency | 173,303 | | | | | 272 | 173,575 |
| Total liabilities | <u>3,204,349</u> | <u>1,246,347</u> | | | | <u>3,039,522</u> | <u>7,694,368</u> |
| Fund balance | | | | | | | |
| Restricted for: | | | | | | | |
| Debt services | | | | | | | 1,623,306 |
| Capital proyect | | 2,257,043 | | \$178 | \$4,103,754 | 3,076,913 | 6,360,975 |
| Other purpose | | | | | | | 414,737 |
| Unassigned | 414,737 | | | | | 3,076,913 | 11,475,931 |
| Total fund balance | <u>414,737</u> | <u>2,257,043</u> | <u>178</u> | <u>4,103,754</u> | <u>3,076,913</u> | <u>\$6,116,435</u> | <u>\$19,170,299</u> |
| Total liabilities and fund balance | <u>\$3,619,086</u> | <u>\$3,503,390</u> | <u>\$178</u> | <u>\$4,103,754</u> | <u>\$6,116,435</u> | <u>\$19,170,299</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, 2011**

Fund balances in governmental funds \$ 11,475,931

Amounts reported for governmental activities in the Statement of Net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 21,639,914

Deferred revenue in the governmental funds that are recorded as revenue in the statement of net assets. 1,027,723

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

| | |
|------------------------------|--------------|
| Bonds and notes payable | (16,675,000) |
| Compensated absences | (924,866) |
| Claims and judgments payable | (5,348,365) |
| Due to CRIM | (1,658,219) |
| Accrued interest | (52,310) |

Net assets of governmental activities \$ 9,484,808

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>GENERAL FUND</u> | <u>DEBT SERVICE FUND</u> | <u>STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS</u> | <u>\$6,023,000 LOAN</u> | <u>\$4,120,000 LOAN</u> | <u>OTHER GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|---|---------------------|--------------------------|--|-------------------------|-------------------------|---------------------------------|---------------------------------|
| Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | \$ 942,420 | \$234,171 | | | | | \$ 1,176,591 |
| Patents | 444,051 | | | | | | 444,051 |
| Sales taxes | 972,092 | 673,944 | | | | | 1,646,036 |
| Construction excise tax | 730,929 | | | | | | 730,929 |
| Grants and entitlements | 5,649,395 | | \$416,176 | | | \$ 3,812,798 | 9,878,369 |
| Interest | 749 | 1,188 | 26 | \$ 18,009 | \$82,081 | 50,236 | 152,289 |
| Rent | 62,105 | | | | | | 62,105 |
| Licenses and permits | 3,145 | | | | | | 3,145 |
| Other | <u>128,593</u> | | | | | <u>26,301</u> | <u>154,894</u> |
| Total revenues | <u>8,933,479</u> | <u>909,303</u> | <u>416,202</u> | <u>18,009</u> | <u>82,081</u> | <u>3,889,335</u> | <u>14,248,409</u> |
| Expenditures: | | | | | | | |
| General administration | 4,900,664 | | 101,794 | 22,822 | 16,246 | 146,087 | 5,187,613 |
| Public safety | 414,436 | | | | | | 414,436 |
| Culture, tourism, education and recreation | 694,525 | | | | | | 694,525 |
| Public works | 1,025,288 | | 11,662 | | | 2,783,905 | 3,820,855 |
| Health, sanitation and welfare | 686,150 | | | 6,000,000 | | 1,658,112 | 2,344,262 |
| Payment of litigation | | | | | | | 6,000,000 |
| Debt service: | | | | | | | |
| Principal | | 477,000 | | | | | 477,000 |
| Interest | | 405,094 | | | | | 405,094 |
| Total expenditures | <u>7,721,063</u> | <u>882,094</u> | <u>113,456</u> | <u>6,022,822</u> | <u>16,246</u> | <u>4,588,104</u> | <u>19,343,785</u> |
| Excess (deficiency) of revenue over expenditures | <u>\$1,212,416</u> | <u>\$ 27,209</u> | <u>\$302,746</u> | <u>\$(6,004,813)</u> | <u>\$65,835</u> | <u>\$(698,769)</u> | <u>\$ (5,095,376)</u> |

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | GENERAL FUND | DEBT SERVICE FUND | STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS | \$6,023,000 LOAN | \$4,120,000 LOAN | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------|----------------------|---|---------------------|---------------------|--------------------------------|--------------------------------|
| Excess (deficiency) of revenue over expenditures | \$1,212,416 | \$ 27,209 | \$ 302,746 | \$(6,004,813) | \$ 65,835 | \$(698,769) | \$ (5,095,376) |
| Other financing sources (uses): | | | | | | | |
| Operating transfer in | 150,718 | 680,230 | | | | 230,057 | 1,061,005 |
| Operating transfer out | (910,287) | (208) | | (18,009) | (82,081) | (50,420) | (1,061,005) |
| | | | | 6,023,000 | 4,120,000 | 245,000 | 10,388,000 |
| Total other financing sources | (759,569) | 680,022 | | 6,004,991 | 4,037,919 | 424,637 | 10,388,000 |
| Net income | 452,847 | 707,231 | 302,746 | 178 | 4,103,754 | (274,132) | 5,292,624 |
| Fund balance at beginning of year | (38,110) | 916,075 | 1,954,297 | | | 3,351,045 | 6,183,307 |
| Fund balance at end of year | \$ 414,737 | \$1,623,306 | \$2,257,043 | \$ 178 | \$4,103,754 | \$3,076,913 | \$11,475,931 |

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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, 2011**

Net change in fund balances – total governmental funds \$ 5,292,624

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. 3,370,700

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. 477,000

Governmental funds report proceed from loan as other financial sources whereas the proceed from loans increase the long-term debt in the statements of net assets. (10,388,000)

