OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE AGUADA
AUDITORIA 2003-2004

30 DE JUNIO DE 2004

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133)

FISCAL YEAR ENDED JUNE 30, 2004

Hon. Luis A. Echevarría Santiago
Mayor

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

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Independent Auditor's Report

Mayor and Municipal Legislature
Municipality of Aguada
Aguada, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Aguada, Puerto Rico, (the Municipality) as of and for the year ended June 30, 2004, which collectively comprise the Municipality's 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 opinions on these financial statements based on our audit. We did not audit the financial statements of *Jardines de Aguada Project*, which represent 4%, 2% and 2%, respectively of the assets, net assets and revenues of governmental activities and 3%, 1% and 18%, respectively of the assets, fund balance and revenues of the aggregate remaining funds. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for *Jardines de Aguada Project*, is based on the report of the other auditors.

Except as discussed in the third paragraph, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 and the report of other auditors provide a reasonable basis for our opinions.

We were unable to obtain sufficient and competent evidence to support the valuation, existence, completeness and rights and obligations applicable to certain general capital assets in governmental activities and we were unable to satisfy ourselves by means of other auditing procedures.

As more fully described in note G to the financial statements, the Municipality has not determined and recorded in governmental activities an estimate of the total municipal solid waste landfill post closure care costs of a closed solid waste landfill. Accounting principles generally accepted in the United States of America requires that the liability of post closure care costs be accounted, which would increase liabilities and decrease net assets of governmental activities. The amount by which this departure would affect the liabilities of the governmental activities is not reasonably determinable.

In our opinion, based on our audit and the report of other auditors, except for the effects, if any, of such adjustments, as might have been determined to be necessary had we been able to obtain sufficient evidence to support the valuation, existence, completeness and rights and obligations applicable to certain general capital assets in government activities, and except for the effect of not determining and recording the estimate of solid waste landfill post closure care costs of a closed solid waste landfill in governmental activities, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of the Municipality of Aguada, Puerto Rico as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality of Aguada, Puerto Rico as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2005 on our consideration of the Municipality's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 14 and the Budgetary Comparison Schedule – General Fund on page 50 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made 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 purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

2035225

RODRIGUEZ, RIVERA & TORO LLP
Certified Public Accountants
$5.00

Mayagüez, Puerto Rico
January 21, 2005

Rodriguez, Rivera & Toro LLP

MANAGEMENT DISCUSSION AND ANALYSIS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

As management of the Municipality of Aguada, we offer readers of the Municipality's financial statements the Management Discussion Analysis (MD&A). The MD&A is designated to introduce the basic financial statements and provide an analytical overview of the financial activities of the Municipality for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

Information reported in the government-wide statements is based on the economic resources measurement focus and the accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2004 by $26,328,398 (net assets). This represents an increase of 8.1% with respect to year 2003.
- Revenues (not including special items) increased by 9.5% and expenses decreased 1% in comparison with previous year.
- Change in net assets varied from an increase of $28,993 in 2003 (as restated) to an increase of $1,961,832 in 2004.

Highlights for Fund Financial Statements

Fund financial statements presents information of the most significant funds of the Municipality based on the current financial resources measurement focus and the modified accrual basis of accounting:

- Fund balances of governmental funds increased $1,162,630, amounting to $6,921,951.
- Total fund balance of the general fund increased by 7.1% but the unreserved fund balance increased 20.5% in comparison to fiscal year 2002-2003.

General Financial Highlights

- The investment in capital assets as of June 30, 2004 was $30,776,959 (net of depreciation).
- Long term debt decreased to $11,890,161, approximately 2.8% with respect to prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by $111,004.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

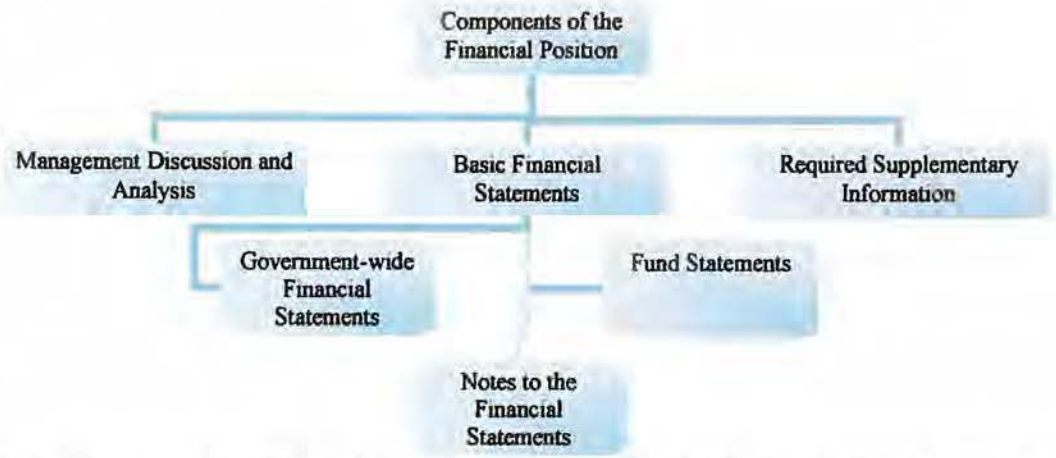
MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis intended to serve as an introduction to the Municipality's of Aguada basic financial statements. The Municipality's basic financial statements comprise three components:

- management discussion and analysis (presented here)
- basic financial statements
- required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

- ***Government-Wide Statements***

  The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The Statements of Net Assets and the Statements of Activities, which are the government-wide statements, include all of the government's 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 in to account regardless of when cash is received or paid. These two government–wide statements report the Municipality's net assets and how they have changed. Net assets, (the difference between the municipality's and liabilities) are one way to measure the Municipality's financial health, or financial position. Over time, increase or decrease in the Municipality's net assets is an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's road and other infrastructure may need to be consider to assess the overall health of the Municipality.

The government-wide statements reports as governmental activities the municipality's basic services such as public works and sanitation; public safety, culture and recreation, housing, welfare, and community development; education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

The format of the fund financial statements will be more familiar to traditional users of government financial statements. The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting mechanism that the Municipality uses to keep track of specific sources of funding and spending for particular purpose. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants. The Municipality's basic service are included in governmental funds which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or difference) between government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

- ***Required supplementary information***

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

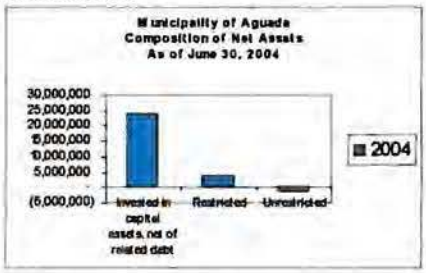
Net Assets

The following table presents a summary of the Statement of Net Assets as of June 30, 2004 and 2003:

TABLE 1

SUMMARY STATEMENTS OF NET ASSESTS AS OF JUNE 30,		
	Governmental Activities	
	2004	2003(as restated)
Assets		
Current and other assets	$ 9,100,541	$ 8,247,065
Capital Assets	30,776,959	29,931,579
Total Assets	$ 39,877,500	$ 38,178,644
Liabilities		
Current and other liabilities	$ 1,536,554	$ 2,025,948
Long term liabilities	12,012,548	11,786,130
Total liabilities	13,549,102	13,812,078
Net assets		
Invested in capital assets, net of related debt	23,903,239	23,631,043
Restricted	3,668,430	2,714,679
Unrestricted	(1,243,271)	(1,979,156)
Total net assets	$ 26,328,398	$ 24,366,566

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the assets of the Municipality exceeded its liabilities by $26,328,398 representing an increase of 8.1% with respect to year 2003. The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets.



