

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2009**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
FOR THE YEAR ENDED JUNE 30, 2009**

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MUNICIPALITY OF ADJUNTAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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Certified Public Accountant

MEMBER:

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Adjuntas** as of and for the year ended June 30, 2009 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. I did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report have been furnish to us, and in our opinion, insofar as it relates to the amounts included for Valle Verde, 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respect the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the Municipality of Adjuntas as of June 30, 2009, 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):

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 43 through 45 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

December 23, 2009
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010

The stamp No. **2446960** 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, 2009**

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, 2009. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The Municipality has reported assets amounting to \$30.10 million in the accompanying statement of net assets, of which most significant are capital assets and cash and cash equivalents amounting to \$17.79 million and \$9.39 million respectively.
- Also, the statement of net assets for the governmental activities of the municipality shows \$15.70 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 2009 the Municipality paid \$620,000 under operational loan to distribute to 62 plaintiffs. In 2009 the Municipality paid \$620,000. As of June 30, 2009, the liability amounted to \$10,746,793 is recorded in the governmental wide financial statement.
- During the year, the Municipality reported revenues of \$9.09 million in the general fund of total revenues restricted and unrestricted of \$14.35 million.
- The Municipality has reported total expenses amounting to \$10.26 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, 2009**

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, 2009 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, 2009**

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

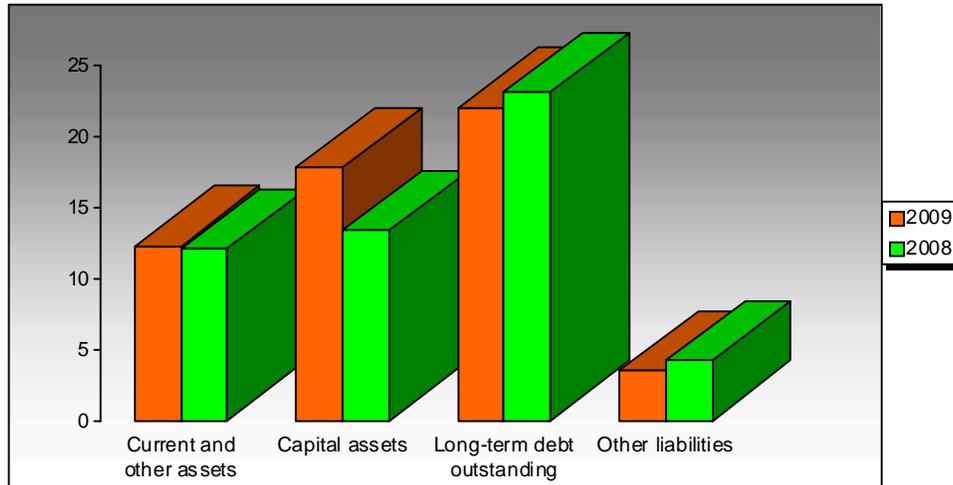
The Municipality's combined net assets increased in the current year by \$ 4.39 millions, to total \$4.55 million at end of year. Table 1 and 2 focus on the net assets and changes in net assets of the Municipality's governmental and business-type activities for the current year.

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

	<u>2008</u>	<u>2009</u>
Current and other assets	\$ 12.09	\$ 12.30
Capital assets	<u>13.41</u>	<u>17.80</u>
Total assets	<u>25.50</u>	<u>30.10</u>
Long-term debt outstanding	(23.14)	(22.03)
other liabilities	<u>(4.22)</u>	<u>(3.51)</u>
Total liabilities	<u>\$(27.36)</u>	<u>\$(25.54)</u>
Net assets:		
Invested in capital assets, net of related debt	10.74	10.67
Restricted for:		
Debt services	0.31	0.63
Capital project		
Other specified purpose	0.81	0.62
Unrestricted	<u>(13.72)</u>	<u>(7.37)</u>
Net Assets	<u>\$ (1.86)</u>	<u>\$ 4.55</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

Components of Net Assets



**Table 2
Changes In Net Assets
(In Million)**

Revenues	<u>2008</u>	<u>2009</u>
Program revenues:		
Charges for services	\$ 0.42	\$ 0.43
Operating grants and contributions	1.27	1.32
Capital grants and contributions	2.13	3.57
General revenues:		
Property taxes	1.29	1.05
Municipal license tax	1.21	2.28
Gants and entitlements	5.98	6.13
Other income	<u>0.98</u>	<u>0.36</u>
Total revenues	<u>\$13.28</u>	<u>\$15.14</u>
 Program expenses:		
General administration	\$ 5.40	\$ 5.01
Public safety	0.53	0.47
Education	0.77	0.78
Public works	2.85	1.09
Health and welfare	1.83	2.05
Other	<u>0.27</u>	<u>0.32</u>
Total Expenses:	<u>\$11.65</u>	<u>\$ 9.72</u>
 Increase in Net Assets	 <u>\$ 1.63</u>	 <u>\$ 5.42</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

Net assets of the Municipality's governmental activities increased by \$5.42 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