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

| | |
|-----------------------|-----------|
| CRIM | 40,977 |
| Compensating absences | 60,361 |
| Litigation settlement | 4,765,670 |
| Deferred revenue | 72,722 |
| Interest | (35,155) |

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. (681,129)

Changes in Net Assets of Governmental Activities \$ 2,975,770

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND
JUNE 30, 2011**

ASSETS

| | Proprietary Funds Valle Verde Project |
|--------------------------------|--|
| Current Assets: | |
| Cash | \$ 52,998 |
| Accounts receivable: | |
| Other governmental agencies | 654,456 |
| Other | <u>15,743</u> |
| | <u>723,197</u> |
| Non current assets: | |
| Property and equipment | 2,505,474 |
| Restricted deposits | <u>286,878</u> |
| | <u>2,792,352</u> |
| | <u><u>\$3,515,549</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---|-------------------------------|
| Liabilities: | |
| Current liabilities: | |
| Current maturities of mortgage note | \$ 123,563 |
| Accounts payable and accrued expenses | <u>251,185</u> |
| | <u>374,748</u> |
| Mortgage note, net of current maturities | 909,298 |
| Pollution remediation obligation | <u>345,070</u> |
| | <u>1,254,368</u> |
| | <u>1,629,116</u> |
| Net assets | <u>1,886,433</u> |
| Total liabilities and net assets | <u><u>\$3,515,549</u></u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES-PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011**

| | Proprietary Fund Valle Verde Project |
|---------------------------------------|---|
| Revenues: | |
| Rent | \$ 462,794 |
| Financial | 7,395 |
| Capital project grant | 120,970 |
| Other | <u>9,235</u> |
| Total revenues | <u>600,394</u> |
| Expenses: | |
| Administrative | 125,696 |
| Utilities | 19,439 |
| Operating maintenance | 96,880 |
| Taxes and insurance | 38,772 |
| Depreciation | 125,046 |
| Interest | <u>1,525</u> |
| Total expenses | <u>407,358</u> |
| Change in net assets | 193,036 |
| Project net assets, beginning of year | <u>1,693,397</u> |
| Project net assets, and year | <u>\$1,886,433</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

| | Proprietary Fund <u>Valle Verde Project</u> |
|--|--|
| Cash flows from operating activities: | |
| Cash receivable from tenants and HUD | \$ 462,152 |
| Other cash received | <u>51,879</u> |
| | <u>514,031</u> |
| Administrative | (34,646) |
| Management fees | (31,458) |
| Salaries and wages | (107,016) |
| Utilities | (19,439) |
| Operating and maintenance | (82,942) |
| Miscellaneous taxes and insurance | <u>(39,104)</u> |
| | <u>(314,605)</u> |
| Net cash provided by operating activities | <u>199,426</u> |
| Cash flows from non-capital financing activities: | |
| Interest and other charges | <u>(1,525)</u> |
| Net cash used in non-capital financial activities | <u>(1,525)</u> |
| Cash flows from capital and related financing activities: | |
| Mortgage principal payments | (666) |
| Interest paid in capital debt | (114,439) |
| Construction in congress | (195,694) |
| Purchases of capital assets | <u>(19,297)</u> |
| Net cash used in capital and related financing activities | <u>(330,096)</u> |
| Cash flows from investing activities: | |
| Interest in investing | 7,395 |
| Deposit to reserve for replacement and interest retained in account | (29,652) |
| Withdrawals from replacements reserve | 199,898 |
| Deposits to and interest earned and retained for insurance escrow | (19,140) |
| Withdrawals from insurance escrow | <u>19,300</u> |
| Net cash provided by investing activities | <u>177,801</u> |
| Net decrease in cash | 45,606 |
| Cash at beginning of year | <u>7,392</u> |
| Cash at end of year | <u>\$ 52,998</u> |

(continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF CASH FLOWS-PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

**Proprietary Fund
Valle Verde Project**

Cash flows from operating activities:

| | |
|--|-------------------------|
| Change in the net assets | <u>\$187,166</u> |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 125,046 |
| Mortgage sales by | (7,674) |
| Increase (decrease) in: | |
| Receivables | (71,294) |
| Tenant security deposits | (111) |
| Miscellaneous prepaid expenses | (15,389) |
| Increase (decrease) in: | |
| Pollution remediation obligation | (38,930) |
| Accounts payable | 20,131 |
| Payroll | 370 |
| Tenant security deposits | <u>111</u> |
| | <u>12,260</u> |
| Net cash provided by operating activities | <u>\$199,426</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government wide and fund financial statements

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

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service fund

This fund accounts for revenue from property and sales tax for the payments of general long term debt liabilities.

3) State Legislative Joint Resolutions Fund

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

4) \$6,023,000 loan fund

This fund accounts for resources provided by a loan for the payment of a litigation. This loan will be paid general fund tax.

5) \$4,120,000 loan fund

This fund account for the process at a loan for the development of capitol project. This loan will be paid with state sales tax.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In the prior year, the Authority adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.

- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by and official or body to which the governing body delegates authority in conformity with the bylaws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

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, 2011 amounted to approximately \$127,913. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$152,204 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, 2011

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, 2011, post employment benefits retirees amounted to \$49,971. These benefits are recorded as expenditures in the general fund when notified by the retirement plan.

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 the 2011 financial statements have been restated to record capital assets amounted to \$1,518,901.

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, 2011

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 2011 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.

Total property tax receivable, net of an allowance for uncollectible accounts of \$6,407,074, amounted to \$1,063,944 at June 30, 2011. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2011:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> |
|---|-------------------------|------------------------------|--------------------|
| Gross property taxes receivable | \$5,976,614 | \$1,494,404 | \$7,471,018 |
| Less: | | | |
| Allowance for uncollectible accounts | <u>5,125,454</u> | <u>1,281,620</u> | <u>6,407,074</u> |
| Net property taxes receivable | <u>\$ 851,160</u> | <u>\$ 212,784</u> | <u>\$1,063,944</u> |
| Deferred (unavailable) property tax revenues in GFFS | <u>\$ 823,573</u> | <u>\$ 204,150</u> | <u>\$1,027,723</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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, 2011, \$104,798 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 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.