The Municipality uses these assets to provide services to its citizen and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provide from other sources, because capital assets are not generally liquidated for the purpose of retiring debt. Restricted net assets represent resources that are subject to external restriction on how they may be used. Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation or other legal requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

Changes in net assets

The following table summarizes the changes in net assets for the fiscal years ended 2004 and 2003:

TABLE 2

SUMMARY OF CHANGE IN NET ASSETS
AS OF JUNE 30,

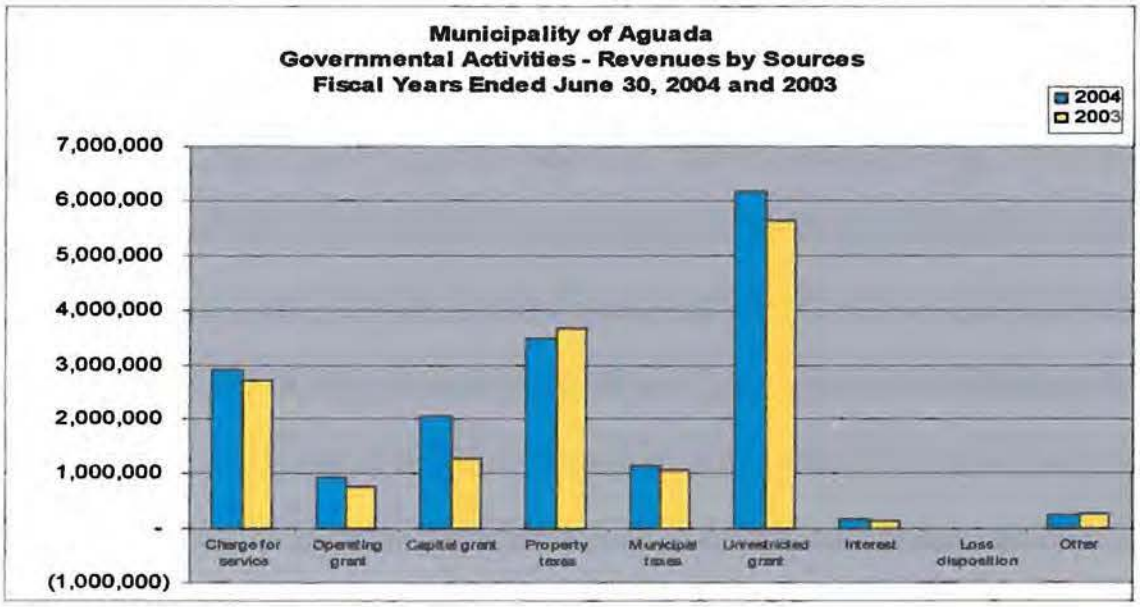
	Governmental Activities	
	2004	2003 (as restated)
Program Revenues:		
Fees, Fines and charges for services	$ 2,913,654	$ 2,706,266
Operating grants and contributions	929,631	764,536
Capital grants and contributions	2,055,273	1,291,073
General revenues:		
Property taxes	3,472,403	3,683,995
Municipal license taxes	1,142,591	1,074,308
Grant and contributions not restricted to specific programs	6,169,784	5,654,436
Interest	148,649	130,715
Gain (loss) on disposition of capital assets	(4,861)	-
Other	226,890	267,061
Total revenues	17,054,014	15,572,390
Expenses:		
General Government	6,260,126	7,470,833
Public works and sanitation	4,478,069	4,080,183
Public Safety	737,390	563,054
Culture and recreation	1,302,207	1,393,023
Health	122,041	122,716
Housing, welfare and community development	1,882,044	1,356,248
Claims and judgment	-	55,602
Interest on long term debt	603,981	501,738
Total expenses	15,385,858	15,543,397
Special items:	293,676	-
Change in net assets	1,961,832	28,993
Net assets-beginning of year	24,366,566	24,337,573
Net assets-end of year	$ 26,328,398	$ 24,366,566

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

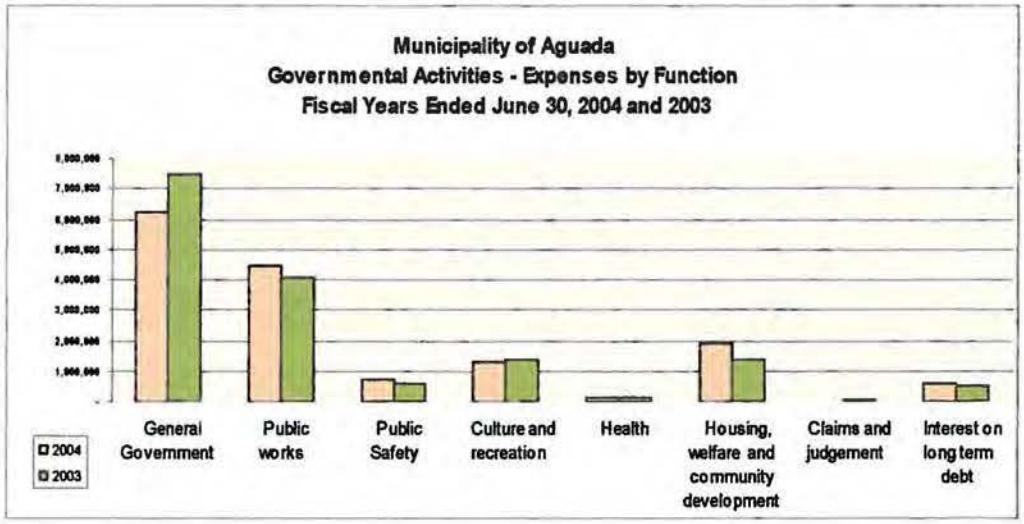
Fiscal year ended June 30, 2004

FIGURE 1



Approximately 36% of the Municipality's revenues came from grants and contributions not restricted to specific programs, 20% from property taxes, 17% from operating and capital grants and 17% from fees, fines and charges for services. Revenues (not including special items) increased by 9.5% in comparison with year 2003.

FIGURE 2



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 41%, public works and sanitation with 29% and welfare with 12%. Program revenues of the Municipality covered 38% of total expenses.

Expenses decreased 1% in comparison with previous year. This includes a net difference of an increase in housing, welfare and community development of 39%; a 9% increase in public works and sanitation (due to additional capital assets maintenance and other non capitalizable costs) and a decrease of 16% in general government

Changes in net assets in 2004 include additional resources from property tax amnesty in the amount of $293,676 which was reported as a special item in the financial statements.

As noted previously an increase in revenues combined with a decrease in expenses caused the net change in net assets to increase significantly in comparison with net change in net assets reported in 2003 statement of activities as restated.

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program –specific intergovernmental aid):

TABLE 3

Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,				
	Total Cost of Service		Net Cost of Service	
Functions/Programs	2004	2003 (as restated)	2004	2003 (as restated)
General Government	$ 6,308,349	$ 7,470,833	$ 3,394,695	$ 4,669,888
Public works and sanitation	4,429,846	4,080,183	2,374,573	3,009,672
Public safety	737,390	563,054	737,390	563,054
Culture and Recreation	1,302,207	1,393,023	1,302,207	1,393,023
Health	122,041	122,716	122,041	122,716
Housing, welfare and community Development	1,882,044	1,356,248	952,413	465,829
Claims and judgments	-	55,602	-	55,602
Interest on long term debt	603,981	501,738	603,981	501,738
	$ 15,385,858	$ 15,543,397	$ 9,487,300	$ 10,781,522

Some of the cost of governmental activities was paid by those who directly benefited from the programs ($2,913,654) and other governments and organizations that subsidized certain programs with grants and contributions ($2,984,904). The $9,487,300 net cost of services was fully covered by other general revenues including property and municipal license taxes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2004, the governmental funds reported combined ending fund balances of $6,921,951, a net increase of $1,162,630 in comparison with the prior year. This increase was caused primarily by a net change in State Legislative Joint Resolutions Fund of $437,662 and $495,251 in Other Governmental Funds. Of total combined fund balances, $1,953,813 (28%) constitutes unrestricted fund balance. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents 26% of total combined ending fund balance. For the year ended June 30, 2004, the fund balance of the general fund increased by $130,341. The key factor of this was the $250,501 of additional property tax revenue from the property tax amnesty (special item).

General fund budgetary highlights

The general fund original budget for the fiscal period 2003-2004 presented an increase of 3.9% with respect to prior year budget due to an increase in the estimated amount of compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA) and an increase in the estimated amount of construction excise tax.

Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by $874,883 mostly due to additional collections for property taxes and construction permits. The revised actual revenues exceeded budgeted revenues by $54,087. The most significant variance was a positive variance in property tax revenues due to property tax amnesty collected during the year and a negative variance in intergovernmental revenues because of the compensation in lieu of taxes from the Puerto Rico Electric Power Authority. The Municipality reported a net positive variance of $56,917 between revised budgeted appropriations and actual expenditures and ended with a total net positive variance of $111,004.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested $30,776,959 in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of 2.8% over the prior year.

TABLE 4

Capital Assets As of June 30,	Governmental Activities	
	2004	2003(as restated)
Non-depreciable assets:		
Land	$ 3,580,336	$ 3,230,236
Construction in progress	2,593,572	1,197,596
Depreciable assets:		
Land Improvement	225,928.00	207,683.00
Buildings and buildings improvements	18,143,614	18,933,599
Infrastructure	3,490,937	3,505,514
Vehicle, machinery and equipment	2,742,572	2,856,951
Total	$ 30,776,959	$ 29,931,579

Certain projects are still in construction in progress as of June 30, 2004. The most significant of these projects are the construction of "Gradas en Pista Atlética" and Municipal Gym with reported costs of $1,580,045 and $898,428, respectively.