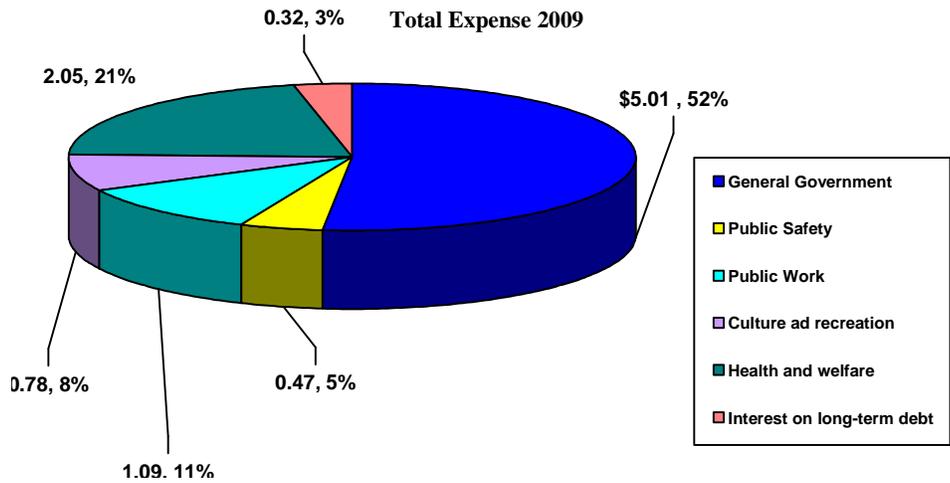
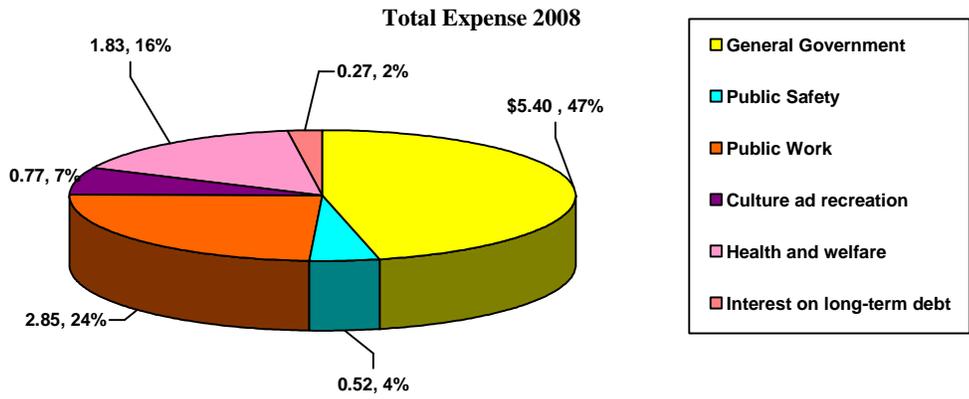
The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards.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

Expenses during the fiscal year ended June 30, 2009 was substantially related to the following:

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

	Total expenses	
	<u>2008</u>	<u>2009</u>
General Government	\$ 5.40	\$5.01
Public Safety	0.52	0.47
Public Work	2.85	1.09
Culture, recreation and education	0.77	0.78
Health and welfare	1.83	2.05
Interest on long term debt	<u>0.27</u>	<u>0.32</u>
Totals	<u>\$11.64</u>	<u>\$9.72</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**



The cost of all governmental activities this year was \$9.72 million compared to \$11.64 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 \$9.46 (96%) and \$8.2 (87%) of all revenues in 2009 and 2008, respectively.

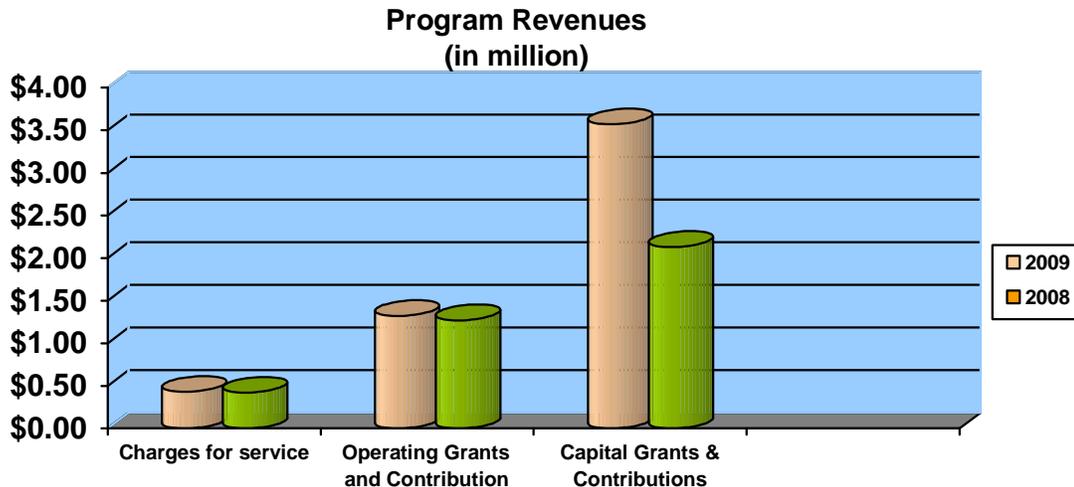
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