7. DEFERRED REVENUE

| | |
|---|-------------------------------|
| Municipal license tax collected in the fiscal year 2011-2011 corresponding to the following fiscal year | \$ 104,798 |
| Portion of grants received for which qualifying expenditures have not been incurred | <u>1,643,581</u> 1,748,379 |
| Property tax receivable but not available in the governmental fund financial statements | <u>1,027,723</u> |
| | <u>\$2,776,102</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

8. VALLE VERDE HOUSING AND RESTRICTED DEPOSIT

VALLE VERDE HOUSING (the **Project**) is a housing development consisting of land, building and other improvements owned by Municipality of Adjuntas. The Project leases it 96 rental units to low and moderate income individuals in the Adjuntas area. The accompanying financial statements are those of the Project and do not represent the financial statements of the Municipality.

The Project operates under Section 515 of USDA Rural Development (USDA-RD) Housing of the National Housing Act with HUD Section 8 Housing Assistance Payments program (new construction). The Section 515 Assistance is considered a major program. The properties are operated subject to Section 8 Housing Assistance Payments agreements with the U.S. Department of Housing and Urban Development (HUD), and a significant portion of the Project's rental income is received from this agency. The assistance is also considered a major program.

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

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

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

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

Restricted cash in the business-type activities consists of:

| | |
|--------------------------|------------------|
| Escrow deposit | \$ 18,962 |
| Tenant security deposits | 13,287 |
| Reserve for replacement | <u>254,629</u> |
| | <u>\$286,878</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

| Primary Government | Balance June 30, 2010 | Increases | Decreases | Balance June 30, 2011 |
|--|----------------------------------|--------------------|------------------|----------------------------------|
| Governmental activities: | | | | |
| Capital asset, not being depreciated: | | | | |
| Land | \$ 1,983,180 | | | \$ 1,983,180 |
| Construction in progress | <u>247,133</u> | <u>\$ 178,031</u> | <u> </u> | <u>425,164</u> |
| | <u>2,230,313</u> | <u>178,031</u> | <u> </u> | <u>2,408,344</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 8,073,524 | 1,267,368 | | 9,340,892 |
| Equipment and vehicles | 4,317,204 | 275,220 | | 4,592,424 |
| Infrastructure | <u>10,570,345</u> | <u>1,650,082</u> | <u> </u> | <u>12,220,427</u> |
| Total capital assets being depreciated | <u>22,961,073</u> | <u>3,192,670</u> | <u> </u> | <u>26,153,743</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,205,305) | (207,742) | | (2,413,047) |
| Equipment and vehicles | (3,734,127) | (206,801) | | (3,940,928) |
| Infrastructure | <u>(301,611)</u> | <u>(266,587)</u> | <u> </u> | <u>(568,198)</u> |
| Total accumulated depreciation | <u>(6,241,043)</u> | <u>(681,130)</u> | <u> </u> | <u>(6,922,173)</u> |
| Total depreciable capital assets, net | <u>16,720,030</u> | <u>2,511,540</u> | <u> </u> | <u>19,231,570</u> |
| Governmental activities capital assets net | <u>\$18,950,343</u> | <u>\$2,689,571</u> | <u> </u> | <u>\$21,639,914</u> |
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 117,280 | | | \$ 117,280 |
| Construction in progress | <u>1,202,423</u> | <u>\$ 142,442</u> | <u> </u> | <u>1,344,865</u> |
| | <u>1,319,703</u> | <u>142,442</u> | <u> </u> | <u>1,462,145</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 4,070,690 | 19,297 | | 4,089,987 |
| Equipment | 490,573 | | | 490,573 |
| Land improvement | <u>245,579</u> | <u> </u> | <u> </u> | <u>245,579</u> |
| | <u>4,806,842</u> | <u>19,297</u> | <u> </u> | <u>4,826,139</u> |
| Less accumulated depreciation: | | | | |
| Building and building improvement | (2,840,522) | (118,591) | | (2,959,113) |
| Equipment | (640,254) | (316) | | (640,570) |
| Land improvements | <u>(176,988)</u> | <u>(6,139)</u> | <u> </u> | <u>(183,127)</u> |
| | <u>(3,657,764)</u> | <u>(125,046)</u> | <u> </u> | <u>(3,782,810)</u> |
| Total depreciation, capital, assets net | <u>1,149,078</u> | <u>(105,749)</u> | <u> </u> | <u>1,043,329</u> |
| Business activities capital assets, net | <u>2,468,781</u> | <u>36,693</u> | <u> </u> | <u>2,505,474</u> |
| Total | <u>\$21,419,124</u> | <u>\$2,726,264</u> | <u> </u> | <u>\$24,145,388</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 | \$ 91,192 | |
| Public safety | 194,370 | |
| Public works | 199,600 | |
| Education, culture and recreation | 194,018 | |
| Health, sanitation and welfare | 1,949 | |
| Housing | <u> </u> | <u>\$122,123</u> |
| Total depreciation expense | <u>\$681,129</u> | <u>\$122,123</u> |

10. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2011 was as follows:

| Primary Government | Beginning | | | Ending | Due within |
|----------------------------------|---------------------|-----------------------------|----------------------|---------------------|-----------------------------|
| Governmental activities: | Balance | Additions | Reductions | Balance | one year |
| Notes and bonds payable | \$ 6,764,000 | \$10,388,000 | \$ (477,000) | \$16,675,000 | \$ 586,000 |
| Other long-term debt: | | | | | |
| Claims and judgments payable | 10,114,035 | 1,234,330 | (6,000,000) | 5,348,365 | 5,348,365 |
| Compensated absences | 985,227 | | (60,361) | 924,866 | 800,000 |
| Amount due to CRIM | <u>1,699,196</u> | <u> </u> | <u>(40,977)</u> | <u>1,658,219</u> | <u>43,165</u> |
| Total | <u>19,562,458</u> | <u>11,622,330</u> | <u>(6,578,338)</u> | <u>24,606,450</u> | <u>6,777,530</u> |
| Business-type activities: | | | | | |
| Mortgage payable | 1,154,974 | | (122,113) | \$ 1,032,861 | \$ 123,563 |
| Pollution remediation obligation | <u>384,000</u> | <u> </u> | <u>(38,930)</u> | <u>345,070</u> | <u> </u> |
| | <u>1,538,974</u> | <u> </u> | <u>(161,043)</u> | <u>1,377,931</u> | <u>123,563</u> |
| Total | <u>\$21,101,432</u> | <u>\$11,622,330</u> | <u>\$(6,739,381)</u> | <u>\$25,584,381</u> | <u>\$7,101,093</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

A. Notes and Bonds:

| | |
|--|---------------------|
| \$245,000 General Municipal Obligation Note of 2011 payable in an annual installments ranging from \$30,000 to 45,000 through July 1, 2017 plus interest at 7.50%. | \$ 245,000 |
| \$4,120,000 Special Obligation of 2011 payable in an annual installment ranging \$60,000 to \$345,000 through July 1, 2035, plus interest at 7.50%. | 4,120,000 |
| \$200,000 Public Improvement Serial Bond of 1990 payable in annual installments ranging from \$12,000 to \$15,000 through January 1, 2015, plus interest at 5%. | 53,000 |
| \$6,023,000 General Municipal Obligation of 2011 payable in an annual installments ranging from \$150,000 to \$553,000 through on July 1, 2030, plus interest at 7.50% | 5,883,000 |
| \$1,355,000 Special Obligation Note of 1993 payable in quarterly installments \$20,000 through April 1, 2013, plus interest at Libor 90 days plus 1.25%. | 140,000 |
| \$400,000 Special Obligation Bond of 1996 payable in annual installments ranging from \$25,000 to \$40,000 through January 1, 2015, plus interest at LIBOR 90 days plus 1.25% | 155,000 |
| \$1,365,000 General Municipal Obligation Bond of 2004 payable in annual installments ranging from \$40,000 to \$85,000 through July 1, 2029 plus interest at 5%. | 1,145,000 |
| \$619,000 Special Obligation Note of 2006 payable in an annual installment of \$106,000 through July 1, 2012, plus interest at Libor 90 days plus 1.25%. | 106,000 |
| \$619,000 General Municipal Obligation Bond of 2007 payable in annual installment ranging from \$12,000 to \$52,000 through July 1, 2031 plus interest at LIBOR 90 days plus 1.25% | 577,000 |
| \$95,000 General Municipal Obligation Note of 2011 payable in annual installments ranging from \$15,000 to \$20,000 though July 1, 2014 plus interest at LIBOR 90 days plus 1.25% | 65,000 |
| \$4,322,000 Special Obligation Note of 2008 payable in annual installments of \$76,000 to \$367,000 through July 1, 2032 plus interest at 7.25%. | <u>4,186,000</u> |
| | <u>\$16,675,000</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2011 are as follows:

| Notes and Bonds Payable <u>Year ended June 30</u> | Governmental-type Activities | | <u>Agreement</u> <u>Payment</u> |
|--|-------------------------------------|------------------------|--|
| | <u>Principal</u> | <u>Interest</u> | |
| 2012 | \$ 586,000 | \$ 795,001 | \$ 1,381,000 |
| 2013 | 532,000 | 1,123,088 | 1,655,088 |
| 2014 | 479,000 | 1,116,000 | 1,595,000 |
| 2015 | 514,000 | 1,082,703 | 1,596,703 |
| 2016 | 522,000 | 1,027,173 | 1,549,173 |
| 2017-2021 | 2,929,000 | 4,537,441 | 7,466,441 |
| 2022-2026 | 3,953,000 | 3,434,793 | 7,387,793 |
| 2027-2031 | 4,911,000 | 1,779,700 | 6,690,700 |
| 2032-2036 | <u>2,249,000</u> | <u>351,149</u> | <u>2,600,149</u> |
| | <u>\$16,675,000</u> | <u>\$15,247,048</u> | <u>\$31,922,047</u> |

Amount due to CRIM

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, 2011, the amount due to CRIM amounting to \$1,529,094.

Financing of delinquent property tax accounts sold

In addition, the Municipality entered into a financing agreement with CRIM for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interest (125 points over LIBOR rate) during the next 25 years. At June 30, 2011, the outstanding principal balance amounted to \$129,125.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

10. LONG-TERM DEBTS (CONTINUED)

The principal and Interest matured as follow:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Agreement Payment</u> |
|---------------------------|--------------------|--------------------|------------------------------|
| 2012 | \$ 43,165 | \$ 102,081 | \$ 145,246 |
| 2013 | 45,491 | 99,372 | 144,863 |
| 2014 | 47,963 | 96,517 | 144,480 |
| 2015 | 50,591 | 93,507 | 144,098 |
| 2016 | 53,383 | 90,333 | 143,716 |
| 2017-2020 | 315,341 | 397,502 | 712,843 |
| 2021-2025 | 416,714 | 286,568 | 703,282 |
| 2026-2030 | 554,197 | 139,523 | 693,720 |
| 2031-2032 | <u>131,376</u> | <u>6,223</u> | <u>137,599</u> |
| | <u>\$1,658,221</u> | <u>\$1,311,626</u> | <u>\$2,969,847</u> |

Business-type activities:

Consists of a 9% mortgage note used for project construction, payable in monthly installments of \$18,425, including interest, until 2017, collateralized with land and building. USDA Rural Development has provided a mortgage subsidy to the project in the amount of \$8,833, attributed to each monthly payment of principal and interest. This subsidy is awarded annually based on the project's current needs, and has reduced the project's monthly installments to \$9,592.