The Municipality's fiscal year 2004-2005 capital budget calls for approximately $2,659,739 for capital projects. The principal objective of the Municipality's management is to finish the projects which were still in progress at June 30, 2004. These projects are mostly financed with federal funds. More detailed information about the Municipality's capital assets is presented in Note D to the financial statements.

Long term debt

At year-end, the Municipality had $6,549,000 in general and special bonds and notes, an increase of 4.2% with respect to prior year. The Municipality is required to maintain a legal debt margin of 10% of the total assessment of property located within the Municipality plus the balance of the property taxes in the debt service fund.

TABLE 5

Outstanding Long-term Debt Fiscal years ended June 30,	Governmental Activities	
	2004	2003(as restated)
General and special obligation bond and notes	$ 6,549,000	$ 6,280,000
Debt to ASSES	616,556	884,397
Note payable to CRIM-LIMS	321,206	354,325
Note payable to CRIM-financing of delinquent accounts	383,314	468,783
Compensated absences	1,841,963	1,997,740
Christmas Bonus	235,599	271,316
Mortgage Payable	1,912,523	1,928,742
Judgment and legal claims	30,000	52,600
Total	$ 11,890,161	$ 12,237,903

The Municipality reported a decrease in the other long term debts of $616,742. This decrease was primarily due to a decrease of $267,481 in the debt to ASSES, a decrease of $155,777 in compensated absences (because of a planned vacation schedule developed by the Municipality) and a decreased of $118,588 in the notes payable to CRIM. More detailed information about the Municipality's long term liabilities is presented in Note F to the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal year ended June 30, 2004

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2004-2005 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

For year 2004-2005 the Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2005 are $9,972,950 representing an increase of approximately 1.2% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues.

The municipality's officials expect a continuing increase in the private and public housing construction, specially the ones over property taxes exemptions, which will bring more revenues to the municipality. However, the uncertainty in the reduction on operation of some manufacturing industries, in some way, will reduce the impact of this increase in revenues.

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 demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at PO Box 517, Aguada, Puerto Rico 00602.

BASIC FINANCIAL STATEMENTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS		Governmental Activities
Current:		
Cash and cash equivalents	$	919,246
Short term investments		1,859,130
Due from:		
Commonwealth Government (note C1)		617,303
Federal Government (note C1)		296,328
Other Assets		14,554
Total Current Assets		3,706,561
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents		2,854,969
Cash with fiscal agents		2,504,984
Deferred charges (note A9)		34,027
Capital assets (note E):		
Land and construction in progress		6,173,908
Other capital assets, net		24,603,051
Total capital assets, net		30,776,959
Total assets	$	39,877,500

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 468,997
Accrued payroll taxes and witholdings	55,054
Accrued Interest Payable	12,918
Matured Interest payable	191,121
Due to:	
Commonwealth Government (note C2)	9,069
Current portion of long-term obligations (note F):	
Bonds and notes payable	342,000
Compensated absences	138,974
Commonwealth Governmental entities	35,120
Christmas Bonus	235,599
Claims and Judgements	30,000
Mortage Payable	17,702
Total current liabilities	1,536,554
Noncurrent liabilities:	
Deposits payable	85,241
Deferred revenues	
Municipal license taxes (note I)	802,450
Intergovernmental-Commonwealth agencies	5,707
Federal grants	28,383
Long term liabilities (note F) :	
Compensated Absences	1,702,989
Commonwealth Governmental entities	1,285,958
Bonds and notes payable	6,207,000
Mortgage Payable	1,894,821
Total noncurrent liabilities	12,012,548
Total liabilities	**13,549,102**
NET ASSETS	
Invested in capital assets, net of related debt	23,903,239
Restricted for:	
Capital projects	1,664,412
Debt service	744,796
Other specified purposes	1,259,222
Unrestricted (deficit)	(1,243,271)
Total net assets	$ 26,328,398

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2004

Functions	Expenses	Program Revenues: Fees, Fines and Charges for services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
Governmental Activities:					
General government	$ 6,260,126	$ 2,913,654	$ -	$	$ (3,346,472)
Public works and sanitation	4,478,069	-	-	2,055,273	(2,422,796)
Public safety	737,390	-	-	-	(737,390)
Culture and recreation	1,302,207	-	-	-	(1,302,207)
Health	122,041	-	-	-	(122,041)
Housing, welfare and community development	1,882,044	-	929,631	-	(952,413)
Interest on long term debt	603,981	-	-	-	(603,981)
Total	$ 15,385,858	$ 2,913,654	$ 929,631	$ 2,055,273	(9,487,300)

General revenues	
Property taxes	3,472,403
Municipal license taxes	1,142,591
Grants and contributions not restricted to specific programs	6,169,784
Interest	148,649
Gain (loss) on disposition of capital assets	(4,861)
Other	226,890
Special Items	
Property tax amnesty	293,676
Total general revenues and special item	11,449,132
Change in net assets	1,961,832
Net assets-beginning, as restated (note K)	24,366,566
Net assets-ending	$ 26,328,398

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Community Development Block Grant Program	State Legislative Joint Resolutions	Debt Service Fund	Department of Labor Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 919,046	$ -	$ -	$ -	$ -	$ 200	$ 919,246
Short term investments	1,250,000	-	608,604	-	-	526	1,859,130
Due from:							
Commonwealth Government (note C1)	332,943	-	-	29,406	254,954	-	617,303
Federal Government (note C1)	-	281,279	-	-	-	15,049	296,328
Other funds	610,501	-	-	-	-	-	610,501
Other Assets	-	-	-	-	-	14,553	14,553
Restricted assets							
Cash and cash equivalents		1,940	726,605	-	26,853	2,099,571	2,854,969
Cash with fiscal agents	-	-	-	906,511	-	1,598,474	2,504,985
Total assets	$ 3,112,490	$ 283,219	$ 1,335,209	$ 935,917	$ 281,807	$ 3,728,373	$ 9,677,015
LIABILITIES							
Accounts payable	$ 27,510	$ 245,229	$ 104,444	$ -	$ -	91,814	$ 468,997
Accrued payroll taxes and witholdings	43,763	-	-	-	-	11,291	55,054
Matured bonds and notes payable	-	-	-	310,000	-	-	310,000
Matured interest payable	-	-	-	180,541	-	-	180,541
Due to:							
Commonwealth Government (note C2)	9,069	-	-	-	-	-	9,069
Other funds	-	37,990	-	-	276,100	296,411	610,501
Deposits Payable	76,765	-	-	-	-	8,476	85,241
Deferred revenues:						-	
Municipal license taxes (note I)	802,450	-	-	-	-	-	802,450
Intergovernmental-Commonwealth Government	199,120	-	-	-	5,707	-	204,827
Federal grants	-	-	-	-	-	28,383	28,383
Total liabilities	1,158,677	283,219	104,444	490,541	281,807	436,375	2,755,063
FUND BALANCES							
Reserved for:							
Encumbrances	158,138	-	-	-	-	-	158,138
Debt service	-	-	-	445,377	-	-	445,377
Capital projects	-	-	1,170,818	-	-	2,081,398	3,252,216
Other specified purposes	-	-	59,947	-	-	1,210,600	1,270,547
Unreserved					-	-	
Undesignated	1,795,675	-	-	-	-	-	1,795,675
Total fund balances	1,953,813	-	1,230,765	445,377	-	3,291,998	6,921,953
Total liabilities and fund balances	$ 3,112,490	$ 283,219	$ 1,335,209	$ 935,918	$ 281,807	$ 3,728,373	$ 9,677,015

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances:			**$ 6,921,953**
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:			30,776,959
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Deferred charges			34,027
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Due from Commonwealth entities:			
Puerto Rico Department of Education	$ 64,000		
CRIM-current year property tax advances liquidation	17,320		
Puerto Rico Department of Treasury-Christmas bonus reimbursement	117,799		199,119
Interest liabilities are not due and payable in the current period and therefore are not reported in funds			(23,498)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
General obligation bonds and notes	6,239,000		
Compensated absences	1,841,963		
Debt to ASSES	616,556		
Judgement and claims	30,000		
Doubtfull accounts debt payable to CRIM	383,314		
Christmas bonus	235,599		
LIMS	321,206		
Mortgage Payable	1,912,523		(11,580,161)
Net assets of governmental activities:			**$ 26,328,398**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2004