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

	General revenues by major sources	
	<u>2008</u>	<u>2009</u>
Property taxes	\$1.29	\$1.05
Municipal license taxes	.95	2.28
Grants and contributions	<u>5.97</u>	<u>6.13</u>
Totals	<u>\$8.21</u>	<u>\$9.46</u>

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

	Program revenues by major sources	
	<u>2008</u>	<u>2009</u>
Charges for service	\$.42	\$.43
Operating grants and Contribution	1.27	1.32
Capital grants and contributions	<u>2.13</u>	<u>3.57</u>
Totals	<u>\$3.82</u>	<u>\$5.32</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$7.38 million, which is more than last year total of \$6.19 million.

General Fund Budgetary Highlights

Once the Municipality's budget for the fiscal year 2008-2009 was approved on June 2008, 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

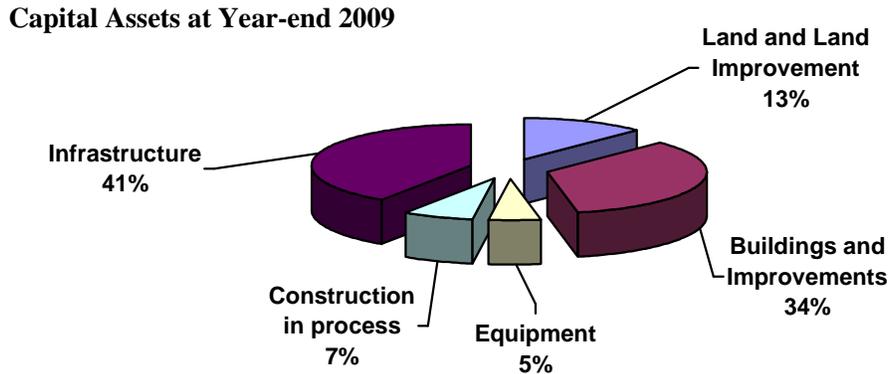
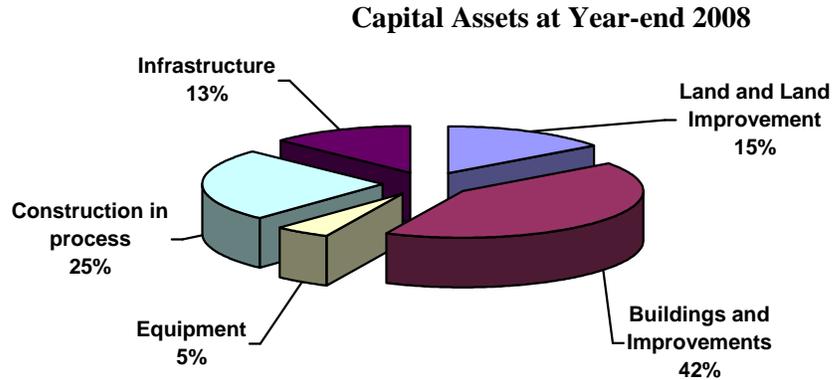
Capital Assets

As of June 30, 2009, the Municipality of Adjuntas had \$15.70 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

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

<u>Governmental Activities</u>	<u>2008</u>	<u>2009</u>
Land and land improvements	\$ 1.98	\$ 1.98
Buildings and improvements	5.53	5.37
Construction in process	3.33	1.14
Infrastructure	1.68	6.37
Equipment	<u>0.69</u>	<u>0.84</u>
Totals	<u>\$13.21</u>	<u>\$15.70</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**



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

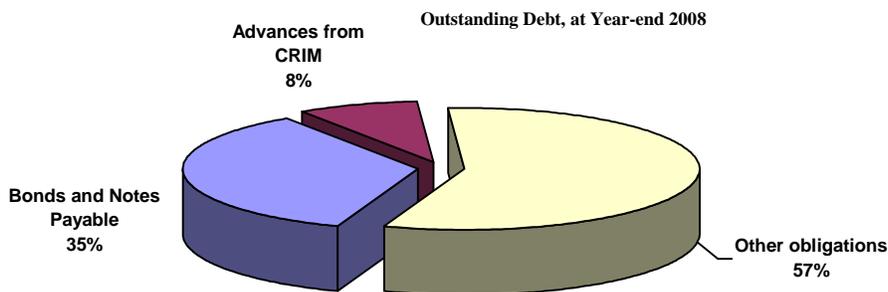
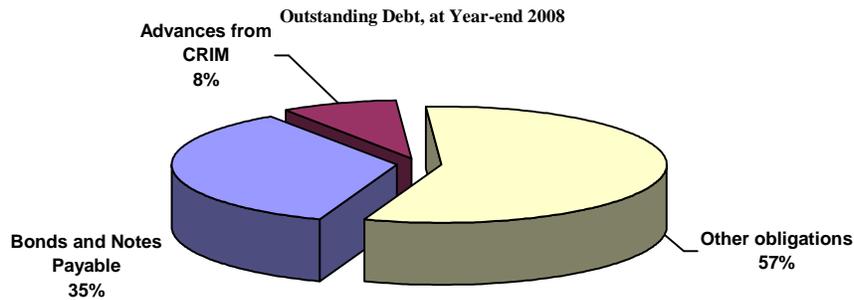
Debt