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> | <u>Agreement Payment</u> |
|---------------------------|--------------------|------------------|------------------------------|
| 2012 | \$ 133,564 | \$ 87,537 | \$ 221,101 |
| 2013 | 146,094 | 75,008 | 221,102 |
| 2014 | 159,798 | 61,303 | 221,101 |
| 2015 | 174,188 | 46,913 | 221,101 |
| 2016 | 191,185 | 29,917 | 221,102 |
| 2017 | <u>228,032</u> | <u>11,982</u> | <u>240,014</u> |
| | <u>\$1,032,861</u> | <u>\$312,660</u> | <u>\$1,345,521</u> |

11. POLLUTION REMEDIATION OBLIGATION AND RELATED THIRD-PARTY RECOVERY

Based on a comprehensive Asbestos-Containing Material (ACM) survey engaged by the project's management agent, it was determined that the project's buildings containing asbestos materials that need to be removed in accordance with Puerto Rico Environmental Quality Board (EQB) regulations with the use of proper engineering controls.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

11. POLLUTION REMEDIATION OBLIGATION AND RELATED THIRD-PARTY RECOVERY (CONTINUED)

The project has accrued its best estimate of its obligation regarding the removal of asbestos materials, which is presented under the caption pollution remediation obligation in the accompanying statement of net assets of the Business Type-Activities. The estimated liability is obtained from the construction certifications. Since the removal of asbestos materials is already contracted, management believes the possibility of change in estimate is low.

The estimate cost of the removal of asbestos material will be paid with resources provided by two capital project grants totaling \$426,806 awarded by the Puerto Rico Department of Housing, while additional resources totaling \$36,802 from the project's reserve for replacement account were authorized and committed by HUD to cover the remaining cost of the removal of asbestos.

12. 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 OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

12. RETIREMENT SYSTEM (CONTINUED)

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.

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, 2011 amounted to approximately \$158,993 and \$185,233 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, 2011, a copy of which can be obtained from the Retirement System.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

14. 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.

The Municipality was named defendant of a lawsuit filed by approximately 82 individuals who claim political harassment and discrimination. On December 3, 2001, a jury determined in favor of 20 out of 82 plaintiffs for the amount of \$6,956,400 which amount was paid in full. During the year the ended June 30, 2005, the Municipality paid the amount of \$1,500,000 to the plaintiffs. In addition, the Puerto Rico Secretary of Justice ordered to the Puerto Rico Treasury Department to pay the remaining amount. The remaining 62 plaintiffs and the Municipality reached a agreement to settle the claims which was approved by the Municipal Legislative Body approved the settlement. On November 2011, the parties stipulated to pay \$12,500,000 to the remaining 62 plaintiffs. As of June 30, 2011, the balance of such liability amounted to approximately \$5,348,365 which has been recorded in the governmental activities financial statements. Such amount was paid in full, subsequent to balance sheet date.

15. SUBSEQUENT EVENTS:

Subsequent to the balance sheet date, the Municipality obtained a loan amounted to \$2,200,000 for the payment of the claim described in Note 14.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>GENERAL FUND</u> | | | VARIANCE WITH FINAL BUDGET |
|---|----------------------------|-------------------------|-----------------------|-----------------------------------|
| | <u>ORIGINAL BUDGET</u> | <u>BUDGET</u> | <u>ACTUAL</u> | FAVORABLE <u>(UNFAVORABLE)</u> |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$1,040,433 | \$1,040,433 | \$ 942,420 | \$ (98,013) |
| Municipal tax | 384,842 | 384,842 | 444,051 | 59,209 |
| Sale tax | 639,392 | 639,392 | 972,092 | 332,700 |
| Construction excise tax | 214,430 | 214,430 | 730,929 | 516,499 |
| Grants and entitlements | 5,648,568 | 5,648,568 | 5,649,395 | 827 |
| Interest | 21,824 | 21,824 | 749 | (21,075) |
| Rent | 33,000 | 33,000 | 62,105 | 29,105 |
| Incomes and permits | 2,130 | 2,130 | 3,145 | 1,015 |
| Other | <u>149,152</u> | <u>149,152</u> | <u>128,593</u> | <u>(20,559)</u> |
| Total revenues | <u>8,133,771</u> | <u>8,133,771</u> | <u>8,933,479</u> | <u>799,708</u> |
| Expenditures: | | | | |
| General administration | 4,886,571 | 5,306,789 | 5,580,893 | (274,104) |
| Public safety | 685,468 | 447,119 | 414,436 | 32,683 |
| Culture, education, tourism and recreational | 686,149 | 658,474 | 694,525 | (36,051) |
| Public works | 1,966,017 | 1,132,444 | 1,025,287 | 107,157 |
| Health, sanitation and welfare | <u>257,345</u> | <u>756,722</u> | <u>686,150</u> | <u>70,572</u> |
| Total expenditures | <u>8,481,550</u> | <u>8,301,548</u> | <u>8,401,291</u> | <u>(99,743)</u> |
| Excess of revenue over expenditures | <u>\$ (347,779)</u> | <u>\$ (167,777)</u> | <u>\$ 532,188</u> | <u>\$ 699,965</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2011