	General	Community Development Block Grant Program	State Legislative Joint Resolutions	Debt Service Fund	Department of Labor Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes							
Property taxes (note H)	$ 2,874,834	$ -	$ -	$ 776,381	$ -	$ -	$ 3,651,215
Municipal license taxes (note I)	1,142,591	-	-	-	-	-	1,142,591
Intergovernmental (note J)							
Commonwealth government	5,214,013	-	1,401,873	-	518,674	527,058	7,661,618
Federal government	-	2,055,273	-	-	-	879,747	2,935,020
Fees, fines and charges for services	1,231,667	-	-	-	-	343,003	1,574,670
Interest	82,969	-	11,015	6,443	-	48,222	148,649
Other	94,830	-	-	-	-	132,060	226,890
Total revenues	10,640,904	2,055,273	1,412,888	782,824	518,674	1,930,091	17,340,653
Expenditures							
Current							
General government	4,410,101	61,861	76,127	-	518,674	1,117,089	6,184,852
Public works and sanitation	3,188,008	-	762,101	-	-	167,775	4,117,884
Public safety	659,792	-	-	-	-	-	659,792
Culture and recreation	827,386	-	-	-	-	-	827,387
Health	120,853	-	-	-	-	-	120,853
Housing, welfare and community development	806,098	752,914	136,998	-	-	326,325	2,022,335
Claims and Judgments	22,600	-	-	-	-	-	22,600
Capital outlays	39,895	1,240,498	-	-	-	993,030	2,273,423
Debt service							
Principal	-	-	-	341,000	-	16,219	357,219
Interest	-	-	-	379,988	-	137,318	517,306
Bond issuance costs	-	-	-	-	-	4,048	4,048
Total expenditures	10,074,734	2,055,273	975,226	720,988	518,674	2,761,804	17,106,699
Excess (deficiency) of revenues over expenditures	566,170	-	437,662	61,836	-	(831,714)	233,954
Other financing sources (uses)							
General obligation bonds	-	-	-	-	-	635,000	635,000
Transfers in	52,354	-	-	-	-	738,684	791,038
Transfers out	738,684	-	-	5,635	-	46,719	791,038
Total other financing sources (uses)	(686,330)	-	-	(5,635)		1,326,965	635,000
Special Item							
Property Taxes - amnesty	250,501	-	-	43,175	-	-	293,676
Net change in fund balance	130,341	-	437,662	99,376	-	495,251	1,162,630
Fund balance at beginning of year, as restated (note K)	1,823,472		793,103	346,000	-	2,796,746	5,759,321
Fund balance at end of year	$ 1,953,813	$ -	$ 1,230,765	$ 445,376	$ -	$ 3,291,997	$ 6,921,951

The accompanying notes are an integral part of this statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances-total governmental funds:		**$ 1,162,630**
Amounts reported for governmental activities in the Statement of activities are different because:		
Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	$ 2,273,423	
Less: current year depreciation	(1,463,927)	809,499
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:		(4,861)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Due from Commonwealth entities:		
Puerto Rico Department of Education -current year	54 000	
CRIM- current year property tax settlement	17,321	
Christmas Bonus reimbursement	117,799	
Donated capital assets	40,740	239,860
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
Puerto Rico Electric Power Authority (PREPA)-prior year	(189,846)	
CRIM-prior year property tax settlement	(196,133)	
Christmas Bonus Reimbursement	(135,656)	(521,635)
Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets		(635,000)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		(25,000)
Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:		
General obligation bonds and notes	341,000	
Other long term liabilities	840,286	1,181,286
Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:		
Bond issuance costs	4,048	
Amortization of deferred charges	(2,987)	1,061
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Christmas Bonus	(235,599)	
Net accrual, interest payable	(10,409)	(246,008)
Change in net assets of governmental activities:		**$ 1,961,832**

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Aguada was founded in 1510. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. ***Financial reporting entity***

The financial reporting entity included in this report consists of the financial statements of the Municipality of Aguada (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for deciding financial accountability are any one of the following:

a. Fiscal dependency of the potential component unit on the primary government, or
b. The primary government appoints a voting majority of the potential component unit's governing body and,

1) The primary government can impose its will on the potential component unit and/or,

2) A financial benefit/ burden exist between the primary government and the potential component unit.

There are two methods of presentation of the component unit in the financial statement:

a. Blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances.
b. Discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In fiscal year 2003-2004 the Municipality adopted Statement No. 39 *"Determining Whether Certain Organizations Are Component Units - an amendment of GASB 34 Statement No. 14"*. This Statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as components units based on the nature and significance of their relationship with the primary government. A legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. The Statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

The basic financial statements includes the operations of *Jardines de Aguada Project* (the Project), which is a 70-unit dwelling unit's project located in Aguada, Puerto Rico. The project is operated under Section 515 of USDA-Rural Development (USDA-RD) and regulated by the U.S. Department of Housing and Urban Development (HUD) and USDA-RD with respect to rental charges and operating methods. The Project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. The Municipality holds legal title to the Project which its operations are carried-out by a management agent unrelated to the Municipality. Since the Project is not legally separated from the Municipality, its financial data is merged with the financial data of the Municipality (primary government).

2. *Basis of presentation, measurement focus and basis of accounting*

The financial report of the Municipality consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions end events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

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. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures.

The Municipality reports the following major governmental funds:

General Fund: The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

Community Development Block Grant Program Fund (CDBG): CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

State Legislative Joint Resolutions Fund: State Legislative Joint Resolutions fund is used to account for revenue sources to be used for the construction and improvement of capital facilities and for welfare purposes.

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Department of Labor Fund: Department of Labor fund is used to account for revenue sources (subsidy) to be used for the payment of payroll and related liabilities of additional temporary employees in various departments of the Municipality.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are both measurable and available. 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 Municipality 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 the related liability is incurred.

Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met and revenue becomes available. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long term portions of debt must be included).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. ***Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents***

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. ***Receivables and due from governmental entities***

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from Commonwealth governmental entities in the general fund represent amounts due from the Municipal Revenues Collection Center (CRIM) for excess of actual collections over advances of property taxes and of municipal equalization fund and amounts for property tax amnesty; rent receivable from the Department of Education; and a receivable for the Christmas bonus reimbursement from the Puerto Rico Treasury Department.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the Department of Labor fund, the receivable represents amounts owed to the Municipality for reimbursement of expenditures incurred on Commonwealth agencies grants. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

5. ***Interfund receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to 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). All other outstanding balances between funds are reported as "due from/to other funds".

6. ***Inventories***

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant

7. ***Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The municipality maintains a threshold level of $1 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Years
Buildings and building improvements	15-50
Infrastructure	20-40
Vehicles, machinery and equipment	5-15

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. ***Long-term obligations***

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. ***Deferred bond issuance costs***

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

10. ***Compensated absences***

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1)are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

11. ***Fund balances and Net Assets***

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represents net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.
Other specified purposes:	Represent amounts to be used for future expenditures of Federal and Commonwealth's grants to be used to finance activities other than construction or capital improvement commitments

a. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt:	Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
Restricted net assets:	Represents net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
Unrestricted net assets:	Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. ***Interfund transactions***

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

13. ***Risk financing***

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Aguada consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

14. ***Use of estimates***

The preparation of the basic financial statements in accordance 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 basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

15. ***Future adoption of accounting pronouncements***

The GASB has issued the following statements, which the Municipality has not yet adopted:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

	Statement	To be Adopted in Fiscal year ended,
40	Deposit and Investment Risk Disclosure - an amendment of GASB Statement No. 3	June 30, 2005
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	June 30, 2006
43	Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
44	Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement No. 1	June 30, 2006
45	Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009

The Municipality's management has concluded that the adoption of these statements will not have a significant impact on the Municipality's basic financial statements.

NOTE B – DEPOSITS AND INVESTMENTS

The Municipality maintains its cash deposits in commercial banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. The table presented below discloses the level of custody risk assumed by the Municipality based upon how its deposits were insured or secured with collateral at June 30, 2004:

Category 1: Insured or collateralized with securities held by the Secretary of Treasury agent's in the Municipality's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or its agents in the Municipality's name.

Category 3: Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

NOTE B - DEPOSITS AND INVESTMENTS– Continued

The bank balances and carrying amount of deposits with financial institutions as of June 30, 2004 were as follows:

	Category 1	Category 2	Category 3	Bank balance	Carrying amount
Deposits in commercial banks	$ 1,318,057	$ -	$ -	$ 1,318,057	$ 1,754,778
Deposits in credit unions	$ 3,818,388	$ -	$ -	$ 3,818,388	3,818,388
Deposits in governmental banks	-	-	2,804,572	2,804,572	2,565,163
	$ 5,136,445	$ -	$ 2,804,572	$ 7,941,017	$ 8,138,329

Reconciliation to government-wide statement of net assets:

	Unrestricted	Restricted	Total
Carrying amount of deposits in commercial banks and credit unions	$ 2,169,246	$ 3,403,920	$ 5,573,166
Carrying amount of deposits in governmental banks	-	2,565,163	2,565,163
	$ 2,169,246	$ 5,969,083	$ 8,138,329

2. *Short term investments*

Short term investments include $60,178 invested in the Puerto Rico Government Investment Trust Fund (PRGITF). The PRGITF was created by the Secretary of the Treasury of the Commonwealth pursuant to Act No. 176, of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no-load diversified collective investment trust administered by the Government Development Bank of Puerto Rico that was created for the purpose of providing eligible governmental investors of Puerto Rico to invest in a money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured or guaranteed by the Commonwealth or any of its agencies, instrumentalities or political subdivisions.