At year-end, the Municipality of Adjuntas had \$20.77 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>2008</u>	<u>2009</u>
Bonds and Notes payable	\$ 7.63	\$ 7.28
Advances from CRIM	1.78	1.74
Other obligations	<u>12.34</u>	<u>11.75</u>
Totals	<u>\$21.75</u>	<u>\$20.77</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**



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 2010 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2009, 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 2010.

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, 2009

	PRIMARY GOVERNMENT		
ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS -TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 4,965,444	\$ 1,890	\$ 4,967,334
Cash with fiscal agent	4,418,680		4,418,680
Accounts receivable:			
Other government agencies	741,412	564,630	1,306,042
Property taxes	969,710		969,710
Sale Tax	25,987		25,987
Other assets		483	483
Restricted cash		620,943	620,943
Capital assets, net	<u>15,699,488</u>	<u>2,087,683</u>	<u>17,787,171</u>
Total Assets	<u>26,820,721</u>	<u>3,275,629</u>	<u>30,096,350</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	487,283	712,453	1,199,736
Deferred revenue	2,089,237		2,089,237
Due to other government agencies	222,117		222,117
Long-term debt:			
Due within one year	11,738,314	100,018	11,838,332
Due in more than one year	<u>9,028,946</u>	<u>1,166,596</u>	<u>10,195,542</u>
Total Liabilities	<u>23,565,897</u>	<u>1,979,067</u>	<u>25,544,964</u>
Net Assets:			
Invested in capital assets, net of related debt	9,845,154	821,069	10,666,223
Restricted for:			
Debt service	634,820		634,820
Capital projects	1,086,277		1,086,277
Revenue for replacement and others		620,943	620,943
Unrestricted	<u>(8,311,427)</u>	<u>(145,450)</u>	<u>(8,456,877)</u>
Total Net Assets (deficiency)	<u>\$ 3,254,824</u>	<u>\$1,296,562</u>	<u>\$ 4,551,386</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, 2009**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ (5,014,723)		\$ 109,944		\$(4,904,779)
Public safety	(472,841)		120,704		(352,137)
Education, culture and recreational	(775,012)		864,895		89,883
Public works and sanitation	(1,093,115)			\$3,240,035	2,146,920
Health and welfare	(2,051,758)		222,373		(1,829,385)
Interest	<u>(315,288)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(315,288)</u>
Total governmental activities	<u>(9,722,737)</u>	<u> </u>	<u>1,317,916</u>	<u>3,240,035</u>	<u>(5,164,786)</u>
Business type-activities:					
Capital outlay				327,697	327,697
Housing	(511,467)	\$430,596			(80,871)
Interest	<u>(28,967)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(28,967)</u>
	<u>(540,434)</u>	<u>430,596</u>	<u> </u>	<u>327,697</u>	<u>217,859</u>
Total	<u>\$(10,263,171)</u>	<u>\$430,596</u>	<u>\$1,317,916</u>	<u>\$3,567,732</u>	<u>\$(4,946,927)</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, 2009

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$(5,164,786)	\$ 217,859	\$(4,946,927)
General revenue:			
Taxes:			
Property taxes	1,050,710		1,050,710
Municipal tax	545,709		545,709
Sale tax	1,090,505		1,090,505
Construction excise Taxes	640,979		640,979
Grants and entitlements	6,130,294		6,130,294
Interest	158,370	18,776	177,146
Rent	27,133		27,133
Other	<u>172,607</u>	<u>760</u>	<u>173,367</u>
Total general revenues	<u>9,816,307</u>	<u>19,536</u>	<u>9,835,843</u>
Changes in net assets	<u>4,651,521</u>	<u>237,395</u>	<u>4,888,916</u>
Net assets at beginning, as provisions reported	(2,915,598)	1,059,167	(1,856,431)
Restatement	<u>1,518,901</u>	<u> </u>	<u>1,518,901</u>
Net assets at beginning, as restated	<u>(1,396,697)</u>	<u>1,059,167</u>	<u>(337,530)</u>
Net assets at end	<u>\$ 3,254,824</u>	<u>\$1,296,562</u>	<u>\$ 4,551,386</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, 2009**