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, 2011

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:

| | |
|--|------------------|
| Excess of revenues and other financing sources over expenditures and other financial sources generally accepted accounting principles (GAAP) | \$452,847 |
| Adjustments to convert budgetary basis to (GAAP) | <u>79,341</u> |
| Excess of revenue over expenditures (Budgetary Basis) | <u>\$532,188</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

| | <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 | 1,136,959 |
| ARRA Community Development Block Grant | 14.255 | <u>42,828</u> |
| | | <u>1,179,787</u> |
| Puerto Rico Department of Family: | | |
| ARRA Homeless Prevention and Rapid Re-Housing Program | 14.257 | 80,553 |
| Direct Program: | | |
| Section 8 – Housing Choice Vouchers | 14.871 | <u>257,473</u> |
| | | <u>338,026</u> |
| <u>US Department of Health and Human Services</u> | | |
| Direct Program: | | |
| Head Start | 93.600 | <u>1,221,216</u> |
| <u>US Department of Agriculture</u> | | |
| Passed through: | | |
| Puerto Rico Department of Education: | | |
| Child and Adult Care Food Program | 10.558 | <u>98,869</u> |
| <u>US Department of Home and Security</u> | | |
| Passed through: | | |
| PR Office of Management and Budget (GAR): | | |
| Public Assistance Grant | 97.036 | <u>502,982</u> |
| | | <u>\$3,340,880</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Adjuntas, Puerto Rico 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, 44 RAFAEL LASA ST., AGUAS BUENAS, PR 00703 TELÉFONO: 787-732-8020 - FAX: 787-732-0685 – E MAIL: oficinacarlosdiazcpa@yahoo.com

**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**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of Adjuntas, Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Municipality of Adjuntas, Puerto Rico's basic financial statements and have issued our report thereon dated February 9, 2011. Other auditors audited the financial statements of The Valle Verde Housing, as described in our report on Municipality of Adjuntas, Puerto Rico's 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE: (CONTINUED)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 01-11. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

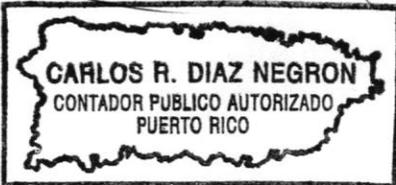
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Adjuntas, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances 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 questions costs as items 01-11.

This report is intended solely for the information and use of management, City Council, 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.

February 9, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2013

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

The stamp No. **E3004** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

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

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
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

We have audited the compliance of **Municipality of Adjuntas, Puerto Rico**, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Municipalities of Adjuntas, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Adjuntas, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Adjuntas, Puerto Rico's compliance based on our audit. Municipality of Adjuntas, Puerto Rico financial statements include the operations of Valle Verde Project which expensed \$1,633,683 in federal award which is not included in the schedule during the year ended June 30, 2011. Our audit, described below did not include the operations of Valle Verde Project because the Project's management engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Adjuntas, Puerto Rico's compliance with those requirements.

As described in item 02-11 in the accompanying schedule of findings and questioned cost the Municipality of Adjuntas, Puerto Rico, did not comply with requirement regarding procurement and suspension and debarment that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the Municipality of Adjuntas, Puerto Rico, to comply with the requirements applicable to that program.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)

In our opinion, except for the noncompliance described in the preceding paragraph, Municipality of Adjuntas, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

The result of our audit procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular 133 and which are described in the accompanying schedule of findings and questioned costs as items 3-11 and 4-11.

Internal Control Over Compliance

Management of Municipality of Adjuntas, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Adjuntas, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Adjuntas, Puerto Rico's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below we identify certain deficiencies in internal control that we considered to be material weakness.

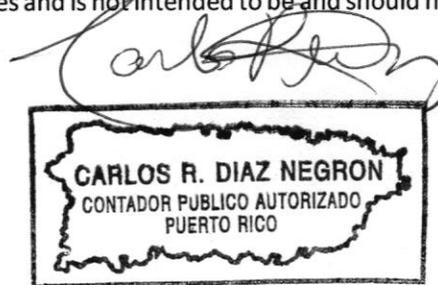
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency on internal control over compliance described in the accompanying schedule of findings and questioned cost as item 02-10 to be material weakness.

Municipality of Adjuntas, Puerto Rico's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Adjuntas, Puerto Rico's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

February 9, 2012
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013



The stamp No. **E3005** 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, 2011**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

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) ___yes Xno

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

Qualified

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

14.871

14.228 ✓

14.255

97.036

Section 8 – Housing choice voucher
Community Development Block
Grants/State's Program
ARRS-Community Development Block
Grants/State's Program
Public Assistance 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, 2011

SECTION II – FINANCIAL STATEMENT FINDING

Finding No. 01-11

Accounting system

Condition:

The Municipality has not established accounting procedures, control and records necessary to provide accurate information to prepare the financial statements in conformity with generally accepted accounting principles.

During our examination we noted the following matters:

- a) The bank reconciliations are not compared to general ledger and differences noted, if any, are not promptly adjusted.
- b) The accounting system did not recognized most of the payroll transactions. Such transactions are recognized manually at year end.
- c) The manually prepared checks are not recorded in the computerized system.
- d) The financial statements were prepared from worksheets manually prepared.

Criteria:

The Sections 8.010 (a), (c) and (d) of the Law 81 state that the accounting system establishes by the Municipality should by designed to present complete and accurate information of the result of operations, adequate control and accountability of all the funds necessary for the administration of the Municipality. The Law also states that the procedures to collect and deposit municipal funds and control the municipal property, should have adequate controls that prevent the commitment of irregularities and permit that if such irregularities are committed, the responsibility for such irregularities be established.

Effect:

The occurrence of these conditions may result that all transactions are not recorded in the financial statements and that any error could not be detected promptly.

Recommendation:

We recommend that the Municipality establishes an adequate accounting system to ascertain that all transactions are properly recorded.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 2-11 – Procurement and Suspension and Debarment

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Procurement and Suspension and Debarment

Category:

Compliance and Internal Control

Condition:

As part of our audit procedures we examined 8 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In 5 of the 8 disbursements amounting \$878,716 the Municipality did not perform procedures to ascertain that contracted parties are not suspended or debarred and in one disbursement amounting to \$73,365 the Municipality did not perform procurement procedures.