The PRGITF invests in short-term instruments, which may be considered highly liquid as defined by the limitations contained in Rule 2a-7 of the Investment Company Act of 1940. However, the investments are subject to the ability of the PRGITF to receive payment from the securities' issuer when due. The Municipality investment is recorded at cost in the fund financial statements, which is not significantly different from investment pool's share price. Income earned from the investments made by the PRGITF is available for withdrawal at any time.

Short term investments also include time deposits in the amount of $1,798,949. They were classified as short term investments to separate them from the cash equivalent criteria.

NOTE C - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2004 follows:

	Commonwealth Entities	Federal Government
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	$ 17,321	$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	29,406	-
Municipal Revenue Collection Center (CRIM) – property tax amnesty	69,823	-
Puerto Rico Department of Labor – "Ley 52"	254,954	-
Office of Commissioner of Municipal Affairs – CDBG	-	281,279
US Department of Housing and Urban Development – Section 8	-	15,049
Puerto Rico Department of Education	128,000	
Puerto Rico Department of Treasury – Christmas bonus reimbursement	117,799	-
	$ 617,303	$ 296,328

The amounts due from the Municipal Revenue Collection Center (CRIM) – property taxes (general fund) ($17,321), the Puerto Rico Department of Treasury – Christmas bonus ($117,799) and $64,000 of the $128,000 due from the Puerto Rico Department of Education, are recorded as deferred revenues in the governmental funds statements (general fund) since there are not available as required by current standards.

2. Amounts due to governmental entities as of June 30, 2004 consist of $9,069 due to the Puerto Rico Aqueduct and Sewer Authority (PRASA).

NOTE D - INTERFUND TRANSACTIONS

1. ***Due from/to other funds***

Amounts due from/to other funds represent temporary advances to other funds by the general fund payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major fund-SBGP	$ 37,990
	Other governmental fund-Law #52	276,100
	Other governmental fund-Child Care	46,558
	Other governmental fund-others	249,853
Total:		$ 610,501

NOTE D - INTERFUND TRANSACTIONS - Continued

2. ***Operating transfers***

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; and principal and interest payments of general long term debt transferred from the general fund to the debt service fund.

NOTE E - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2004 is as follows:

	Balance July 1, 2003, as restated	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 3,230,236	$ 350,100	$ -	$ 3,580,336
Construction in progress	1,197,596	1,395,976	-	2,593,572
Total capital assets not being depreciated:	4,427,832	1,746,076	-	6,173,908
Capital assets, being depreciated:				
Land improvements	475,048	38,637	-	513,685
Buildings and building improvements	26,500,363	-	-	26,500,363
Infrastructure	12,919,854	-	-	12,919,854
Vehicles, machinery and equipment	7,763,598	529,455	41,058	8,251,995
Total capital assets being depreciated	47,658,863	568,092	41,058	48,185,897
Less accumulated depreciation for:				
Land improvements	267,365	20,392	-	287,757
Buildings and building improvements	7,566,764	789,985	-	8,356,749
Infrastructure	9,414,340	14,577	-	9,428,917
Vehicles, machinery and equipment	4,906,647	638,973	36,197	5,509,423
Total accumulated depreciation	22,155,116	1,463,927	36,197	23,582,846
Total capital assets being depreciated, net	25,503,747	(895,835)	4,861	24,603,051
Governmental activities capital assets, net	$ 29,931,579	$ 850,241	$ 4,861	$ 30,776,959

NOTE E - CAPITAL ASSETS - Continued

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

Governmental activities:	
General government	$ 422,582
Public works and sanitation	360,189
Public safety	77,598
Culture and recreation	474,820
Welfare and community development	127,550
Health	1,188
Total depreciation expense, governmental activities	$ 1,463,927

NOTE F - LONG TERM DEBT

1 ***Summary of long- term debt activity***

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2004:

	Balance at July 1, 2003, as restated	Increases	Decreases	Balance at June 30, 2004	Due within one year
General, Special Obligations Bonds and Notes	$ 6,280,000	$ 635,000	$ 366,000	$ 6,549,000	$ 342,000
Debt to ASSES	884,397		267,841	616,556	-
Note payable to CRIM-LIMS	354,325	-	33,118	321,207	35,120
Note payable to CRIM-financing of delinquent accounts	468,783	-	85,469	383,314	-
Compensated absences	1,997,740		155,777	1,841,963	138,974
Christmas bonus	271,316	235,599	271,316	235,599	235,599
Judgments and legal claims	52,600	-	22,600	30,000	30,000
Mortgage payable	1,928,742	-	16,219	1,912,523	17,702
	$ 12,237,903	$ 870,599	$ 1,218,340	$ 11,890,162	$ 799,395

NOTE F – LONG TERM DEBT – Continued

2. ***General and special obligation bonds and notes***

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2004 amount to $6,549,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2004 follows:

	Outstanding Amount
1999 general obligation note of $645,000 due in annual installments of $100,000 to $110,000 through January 1, 2005; with interest at 5.2% to 5.4% (5.29% at June 30, 2004)	$ 215,000
1989 public improvement bonds of $125,000 due in annual installments of $6,000 to $9,000 through January 1, 2013; with interest at 5% to 8% (5% at June 30, 2004)	64,000
1998 general obligation bond of $910,000 due in annual installments of $20,000 to $85,000 through July 1, 2020; bearing interest at rates ranging from 5.19% to 6.56% (5.29% at June 30, 2004)	805,000
1993 public improvement bonds of $2,030,000 due in annual installments of $55,000 to $185,000 through July 1, 2018; bearing interest at rates ranging from 7.1% to 8.2% (7.2% at June 30, 2004)	1,650,000
1988 public improvement bonds of $275,000 due in annual installments of $12,000 to $19,000 through January 1, 2012; with interest at 5%	127,000
1991 public improvement bonds of $460,000 due in annual installments of $40,000 to $55,000 through July 1, 2006; bearing interest at 6.2% to 6.4% (6.3% at June 30, 2004)	150,000
2003 general obligation bond of $845,000 due in annual installments of $15,000 to $70,000 through July 1, 2027; bearing interest at rates ranging from 5% to 6.5% (5% at June 30, 2004)	830,000

NOTE F – LONG TERM DEBT – Continued

	Outstanding Amount
1997 general obligation bond of $2,040,000 due in annual installments of $45,000 to $185,000 through July 1, 2021; bearing interest at rates ranging from 5.19% to 6.56% (5.29% at June 30, 2004)	1,815,000
1994 public improvement bonds of $350,000 due in annual installments of $8,000 to $26,000 through July 1, 2018; bearing interest at 4.50%	258,000
2004 general obligation bond of $635,000 due in annual installments of $10,000 to $50,000 through July 1, 2028; bearing interest at rates ranging from 2.4% to 6.0% (2.4% at June 30, 2004)	635,000
Total	$ 6,549,000

The annual requirements to amortize general and special obligation bonds and notes as of June 30, 2004 follows:

June 30	Principal	Interest
2005	$ 342,000	$ 392,135
2006	359,000	385,204
2007	275,000	368,299
2008	237,000	353,684
2009	254,000	337,791
2010-2014	1,518,000	1,405,521
2015-2019	2,059,000	790,851
2020-2024	1,050,000	233,950
2025-2029	455,000	52,975
Totals	$ 6,549,000	$ 4,320,410

NOTE F – LONG TERM DEBT – Continued

3. ***Other long-term liabilities***

	Outstanding Amount
Note payable to CRIM (LIMS) - On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of $400,500 for the payment of the Municipality's share of the cost of a management information system **(LIMS)** acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of $26,858, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:	$ 321,207

June 30	Principal	Interest
2005	$ 35,120	$ 18,423
2006	37,239	16,292
2007	39,488	14,033
2008	41,872	11,636
2009	44,401	9,095
2010-2012	123,087	10,590
Totals	$ 321,207	$ 80,069

NOTE F – LONG TERM DEBT – Continued

	Outstanding Amount
Note payable to CRIM (Financing of delinquent accounts)– On March 19, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of $468,783 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:	$ 383,314

June 30	Principal	Interest
2005	$ 100,148	$ 24,915
2006	-	16,923
2007	-	18,406
2008	-	18,406
2009	4,869	18,262
2010-2014	29,695	85,961
2015-2019	41,063	74,594
2020-2024	56,783	58,874
2025-2029	78,520	37,137
2030-2033	72,236	8,724
Totals	$ 383,314	$ 362,202