	GENERAL FUND	STATE LEGISLATIVE JOINT RESOLUTIONS FUND	\$4,322,000 LOAN FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank including	\$1,831,332	\$ 571,603		\$2,562,509	\$ 4,965,444
Cash with fiscal agent			\$3,302,112	1,116,568	4,418,680
Receivables:					
Amount due from:					
Governmental agencies	121,149			620,263	741,412
Other funds	735,073	2,485,993		916,973	4,138,039
Property tax	738,543			231,167	969,710
Sale tax	<u>25,987</u>	_____	_____	_____	<u>25,987</u>
Total assets	<u>\$3,452,084</u>	<u>\$3,057,596</u>	<u>\$3,302,112</u>	<u>\$5,447,480</u>	<u>\$15,259,272</u>
Liabilities:					
Accounts payable and accrued expenses	\$ 145,690	\$ 55,200		\$ 200,671	\$ 401,561
Deferred revenues	969,456			2,145,520	3,114,976
Due to other fund	1,955,178	1,058,348		1,124,513	4,138,039
Due to other government agency	<u>222,117</u>	_____	_____	_____	<u>222,117</u>
Total liabilities	<u>3,292,441</u>	<u>1,113,548</u>	_____	<u>3,470,704</u>	<u>7,876,693</u>
Fund balance					
Unreserved	159,643	1,944,048	\$3,302,112		5,405,803
Unreserved, reported in non major: Other purposes	_____	_____	_____	<u>1,976,776</u>	<u>1,976,776</u>
Total fund balance	<u>159,643</u>	<u>1,944,048</u>	<u>3,302,112</u>	<u>1,976,776</u>	<u>7,382,579</u>
Total liabilities and fund balance	<u>\$3,452,084</u>	<u>\$3,057,596</u>	<u>\$3,302,112</u>	<u>\$5,447,480</u>	<u>\$15,259,272</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, 2009**

Fund balances in governmental funds \$ 7,382,579

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. 15,699,488

Deferred revenue in the governmental funds that are recorded as revenue in the statement of net assets. 1,025,739

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

Bonds and notes payable	(7,281,000)
Compensated absences	(955,757)
Claims and judgments payable	(10,746,793)
Advances from CRIM	(1,738,108)
Accrued interest	(85,722)
Due to other agencies	<u>(45,602)</u>

Net assets of governmental activities **\$ (3,254,824)**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>GENERAL FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUNDS</u>	<u>\$4,322,000 LOAN FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:					
Taxes:					
Property taxes	\$ 860,424			\$ 164,959	\$ 1,025,383
Municipal taxes	545,709				545,709
Sale Tax	683,573			406,932	1,090,505
Excise tax	640,979				640,979
Grants and entitlements	6,147,046	\$ 513,693		4,027,506	10,688,245
Interest	15,248	17	\$ 121,457	21,648	158,370
Rent	27,133				27,133
Other	<u>171,968</u>	_____	_____	<u>639</u>	<u>172,607</u>
Total revenues	<u>9,092,080</u>	<u>513,710</u>	<u>121,457</u>	<u>4,621,684</u>	<u>14,348,931</u>
Expenditures:					
General administration	4,873,218	89		693,821	5,567,128
Public safety	459,707				459,707
Educational and recreational	603,686			2,654	606,340
Public works	1,097,553	544,864	645,642	1,527,982	3,816,041
Health sanitation and welfare	908,128	997		1,135,065	2,044,190
Litigation					
Debt service:					
Principal				350,000	350,000
Interest	_____	_____	_____	<u>315,288</u>	<u>315,288</u>
Total expenditures	<u>7,942,292</u>	<u>545,950</u>	<u>645,642</u>	<u>4,024,810</u>	<u>13,158,694</u>
Excess (deficiency) of revenue over expenditures	<u>\$1,149,788</u>	<u>\$ (32,240)</u>	<u>\$(524,185)</u>	<u>\$ 596,874</u>	<u>\$ 1,190,237</u>

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>GENERAL FUND</u>	<u>STATE LEGISLATIVE JOINT RESOLUTIONS FUND</u>	<u>\$4,322,000 LOAN FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,149,788</u>	<u>\$ (32,240)</u>	<u>\$ (524,185)</u>	<u>\$ 596,874</u>	<u>\$1,190,237</u>
Other financing sources (uses):					
Operating transfer in	376,598			338,200	\$ 714,798
Operating transfer out	<u>(336,592)</u>	_____	<u>(121,457)</u>	<u>(256,749)</u>	<u>(714,798)</u>
Total other financing sources	<u>40,006</u>	_____	<u>(121,457)</u>	<u>81,451</u>	_____
Excess of revenues and other financing source over expenditures and other financing sources	1,189,794	(32,240)	(645,642)	678,325	1,190,237
Fund balance at beginning of year	<u>(1,030,151)</u>	<u>1,976,288</u>	<u>3,947,754</u>	<u>1,298,451</u>	<u>6,192,342</u>
Fund balance at end of year	<u>\$ 159,643</u>	<u>\$1,944,048</u>	<u>\$3,302,112</u>	<u>\$1,976,776</u>	<u>\$7,382,579</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Net change in fund balances – total governmental funds \$1,190,237

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. 3,074,179

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. 350,000

Amount receivable from other agencies that are not available in the governmental funds financial statements. 36,981

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

Compensating absences	(130,703)
Litigation settlement	620,000
Deferred revenue	(47,306)
Interest	35,652

Governmental funds report payments of other long-term debt as expenditures whereas the payment reduces the long-term is the obligate in the statement of net assets. 110,697

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. (588,216)