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, 2011**

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

Finding No. 2-11 – Procurement and Suspension and Debarment

Criteria (continued):

Suspension and Debarment:

2 CFR part 180 states that 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. 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. CFR section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

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:

\$73,365

Recommendation:

We recommend that the Municipality establishes an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

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

Finding No. 03-11 – Depository Agreements – Section 8

Federal program

CFDA No. 14.871 Housing Choice Voucher

Compliance requirement:

Special Tests and Provisions – Depository Agreements

Category:

Compliance

Condition:

The municipality does not maintain a depository agreements with their financial institution in the form required by HUD.

Criteria:

24 CFR Section 982.156 states that:

- a) Unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements.
- b) The PHA may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.
- c) The PHA must enter into an agreement with the depository in the form required by HUD.
- d) (1) If required under written freeze notice form HUD to the depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice form HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD.

(2) HUD must send the PHA a copy of the freeze notice form HUD to the depository. (Approved by the Office of Management and Budget under control number 25770169) [60 FR 34695, July 3, 1995, as amended at 60 FR 45661, Sept. 1, 1995]

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

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

Finding No. 03-11 – Depository Agreements – Section 8 (CONTINUED)

Effect:

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

Questioned cost:

None

Recommendation:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

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

Finding No. 04-11 – Reporting-Section 8

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Reporting

Category:

Compliance

Condition:

During our examination, we compared the annual reported in the voucher Management System and the amount pay general ledger and note following deficiencies:

| <u>MONTH</u> | <u>VMS</u> | <u>GENERAL LEDGER</u> | <u>DIFFERENCE</u> |
|--------------------------------------|---------------------|-----------------------|-------------------|
| <u>Hap Payment</u> | | | |
| July 2010 | \$17,295.00 | \$17,446.00 | \$151.00 |
| August 2010 | 17,976.00 | 18,325.00 | \$349.00 |
| September 2010 | 16,124.00 | 16,800.00 | 676.00 |
| January 2011 | 18,609.00 | 18,928.00 | 319.00 |
| February 2011 | 18,566.00 | 19,248.00 | 682.00 |
| March 2011 | 18,856.00 | 19,456.00 | 600.00 |
| April 2011 | 18,856.00 | 17,650.00 | (1,206.00) |
| May 2011 | 18,609.00 | 19,804.00 | 1,195.00 |
| June 2011 | <u>19,804.00</u> | <u>18,038.00</u> | <u>(1,766.00)</u> |
| | <u>\$164,695.00</u> | <u>\$165,695.00</u> | <u>\$1,000.00</u> |
| <u>Administrative Expense</u> | | | |
| July 2010 | 2,120.00 | 2,618.27 | 498.27 |
| August 2010 | 3,700.00 | 4,195.21 | 495.21 |
| September 2010 | 2,524.00 | 3,027.45 | 503.45 |
| October 2010 | 2,754.00 | 3,252.27 | 498.27 |
| November 2010 | 2,262.00 | 2,762.11 | 500.11 |
| December 2010 | 1,885.00 | 3,512.59 | 1,627.59 |
| January 2011 | 2,491.00 | 2,883.79 | 392.79 |
| February 2011 | 2,261.00 | 2,761.92 | 500.92 |
| March 2011 | 2,066.00 | 2,582.64 | 516.64 |
| April 2011 | 2,066.00 | 2,582.64 | 516.64 |
| May 2011 | 0.00 | 2,582.61 | 2,582.61 |
| June 2011 | <u>3,502.00</u> | <u>4,012.10</u> | <u>510.10</u> |
| | <u>\$27,631.00</u> | <u>\$36,773.60</u> | <u>\$9,142.60</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

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

Finding No. 04-11 – Reporting-Section 8 (CONTINUED)

Criteria:

HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169) required that Municipality submit quarterly.

Effect:

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

Questioned costs:

None

Recommendation:

We recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS**

EXHIBIT - I

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011**

Municipality of Adjuntas
Single Audit Corrective Action Plan
Fiscal Year 2010-2011

Prepared March 2012

FINDING NO. 01-11 ACCOUNTING SYSTEM - GENERAL FUND

| Program Deficiency | Objectives | Key Task / Action Items | Resources | Lead Staff | Completion date | Actual Completion Date | Implementation Progress / Comments |
|--|---|---|---|--|-----------------|------------------------|--|
| <p>a. The bank reconciliations are not compared to general ledger and differences noted, if any, are not promptly adjusted.</p> <p>b. The accounting system did not recognize most of the payroll transactions. Such transactions are recognized manually at year end.</p> <p>c. The manually prepared checks are not recorded in the computerized system.</p> <p>d. The financial statements were prepared from worksheets manually prepared.</p> | <p>Establish an adequate accounting system that permit that all transactions are properly rerecorded.</p> | <p>Establish supervision and quality control measures.</p> <p>Prepare a manual standard procedure to record all transactions to avoid transactions without register.</p> <p>Acquire a new system or increase the capacity of feature for the document production or other report.</p> | <p>Ley de Municipio Autónomos Ley núm. 81</p> | <p>Finance's Director</p> <p>All accountants staff</p> <p>Computer's staff</p> | | <p>In progress</p> | <p>At present there are personnel technical contracted for the correction and update the information in the systems computerized. To the accounting personnel he was educated on the complete process to register the transactions in the computerized system.</p> |

Municipality of Adjuntas
Single Audit Corrective Action Plan
Fiscal Year 2010-2011