NOTE F – LONG TERM DEBT – Continued

	Outstanding Amount
Mortgage payable – Mortgages payable consists of permanent residences loans provided by USDA-Rural Development The land and buildings of the "Jardines de Aguada" project secure the mortgages notes. The mortgages are payable in monthly installments, including interest, through 2032 of $10,076 for Note 1 and $2,666 for Note 2 for a total monthly payment of $12,742. The mortgage and subsidy interest rates are 8.50% and 6.50%, respectively, for Note 1 and 10.75% and 8.75% for Note 2. The outstanding debt balance as of June 30, 2004 was $1,576,113 for Note 1 and $336,410 for Note 2 for a total of $1,912,523. The fair value of the mortgage payable is estimated based on the current rates offered to the Project for debt of the same remaining maturities. At June 30, 2004, the fair value of the mortgage payable approximates the amount recorded in the financial statements. Debt service requirements in future years are as follows:	$ 1,912,523

June 30	Principal
2005	$ 17,702
2006	19,319
2007	21,088
2008	23,019
2009	25,128
2010-2014	164,765
2015-2019	255,881
2020-2024	398,040
2025-2029	620,276
2030-2032	367,305
Totals	$ 1,912,523

Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds	$ 1,841,963
Christmas Bonus - represent the accrued portion corresponding to fiscal year 2003-2004 of the Christmas bonus to be paid in December 2004	$ 235,599

NOTE F – LONG TERM DEBT – Continued

		Outstanding Amount
Payable to Puerto Rico Health Insurance Administration (ASSES) - represents the Municipality's share of payment of the health insurance of the Commonwealth of Puerto Rico from the period May 1, 1996 to June 30, 1997.	$	616,556
Claims and judgments - represent the final settlement of a legal case paid subsequent to June 30, 2004. The awarded amount will be paid with unrestricted funds.	$	30,000

NOTE G - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

The Municipality discontinued the operation and ceased to accept solid waste in its landfill. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance procedures at the landfill site for thirty years after closure. The closure and post closure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality utilized an estimate provided by the Puerto Rico Solid Waste Disposal Authority. The Municipality is required to provide post closure care after the closure is completed. Total post closure care costs has not been determined and accounted as required by accounting principles generally accepted in the United States as of June 30, 2004.

NOTE H - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st.

The tax rates in force as of June 30, 2004 are 8.28% for real property (of which 8.08% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.28% for personal property (of which 6.08% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.25% and 5.25%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6% on real property and 4% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.25% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

NOTE H - PROPERTY TAXES - Continued

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than $3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with annual net sales of less than $150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable of $17,321 resulting from the final settlement for fiscal year 2003-2004 is recorded as revenue in the government-wide statements but is recorded as a deferred revenue in the governmental funds statements since is not available as required by current standards.

NOTE I – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2004 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $ 802,450 are recorded as deferred revenues.

NOTE J - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Amount of municipal equalization fund send by CRIM	$ 3,568,304
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,464,831
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	180,878
	$ 5,214,013

NOTE K - FUND BALANCE AND NET ASSETS RESTATEMENTS

1. ***Fund balances***

The beginning fund balance of the general fund has been restated to recognize a net overstatement in receivables in the amount of $17,266 and a net overstatement of accounts payable in the amount of $21,894. In addition, the beginning fund balance of SBGP has been adjusted to reflect an overstatement of receivables in the amount of 32,994. The beginning fund balance of the debt service fund has been adjusted to reflect the correction of an overstatement of receivables in the amount of $114,527. The Department of Labor fund balance has been adjusted to reflect an understatement of revenues. Finally, the beginning fund balance of other governmental funds has been adjusted to reflect the segregation of the State Legislative Joint Resolutions fund as a major fund; the inclusion of *Jardines de Aguada Project* as other governmental fund; and the correction of other miscellaneous amounts. The following schedule reconciles the fund balance at July 1, 2004 as previously reported to the beginning fund balance, as restated:

		Prior period adjustments		
Fund	Balance at beginning of year, as previously reported	Fund reclassifications	Correction of errors	Balance at beginning of year, as restated
General fund	$ 1,818,844	$ -	$ 4,628	$ 1,823,472
CDBG	-	(32,994)	32,994	-
State legislative joint resolutions	-	793,103	-	793,103
Debt service fund	460,527	-	(114,527)	346,000
Department of Labor fund	-	(2,073)	2,073	-
Other governmental funds	3,462,625	(758,036)	92,157	2,796,746
Total	$ 5,741,996	$ -	$ 17,325	$ 5,759,321

NOTE K - FUND BALANCE AND NET ASSETS RESTATEMENTS – Continued

2. *Net assets*

Net assets at beginning of year have been adjusted to reflect the following restatements:

		Amount
Net assets at beginning of year as previously reported:	$	24,740,437
Restatements:		
Overstatement of receivable - Debt Service fund		(114,527)
Understatement of receivable - CDBG		32,995
Understatement in compensated absences debt		(9,455)
Note payable to CRIM (LIMS) not recorded		(354,325)
Overstatement in judgment and claims debt		75,000
Net understatement of fixed assets not recorded		23,688
Understatement of accrued interest payable		(11,325)
Other miscellaneous corrections		(15,922)
Net assets at beginning of year as restated:	$	24,366,566

NOTE L - RETIREMENT PLAN

1. ***Plan description***

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

NOTE L - RETIREMENT PLAN - Continued

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is $10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. ***Funding policy***

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000
2004	$ 225,601	$ 57,178
2003	$ 218,328	$ 46,226
2002	$ 241,488	$ 50,044

NOTE M – COMMITMENTS

1. ***Operating leases***

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately $ 11,973. Management believes that the summary of the future minimum rental commitments under noncancelable operating leases with terms exceeding one year is not significant.

NOTE M – COMMITMENTS - Continued

2. ***Construction***

The Municipality has commitments at June 30, 2004 of approximately $ 2,659,739 for construction, improvements or renovation of certain municipal facilities.

NOTE N - CONTINGENCIES

1. ***Federal and State grants***

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. ***Litigations***

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of one settled case subsequent to June 30, 2004 and not to be covered by insurance, the Municipality accrued $30,000 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE O – SPECIAL ITEM

1. ***Property tax amnesty***

Law No. 74 of March 1, 2004 approved by the Commonwealth's Legislature (as amended by Law No. 131 of June 1, 2004) granted to taxpayers (for the period March 1, 2004 to June 30, 2004) an amnesty for payment of real and personal property tax debts. As a result, the CRIM distributed to the Municipality $ $293,677 on property tax collections as of June 30, 2004 of which $250,501 were recorded in the general fund and $ 43,175 recorded in the debt service fund. The transaction falls under the definition of special item set forth by GASB 34, as it is a transaction of unusual or infrequent nature within the control of Municipality's management.

NOTE P- SUBSEQUENT EVENTS

1. ***Purchase of Real Property***

On July 7, 2004 the Municipal Legislature, by means of resolution #1, approved the purchase of real property for the amount of $167,000 from a resident of Aguada in order to continue with the development of the construction projects in Guaniquilla, Aguada.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	$ 2,593,232	$ 2,789,364	$ 2,970,044	$ 180,680
Municipal license taxes	1,145,000	1,117,891	1,142,591	24,700
Intergovernmental	4,911,144	5,188,543	5,024,166	(164,377)
Fees, fines and charges for services	995,122	1,234,157	1,231,667	(2,490)
Interest	90,000	127,441	135,323	7,882
Other	125,000	276,985	284,677	7,692
Total revenues	9,859,498	10,734,381	10,788,468	54,087
Expenditures				
General government	4,010,621	4,232,826	4,208,529	24,297
Public works and sanitation	3,344,766	3,285,598	3,273,019	12,579
Public safety	742,919	684,319	670,575	13,744
Culture and recreation	799,135	843,555	840,195	3,360
Health	140,116	123,116	121,713	1.403
Welfare and community development	796,941	810,016	808,483	1,533
Claims and Judgments	-	22,600	22,600	-
Total expenditures	9,834,498	10,002,030	9,945,113	56,917
Excess (deficiency) of revenues over expenditures	25,000	732,351	843,355	111,004
Other financing sources (uses)				
Transfers out	25,000	732,351	732,351	-
Total other financing sources (uses)	(25,000)	(732,351)	(732,351)	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	-	111,004	111,004
	$ -	$ -	$ 111,004	$ 111,004

The accompanying notes to required supplemental information are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2004

NOTE A - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

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.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

MUNICIPALITY OF AGUADA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

June 30, 2004

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	**$**	**111,004**
Budget to GAAP differences:		
Revenues recorded for financial reporting purposes but not in budgetary basis:		69,822
Revenues recorded in budgetary basis purposes but not in financial reporting:		-
Expenditures recorded in budgetary basis but not for financial reporting purposes:		52,312
Expenditures recorded for financial reporting purposes but not in budgetary basis:		(11,010)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:		158,138
Prior year encumbrances recorded as expenditures for financial reporting purposes:		(249,925)
Net change in fund balance (GAAP basis):	**$**	**130,341**