Changes in Net Assets of Governmental Activities **\$4,651,521**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF FINANCIAL POSITION-PROPERTY FUND
JUNE 30, 2009

ASSETS

	Business Activities Valle Verde Project
Current Assets:	
Cash	\$ 1,890
Accounts receivable	<u>564,630</u>
	566,520
 Non current assets:	
Property and equipment	2,087,683
Restricted deposits	620,943
Other Assets	<u>483</u>
	<u>\$3,275,629</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	\$ 100,018
Accounts payable and accrued expenses	<u>712,453</u>
	812,471
Mortgage note, net of current maturities	<u>1,166,596</u>
	1,979,067
 Net assets	 <u>1,296,562</u>
 Total liabilities and net assets	 <u>\$3,275,629</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF ACTIVITIES-PROPERTY FUND
YEAR ENDED JUNE 30, 2009**

	Business Type Activities Valle Verde Project
Revenues:	
Rent	\$ 430,596
Financial	19,536
Capital project grant	<u>327,697</u>
Total revenues	<u>777,829</u>
Expenses:	
Administrative	136,400
Utilities	18,330
Operating maintenance	148,414
Taxes and insurance	41,186
Depreciation	130,335
Interest	<u>28,967</u>
Total expenses	<u>503,632</u>
Change in net assets	274,197
Project net assets, beginning of year	<u>1,022,365</u>
Project net assets, and year	<u>\$1,296,562</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, 2009**

Cash flows from operating activities:

Cash receivable from tenants and HUD	\$ 439,137
Interest	18,776
Other cash receivable	<u>371,301</u>
	<u>829,214</u>

Administrative	129,209
Management fees	(46,444)
Salaries and wages	(104,601)
Utilities	(18,330)
Operating and maintenance	(180,134)
Miscellaneous taxes and insurance	(38,659)
Interest on mortgage	<u>(29,733)</u>
	<u>(288,692)</u>

Net cash provided by operating activities	<u>540,522</u>
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Cash flows from investing activities:

Deposit to reserve for replacement and interest retained in account	(46,906)
Withdrawals from replacements reserve	220,846
Deposits to and interest earned and retained for insurance escrow	(15,882)
Withdrawals from insurance escrow	20,794
Withdrawals from residual receipt account	6,206
Purchase of fixed assets	<u>(673,678)</u>

Net cash used by investing activities	<u>(488,620)</u>
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Net cash flows used by financing activities:

Mortgage principal payments	(102,066)
Checks drawn in excess of cash balance	<u>50,870</u>
	<u>(51,196)</u>

Net decrease in cash	706
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Cash at beginning of year	<u>1,184</u>
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Cash at end of year	<u>\$ 1,890</u>
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(continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
STATEMENT OF CHAS FLOWS-PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:

Change in the net assets	<u>\$274,197</u>
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	130,335
Increase (decrease) in:	
Receivables	51,386
Tenant security deposits	516
Increase (decrease) in:	
Pollution remediation obligation	(79,608)
Accounts payable	160,026
Payroll	4,466
Accrued interest	(766)
Tenant security deposits	<u>(30)</u>
	<u>266,325</u>
 Net cash provided by operating activities	 <u>\$540,522</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, 2009

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, 2009

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) 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.

3) \$4,322,000 loan fund

This fund accounts for resources provided by a loan for the development of capital projects. This loan will be repaid with the state sale tax.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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, 2009

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, 2009

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.

Reservation of fund balance

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

1) Debt/ service

Represents net assets available to finance future debt service payments.

2) Capital projects

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2004 amounted to approximately \$93,773. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$240,385 for workers compensation insurance covering all municipal employees.

Compensated absences

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

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

Employees' maximum allowed vacations and vested sick benefits are accounted for in the statement of net assets.

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, 2009, post employment benefits retirees amounted to \$71,927. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restatement

The net assets as presented in the 2008 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.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June. 30.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

3. PROPERTY TAX (CONTINUED)

The annual rate for fiscal year 2009 is 8.53% for real property and 6.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. As of June 30, 2009, the amount due to CRIM amounting to \$1,738,108 is presented as other long-term debt (see Note 9).

Total property tax receivable, net of an allowance for uncollectible accounts of \$5,097,302, amounted to \$969,710 at June 30, 2009. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2009:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$4,620,713	\$1,446,299	\$6,067,012
Less:			
Allowance for uncollectible accounts	<u>3,882,170</u>	<u>1,215,132</u>	<u>5,097,302</u>
Net property taxes receivable	<u>\$ 738,543</u>	<u>\$ 231,167</u>	<u>\$ 969,710</u>
Deferred (unavailable) property tax revenues in GFFS	<u>\$ 710,955</u>	<u>\$ 222,532</u>	<u>\$ 933,487</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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, 2009, \$166,249 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 2008-2009 corresponding to the following fiscal year.	\$ 166,249
Portion of grants received for which qualifying expenditures have not been incurred.	<u>1,922,988</u>
Property tax receivable but not available in the governmental fund financial statements	2,089,237 933,487
Amount due from other agencies but not available in governmental fund financial statements	<u>92,252</u>
	<u><u>\$3,114,976</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