FINDING NO. 02-11 Procurement and Suspension and Debarment (FEDERAL PROGRAM)
CDFA - 14.228 COMMUNITY DEVELOPMENT BLOCK GRANT

| Program Deficiency | Objectives | Key Task / Action Items | Resources | Lead Staff | Completion date | Actual Completion Date | Implementation Progress / Comments |
|---|--|--|--|--|----------------------|------------------------|---|
| <p>1. The Municipality of Adjuntas did not comply with the Suspension and Debarment requirement.</p> <p>2. Disbursement amounting to \$73,365 the municipality did not comply with the procurement requirement.</p> | <p>1. Non-federal entities are prohibited from contracting with or making subawards under cover transactions to parties that are suspended or debarred or whose principals are suspended or debarred.</p> <p>2. 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.</p> | <p>Check the Excluded Parties List System (EPLS) maintained by General Services Administration's (GSA). Collecting a certification from entity and adding a clause or condition to the covered transaction with that entity.</p> <p>Use the same State policies and procedures used to purchases of non-Federal funds. It will also ensure that every purchase order or other contract includes all clauses required by federal laws and decrees and regulations.</p> <p>The local government is not secondary beneficiary States use their own procurement procedures, provided they conform to federal laws and regulations and standards identified in Rule A-102 common. All non-federal entities to follow federal laws and regulations applicable to development procurement, as observed in the implementation of the federal agency of the A-102 Common Rule and OMB Circular A-110.</p> | <p>2 Code of Federal Regulations Part 180</p> <p>OMB Circular A-110.</p> | <p>Federal Programs Director</p> <p>Municipal Secretariat's Director</p> | <p>June 30, 2011</p> | <p>June 30, 2011</p> | <p>1. From August of 2010, to new contracts of goods or services including a clause about of the regulation</p> <p>“Procurement and Suspension and Debarment”. A certification of (EPLS) is in all the payments realized to contractors is including.</p> <p>2. Contract awarded to the supplier, authorized by OCAM. Due to time expiring to grant funds could be lost. We are awaiting authorization document for OCAM.</p> |

Municipality of Adjuntas
Single Audit Corrective Action Plan
Fiscal Year 2010-2011

FINDING NO. 03-11 Depository Agreements - Section 8
CDA - 14.871 Housing Choice Voucher

| Program Deficiency | Objectives | Key Task / Action Items | Resources | Lead Staff | Completion date | Actual Completion Date | Implementation Progress / Comments |
|---|---|-------------------------------|---|-------------|-----------------|------------------------|---|
| 1. The municipality does not maintain depository agreements with their financial institution in the form required by HUD. | 1. Maintain depository agreements with financial institutions | 1. Complete the form HUD-5199 | www.hud.gov/offices/adm/hudclips/forms/files form HUD-5199 (6/91) ref. Handbook 7475.1 | HCV Account | March 30, 2012 | March 15, 2012 | Form was sent to Financial Institutions |

FINDING NO. 04-11 Reporting - Section 8
CDA - 14.871 Housing Choice Voucher

| Program Deficiency | Objectives | Key Task / Action Items | Resources | Lead Staff | Completion date | Actual Completion Date | Implementation Progress / Comments |
|---|--|---|---|-------------------------------|-----------------|------------------------|---|
| 1. Difference between the annual reported in the Voucher Manager Systems and the amount pay general ledger. | 1. Report administrative costs and PHA according to registered in the General ledger | 1. Reconcile the monthly cost of the program before being reported in VMS | Form HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB-2577-0169) | HCV Account HCV Technician | June 30, 2012 | June 30, 2012 | Since June 2011 is reconciling the information sent by VMS. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS**

EXHIBIT - II

**PRIOR YEAR FINDING STATUS
FOR THE YEAR ENDED JUNE 30, 2011**

Municipality of Adjuntas
 Prior Year Finding Status
 Single Audits 2010-2011

Prepared March 2012

FINDING NO. 01-10- Accounting System – General Fund

| Program Deficiency | Objectives | Key Tasks/Action Items | Resources | Lead Staff | Completion Target Date | Actual Completion Date | Implementation Progress/ Comments |
|---|---|---|-----------|--|------------------------|--------------------------|--|
| <p>a. The bank reconciliations are not compared to general ledger and different noted, if any, are not promptly adjusted.</p> <p>b. The accounting system did not recognize most of the payroll transactions. Such transactions are recognized manually at year end.</p> <p>c. The manually prepared checks are not recorded in the computerized system.</p> <p>d. The financial statements were prepared from worksheet manually prepared.</p> | <p>Established an adequate accounting system that permit that all transactions are properly recorded.</p> | <p>Establish supervision and quality control measures.</p> <p>Prepare a manual standard procedure to record all transactions to avoid transactions without register.</p> <p>Acquire a new system or increase the capacity of feature for the document production or other report.</p> | | <p>Finance's Director</p> <p>All accountants staff</p> <p>Computer's staff</p> | | <p>In Process</p> | <p>At present there are personnel technical contracted for the correction and update the information in the systems computerized. To the accounting personnel he was educated on the complete process to register the transactions in the computerized system.</p> |

**Municipality of Adjuntas
Prior Year Finding Status
Single Audits 2010-2011**

**FINDING NO. 02- 10 Procurement and Suspension and Debarment (FEDERAL PROGRAM)
CDFA – 14.228 COMMUNITY DEVELOPMENT BLOCK GRANT**

| Program Deficiency | Objectives | Key Tasks/Action Items | Resources | Lead Staff | Completion Target Date | Actual Completion Date | Implementation Progress/ Comments |
|--|---|---|--|---|------------------------|------------------------|--|
| The Municipality of Adjuntas did not comply with the Suspension and Debarment requirement. | Non-federal entities are prohibited from contracting with or making subawards under cover transactions to parties that are suspended or debarred or whose principals are suspended or debarred. | Check the Excluded Parties List System (EPLS) maintained by General Services Administration's (GSA). Collecting a certification from entity and adding a clause or condition to the covered transaction with that entity. | 2 Code of Federal Regulations Part 180 | Federal Programs Director Municipal Secretariat's Director | June 30, 2011 | June 30, 2011 | From August of 2010, to new contracts of goods or services including a clause about of the regulation "Procurement and Suspension and Debarment". A certification of (EPLS) is in all the payments realized to contractors is including. |