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note C)	Pass-Through Grantor's Number (note D)	Expenditures (note B)
U.S. Department of Housing and Urban Development			
Major program:			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	AF-37 AB-37 FD-37	$ 2,055,274
Non major program:			
Direct program:			
Section 8 Housing Choice Vouchers	14.871	N/A	288,907
Non major program:			
Passed through the P.R. Department of Family - Families and Children Administration:			
Emergency Shelter Grants Program	14.231	N/AV	11,497
			2,355,678
U.S. Department of Agriculture			
Non major program:			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	11,866
U.S. Department of Health and Human Services			
Non major program:			
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	123-2003-000393	277,103
U.S. Department of Education			
Non major program:			
Passed through the P.R. Department of Education:			
Safe and Drug Free Schools and Communities	84.186	N/AV	58,633
Federal Emergency Management Agency			
Non major program:			
Passed through the P.R. Governor Office: (Governor's Authorized Representative- GAR)			
Public Assistance Grants	83.544	DR-PR-1247	5,256
U.S. Department of Justice			
Non major program:			
Passed through the P.R. Department of Justice:			
Local Law Enforcement Block Grant	16.592	N/AV	9,683
U.S. Department of Transportation			
Non major program:			
Direct Program:			
Federal Transit Formula Grants	20.507	N/A	18,000
Total federal awards expenditures:			**$ 2,736,218**

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

NOTE A – REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Municipality, except the federal grant activities related to *Jardines de Aguada Project*. As described in Note A to the Municipality's basic financial statements, the basic financial statements includes the operations of *Jardines de Aguada Project* (the Project), which is a 70-unit dwelling unit's project located in Aguada, Puerto Rico. The Project is not legally separated from the Municipality, and accordingly, its financial data is merged with the financial data of the Municipality. The Project expended $2,250,079 in federal awards as follows:

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
US Department of Agriculture:		
Rural Rental Housing Loans (loan balance outstanding as of June 30, 2004)	10.415	$ 1,912,523
US Department of Health and Urban Development:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	337,556
		$ 2,250,079

The Project has obtained a separate A-133 audit, which is not included as part of this audit. A copy of this audit report can be obtained by contacting Project's administrative office at P.O. Box 71, Aguada, Puerto Rico 00602.

NOTE B – BASIS OF PRESENTATION

The Schedule is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE C - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

NOTE D - PASS -THROUGH GRANTOR'S NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE E – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Other Governmental Funds
14.228	$ 2,055,274	$ -
14.871	-	288,907
14.231	-	11,497
10.558	-	11,866
93.575	-	277,103
84.186	-	58,633
83.544	-	5,256
16.592	-	9,683
20.507	-	18,000
Total federal awards expenditures (not including Jardines de Aguada Project Grants-see note A)	$ 2,055,274	$ 680,945
Total nonfederal awards expenditures	-	2,080,859
Total expenditures, fund statements	$ 2,055,274	$ 2,761,804

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*

Mayor and Municipal Legislature
Municipality of Aguada
Aguada, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Aguada, Puerto Rico (the Municipality) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005 which is qualified since we were unable to obtain sufficient competent evidence to support the valuation, existence, completeness and rights and obligations applicable to certain general capital assets in governmental activities and because the Municipality has not determined and recorded in governmental activities an estimate of the total municipal solid waste landfill post closure care costs of a closed solid waste landfill, as required by accounting principles generally accepted in the United States of America. We did not audit the financial statements of *Jardines de Aguada Project*, which represent 4%, 2% and 2%, respectively of the assets, net assets and revenues of governmental activities and 3%, 1% and 18%, respectively of the assets, fund balance and revenues of the aggregate remaining funds. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for *Jardines de Aguada Project*, is based on the report of the other auditors. Except as discussed in the first sentence, 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 the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item **2004 II-1.**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item **2004 II-1** in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated January 21, 2005.

This report is intended for the information of the management of the Municipality, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

2035226

RODRIGUEZ RIVERA & TORO LLP
Mayagüez, Puerto Rico
January 21, 2005
Certified Public Accountants

Rodriguez Rivera & Toro LLP

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Mayor and Municipal Legislature
Municipality of Aguada
Aguada, Puerto Rico

Compliance

We have audited the compliance of Municipality of Aguada, Puerto Rico (the Municipality) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Municipality's major federal program is 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 its major federal program is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

The Municipality's basic financial statements include the operations of *Jardines de Aguada Project* which expended $2,250,079 in federal awards, as described below, which are not included in the schedule of expenditures of federal awards during the year ended June 30, 2004:

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
US Department of Agriculture:		
Rural Rental Housing Loans	10.415	$ 1,912,523
US Department of Health and Urban Development:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	337,556
		$ 2,250,079

Our audit, described below, did not include the operations of *Jardines de Aguada Project* because the Municipality engaged other auditors to perform an audit of the Project 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 the Municipality'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 on the Municipality's compliance with those requirements.

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

Internal Control over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with 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*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the management of the Municipality, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

2035227

RODRIGUEZ, RIVERA & TORO LLP
Certified Public Accountants
Mayagüez, Puerto Rico
January 21, 2005

Rodriguez, Rivera & Toro LLP

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

Section I - Summary of Auditor's Results:

Part I - Financial Statements

Type of auditor's report issued:	☐ Unqualified opinion ☐ Adverse opinion	☒ Qualified opinion ☐ Disclaimer of opinion
Internal control over financial reporting:		
▪ Material weaknesses identified?	☒ Yes	☐ No
▪ Reportable conditions identified that are not considered to be material weaknesses?	☐ Yes	☒ None reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Part II - Federal Awards

Internal control over major programs:		
▪ Material weaknesses identified?	☐ Yes	☒ No
▪ Reportable conditions identified that are not considered to be material weaknesses?	☐ Yes	☒ None reported
Type of auditor's report on compliance for major programs:	☒ Unqualified opinion ☐ Adverse opinion	☐ Qualified opinion ☐ Disclaimer of opinion
Audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133:	☐ Yes	☒ No

Identification of major programs:	CFDA Number	Name of Federal Program or Cluster
	14.228	Community Development Block Grant - State's Program

Dollar threshold used to distinguish between type A and type B programs:	☒ $300,000	
Auditee qualified as low-risk auditee:	☐ Yes	☒ No

Section II – Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:

Reference Number: **2004 II-1**
Area: **Capital Assets**
Type: **Material Weakness**

Criteria: The Municipality should have established internal control policies and procedures in order to properly account for capital assets and to maintain adequate and updated inventory records. Accounting principles generally accepted in the United States of America require capital assets to be properly identified, valued and recorded in the Municipality accounting records and accordingly, reported in the basic financial statements.

Condition: Our tests to the Municipality's capital asset records disclosed the following:

(1). Land:
Land represents 11% of net capital assets reported in the statement of net assets. We noted several items which, as part of the review process performed by the Municipality, were identified but not valued. In addition, for certain land parcels the Municipality did not provide supporting evidence of valuation costs and ownership.

(2). Buildings and buildings improvements:
As disclosed in prior year audit finding **2003 II-1** the Municipality has not provided sufficient and adequate evidence to support the valuation cost recorded on certain capital assets. In 3 of these cases related to buildings and buildings improvements there is a significant difference between costs recorded in the inventory records and costs supporting evidence provided by the Municipality. The Municipality has not performed procedures to properly determine and correct assets valuation.

(3). Infrastructure:
As of June 30, 2004 the Municipality disclosed in the infrastructure inventory an undeterminable number of municipal roads on an aggregate amount of $858,885 (net of accumulated depreciation of $2,576,655). These roads have not been identified, segregated and valued by the Municipality. In addition, during the fiscal year 2003-2004 the Municipality expended $1,348,839 on roads improvements, of which there was no determination of costs to be capitalized and costs to be considered as maintenance.

Section II – Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:

Reference Number: **2004 II-1 - continued**

(4). Vehicles, machinery and equipment:
There is no evidence of a physical inventory on machinery and equipment in order to ascertain for existence and completeness of inventory.

Cause: During fiscal year 2002-2003, the Municipality performed a review of capital assets inventory records as part of the implementation process to comply with the requirements of GASB Statement Number 34. This review was not fully completed as of June 30, 2004.

Effect: The Municipality does not have sufficient and competent documentation to properly support the valuation, existence, completeness and rights and obligations applicable to certain general capital assets. Capital assets are the most significant assets of the Municipality and therefore, these exceptions have a significant impact on the government wide statements.