8. RESTRICTED DEPOSIT

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

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

Restricted cash in the business-type activities consists of:

Escrow deposit	\$ 17,202
Tenant security deposits	12,970
Reserve for replacement	<u>590,771</u>
	<u>\$620,943</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital asset, not being depreciated:				
Land	\$ 1,983,180			\$ 1,983,180
Construction in progress	<u>3,333,447</u>	\$ 894,496	<u>\$3,089,371</u>	<u>1,138,572</u>
	<u>5,316,627</u>	<u>894,496</u>	<u>3,089,371</u>	<u>3,121,752</u>
Capital assets being depreciated:				
Buildings	7,411,721			7,411,721
Equipment and vehicles	3,815,015	431,155		4,246,170
Infrastructure	<u>1,683,808</u>	<u>4,837,900</u>	<u> </u>	<u>6,521,708</u>
Total capital assets being depreciated	<u>12,910,544</u>	<u>5,269,055</u>	<u> </u>	<u>18,179,599</u>
Less accumulated depreciation for:				
Buildings	1,881,219	162,043		2,043,262
Equipment and vehicles	3,132,427	275,928		3,408,355
Infrastructure	<u> </u>	<u>150,245</u>	<u> </u>	<u>150,245</u>
Total	<u>5,013,646</u>	<u>588,216</u>	<u> </u>	<u>5,601,862</u>
Total depreciable capital assets, net	<u>7,896,898</u>	<u>4,680,839</u>	<u> </u>	<u>12,577,737</u>
Governmental activities capital assets net	<u>13,213,525</u>	<u>5,575,335</u>	<u>3,089,371</u>	<u>15,699,489</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and land improvements	362,859			362,859
Construction in progress	<u>196,667</u>	<u>507,978</u>	<u> </u>	<u>704,645</u>
	<u>559,526</u>	<u>507,978</u>	<u> </u>	<u>1,067,504</u>
Capital assets being depreciated:				
Building and improvements	4,070,690			4,070,690
Equipment	<u>478,409</u>	<u>6,721</u>	<u> </u>	<u>485,130</u>
	4,549,099	6,721		4,555,820
Less accumulated depreciation:				
Building and improvements and equipment	<u>3,405,306</u>	<u>130,335</u>	<u> </u>	<u>3,535,641</u>
Total depreciation, capital, assets net	<u>1,143,793</u>	<u>(123,614)</u>	<u> </u>	<u>1,020,179</u>
Business activities capital assets, net	<u>1,703,319</u>	<u>384,364</u>	<u> </u>	<u>2,087,683</u>
Total	<u>\$14,916,844</u>	<u>\$5,959,699</u>	<u>\$3,089,371</u>	<u>\$17,787,172</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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	\$ 47,589	
Public safety	13,134	
Public works	351,253	
Education, culture and recreation	168,672	
Health, sanitation and welfare	7,568	
Housing	<u> </u>	<u>\$130,335</u>
Total depreciation expense	<u>\$588,216</u>	<u>\$130,335</u>

10. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2009 was as follows:

Primary Government Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Notes and bonds payable	\$ 7,631,000		\$350,000	\$ 7,281,000	\$ 307,000
Other long-term debt:					
Claims and judgments payable	11,366,793		620,000	10,746,793	10,746,793
Compensated absences	825,054	\$130,703		955,757	600,000
Amount due to:					
CRIM	1,775,089		36,981	1,738,108	38,919
PR Electrical Power Authority	52,365		52,365		
PR Department of labor	<u>103,934</u>		<u>58,332</u>	<u>45,602</u>	<u>45,602</u>
Total	<u>21,754,235</u>	<u>130,703</u>	<u>1,117,678</u>	<u>20,767,260</u>	<u>11,738,314</u>
Business-type activities:					
Mortgage payable	<u>1,368,680</u>		<u>102,066</u>	<u>1,266,614</u>	<u>100,018</u>
Total	<u>\$23,122,915</u>	<u>\$130,703</u>	<u>\$1,219,744</u>	<u>\$22,033,874</u>	<u>\$11,838,332</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

A. Notes and Bonds:

\$245,000 Public Improvement Serial Bond of 1988 payable in two annual installments of \$16,000 and \$17,000 through January 2011 plus interest at 5%.	\$ 33,000
\$595,000 Public Improvement Serial Bonds of 1988 payable in two annual installments of \$39,000 to \$42,000 through January 1, 2011, plus interest at 5%.	81,000
\$200,000 Public Improvement Serial Bond of 1990 payable in annual installments ranging from \$11,000 to \$15,000 through January 1, 2015, plus interest at 5%.	75,000
\$465,000 Public Improvement Serial Bond of 1995 payable in an annual installment of \$55,000 on July 1, 2009, plus interest at 6.20%	55,000
\$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%.	300,000
\$400,000 Special Obligation Bond of 1996 payable in annual installments ranging from \$20,000 to \$40,000 through January 1, 2015, plus interest at LIBOR 90 days plus 1.25%	205,000
\$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%.	1,225,000
\$619,000 Special Obligation Note of 2006 payable in annual installments ranging from \$94,000 to \$106,000 through July 1, 2012, plus interest at Libor 90 days plus 1.25%.	300,000
\$619,000 General Municipal Obligation Bond of 2007 payable in annual installment ranging from \$11,000 to \$52,000 through July 1, 2031 plus interest at LIBOR 90 days plus 1.25%	600,000
\$95,000 General Municipal Obligation Note of 2009 payable in annual installments ranging from \$10,000 to \$5,000 though July 1, 2014 plus interest at LIBOR 90 days plus 1.25%	85,000
\$4,322,000 Special Obligation Note of 2008 payable in annual installments of \$85,000 to \$367,000 through July 1, 2003 plus interest at 7.25%.	<u>4,322,000</u>
	<u>\$7,281,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2009 are as follows:

Notes and Bonds Payable	Governmental –type Activities	
<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 307,000	\$ 339,293
2011	407,000	436,929
2012	360,000	431,562
2013	378,000	408,680
2014	204,000	390,569
2015-2019	1,065,000	1,746,637
2020-2024	1,289,000	1,361,132
2025-2029	1,739,000	851,234
2030-2033	<u>1,532,000</u>	<u>216,765</u>
	<u>\$7,281,000</u>	<u>\$6,182,801</u>

Advances from CRIM

This amount represents the balance owed to CRIM at June 30, 2009 as described in Note 3 and is payable in monthly installments of \$10,922 through 2032 including interest at 6.1%. The advances from CRIM mature as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 38,918	\$ 107,093
2011	40,977	104,651
2012	43,165	102,080
2013	45,491	99,372
2014	47,963	96,518
2015-2019	282,686	433,981
2020-2024	372,428	334,678
2025-2029	494,136	203,409
2030-2032	<u>372,344</u>	<u>41,588</u>
	<u>\$1,738,108</u>	<u>\$1,523,370</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

10. LONG-TERM DEBTS (CONTINUED)

Business-type activities:

Mortgage notes payable in monthly installments of \$17,157, including interest at 8% through 2018.

The note is collateralized by land and building. The note matures as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$100,018	\$105,866
2011	103,575	102,309
2012	107,259	98,625
2013	111,074	94,810
2014	115,025	91,452
2015-2018	<u>729,663</u>	<u>104,999</u>
	<u>\$1,266,614</u>	<u>\$598,061</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.

At June 30, 2009, 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 balance sheet. The estimated liability is obtained from the construction certifications. Since the removal of asbestos materials is already contracted, management believe 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

12. CHANGE IN ACCOUNTING PRINCIPLES

Effective June 30, 2009 the Project retroactively changed its method of recognizing pollution remediation obligations in its financial statements to conform with a recent pronouncement of the governmental accounting standards board. The project did not reflect on its financial statement, pollution remediation obligations. It disclosed on the notes the estimated contingency. Under the new accounting method, the pollution remediation obligation is recognized in the financial statements when an obligating event has occurred.

13. 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, 2009

13. 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, 2009 amounted to approximately \$173,779 and \$204,494 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, 2009, 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, 2009

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 2009, the parties stipulated to pay \$12,500,000 to the remaining 62 plaintiffs. As of June 30, 2009, the balance of such liability amounted to \$10,746,793 which has been recorded in the governmental activities financial statements. At present, there is not a payment plan to liquidate such liability.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	
Revenues:				
Taxes:				
Property taxes	\$ 868,280	\$ 868,280	\$ 860,424	\$ (7,856)
Municipal tax	406,000	406,000	545,709	139,709
Sale tax	671,540	671,540	683,573	12,033
Construction excise tax	897,746	897,746	640,979	(256,767)
Grants and entitlements	5,489,975	5,489,975	6,147,046	657,071
Interest	56,100	56,100	15,248	(40,852)
Rent	33,000	33,000	27,132	(5,868)
Other	<u>334,860</u>	<u>334,860</u>	<u>548,568</u>	<u>213,708</u>
Total revenues	<u>8,757,501</u>	<u>8,757,501</u>	<u>9,468,679</u>	<u>711,178</u>
Expenditures:				
General administration	4,955,992	5,533,002	5,217,012	315,990
Public safety	539,450	468,138	461,920	6,218
Education, culture and recreational	761,290	627,523	610,420	17,108
Public works and sanitation	1,426,334	1,169,549	1,151,565	17,984
Health and welfare	<u>1,074,435</u>	<u>959,289</u>	<u>926,938</u>	<u>32,351</u>
Total expenditures	<u>8,757,501</u>	<u>8,757,501</u>	<u>8,367,855</u>	<u>389,646</u>
Excess of revenue over expenditures	<u>\$</u>	<u>\$</u>	<u>\$1,100,824</u>	<u>\$1,100,824</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF ADJUNTAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2009

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, 2009

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 (GAA)	\$1,189,79 4
Adjustment to adept building basis to (GAA)	<u>88,970</u>
Excess of revenue over expenditures (Budgetary Basis)	<u>\$1,100,824</u>