Recommendation: The Municipality should complete the review of the capital assets inventory records, including establishing specific procedures in order to gather information about capital assets existence, ownership, valuation costs and completeness. The finance department should assign personnel to record and maintain capital assets accounting records as required by accounting principles generally accepted in the United States of America and establish and/or follow proper capitalization policies. This process should be completed soon enough to assure amounts be properly corrected and disclosed in next fiscal year's government wide financial statements.

Views of responsible officials and planned corrective actions: See accompanying corrective action plan submitted by management and included as part of this audit report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2004

Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:

Fiscal year ended June 30,	Finding No.	Condition	Status
2003	2003 II-1	The Municipality performed a review of capital assets inventory records in order to comply with requirements of GASB Statement Number 34. Our tests disclosed that the Municipality did not have adequate and sufficient evidence to support ownership, valuation, reasonability of depreciation expense and completeness of certain general capital assets.	Finding remains unclear. See current year finding No. **2004 II-1** in the accompanying schedule of findings and questioned costs.
2002	2002 II-1	a. There is no proper reconciliation between the general ledger and the subsidiary records of property, plant and equipment as of June 30, 2001. b. The construction in progress inventory was not recorded in the fixed assets records as of June 30, 2001.	Finding was cleared by the Office of Commissioner of Municipal Affairs of Puerto Rico (OCAM), pass-through grantor agency.

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Aguada
Oficina del Alcalde

Hon. Luis A. Echevarría Santiago
Alcalde

Aguada
Ciudad del
Descubrimiento

28 de marzo de 2005

Rodríguez, Rivera & Toro LLP
P.O. Box 1080
Mayagüez, Puerto Rico 00681

Estimado CPA, Toro:

Adjunto Plan de Acción Correctiva en relación al hallazgo No. 2004-II-1.

Luego de analizar el borrador y discutir el informe de auditoria no tenemos objeción en que el mismo sea final.

Cordialmente:

Hon. Luis Alberto Echevarría Santiago
Alcalde

Apartado 517, Aguada, Puerto Rico 00602
Tels. 787-868-6400, 868-2112, 868-3120 • Fax 787-868-4600

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AGUADA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133)
Aguada, Puerto Rico

PLAN DE ACCION CORRECTIVA

Informe de Auditoria al 6-30-2004 — Fecha: 23 de marzo de 2005
Período Monitoreado: **Año fiscal 2003-2004**

Funcionario designado: José Armando Pérez Sosa — Puesto: Director de Finanzas — Telefono: 787-868-3120

Indique: x **PAC** **ICP**

	ACCION CORRECTIVA	RESULTADO
Hallazgo No. 2004-II-1 Durante el año fiscal 2002-2003 el municipio reviso el inventario de activos como parte de los requerimientos del GASB No. 34, a la fecha de este informe el municipio no habia terminado de entrar o identificar todas las propiedades.	El municipio designo al Sr. Wilson Garcia Hernandez empleado de la oficina de Auditoria Interna para realizar esta labor.	Se esta realizando

CERTIFICO QUE ESTA INFORMACION ES CORRECTA

FIRMA	FIRMA	FECHA
José Armando Perez Sosa- Director de Finanzas	Hon. Luis A. Echevarría Santiago-Alcalde	28 DE MARZO DE 2005

INTERNET REPORT ID: 158530 3/29/2005 OMB No. 0348-0057

FORM **SF-SAC** (5-2004)

U.S. DEPT. OF COMM.– Econ. and Stat. Admin.– U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2004, 2005, or 2006

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO **Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132**

PART I GENERAL INFORMATION *(To be completed by auditee, except for Items 4 and 7)*

1. Fiscal period ending date for this submission

Month 06 / Day 30 / Year 2004 — Fiscal Period End Dates Must Be In 2004, 2005, or 2006

2. Type of Circular A-133 audit

1 [X] Single audit 2 [ ] Program-specific audit

3. Audit period covered

1 [X] Annual 2 [ ] Biennial 3 [ ] Other – [ ] Months

4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse

5. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)

66 – 0434057

b. Are multiple EINs covered in this report? 1 [X] Yes 2 [ ] No

c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number

[ ] – [ ] – [ ]

e. Are multiple DUNS covered in this report? 1 [ ] Yes 2 [ ] No

f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF AGUADA

b. Auditee address *(Number and street)*
P.O. BOX 517

City
AGUADA

State PR — ZIP + 4 Code 00602 –

c. Auditee contact
Name
MR. JOSE A. PEREZ-SOSA

Title
FINANCE DIRECTOR

d. Auditee contact telephone
(787) 868 – 2112

e. Auditee contact FAX
(787) 868 – 0315

f. Auditee contact E-mail

g. AUDITEE CERTIFICATION STATEMENT – This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II,** and **III** of the data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official — Date Month 03 / Day 30 / Year 05

Printed Name of certifying official
JOSE A. PEREZ-SOSA

Printed Title of certifying official
FINANCE DIRECTOR

7. AUDITOR INFORMATION *(To be completed by auditor)*

a. Auditor name
RODRIGUEZ, RIVERA & TORO, LLP

b. Auditor address *(Number and street)*
P.O. BOX 1080

City
MAYAGUEZ

State PR — ZIP + 4 Code 00681 – 1080

c. Auditor contact
Name
JOSE A. TORO-MERCADO, CPA

Title
MANAGING PARTNER

d. Auditor contact telephone
(787) 834 – 3100

e. Auditor contact FAX
(787) 831 – 2909

f. Auditor contact E-mail
JTORO@RRTLLP.COM

g. AUDITOR STATEMENT – The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II** and **III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor — Date Month 3 / Day 28 / Year 05

Rodriguez, Rivera & Toro LLP

PART II FINANCIAL STATEMENTS *(To be completed by auditor)*

1. Type of audit report
   Mark either: 1 ☐ Unqualified opinion **OR**
   any combination of: 2 ☒ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 ☐ Yes 2 ☒ No

3. Is a reportable condition disclosed? 1 ☒ Yes 2 ☐ No – *SKIP to Item 5*

4. Is any reportable condition reported as a material weakness? 1 ☒ Yes 2 ☐ No

5. Is a material noncompliance disclosed? 1 ☐ Yes 2 ☒ No

PART III FEDERAL PROGRAMS *(To be completed by auditor)*

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending $500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 ☒ Yes 2 ☐ No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 §___ .520(b)) $ 300,000

3. Did the auditee qualify as a low-risk auditee? (§___ .530) 1 ☐ Yes 2 ☒ No

4. Is a reportable condition disclosed for any major program? (§ ___ .510(a)(1)) 1 ☐ Yes 2 ☒ No – *SKIP to Item 6*

5. Is any reportable condition reported as a material weakness? (§ ___ .510(a)(1)) 1 ☐ Yes 2 ☐ No

6. Are any known questioned costs reported? (§ ___ .510(a)(3) or (4)) 1 ☐ Yes 2 ☒ No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§___.315(b)) 1 ☐ Yes 2 ☒ No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. *(Mark (X) all that apply or None)*

- 98 ☐ U.S. Agency for International Development
- 10 ☐ Agriculture
- 23 ☐ Appalachian Regional Commission
- 11 ☐ Commerce
- 94 ☐ Corporation for National and Community Service
- 12 ☐ Defense
- 84 ☐ Education
- 81 ☐ Energy
- 66 ☐ Environmental Protection Agency
- 83 ☐ Federal Emergency Management Agency
- 39 ☐ General Services Administration
- 93 ☐ Health and Human Services
- 97 ☐ Homeland Security
- 14 ☐ Housing and Urban Development
- 03 ☐ Institute of Museum and Library Services
- 15 ☐ Interior
- 16 ☐ Justice
- 17 ☐ Labor
- 09 ☐ Legal Services Corporation
- 43 ☐ National Aeronautics and Space Administration
- 89 ☐ National Archives and Records Administration
- 05 ☐ National Endowment for the Arts
- 06 ☐ National Endowment for the Humanities
- 47 ☐ National Science Foundation
- 07 ☐ Office of National Drug Control Policy
- 59 ☐ Small Business Administration
- 96 ☐ Social Security Administration
- 19 ☐ U.S. Department of State
- 20 ☐ Transportation
- 21 ☐ Treasury
- 82 ☐ United States Information Agency
- 64 ☐ Veterans Affairs
- 00 ☒ **None**
- ☐ Other – *Specify:*

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives . . . . . ☒
- and, if not marked above, the Federal cognizant agency . . . . . ☐

Count total number of boxes marked above and submit this number of reporting packages 1

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PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR | **10.** AUDIT FINDINGS

CFDA Number: Federal Agency Prefix[1] (a)	CFDA Number: Extension[2] (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program: Major program (g)	Major program: If yes, type of audit report[3] (h)	Type(s) of compliance requirement(s)[4] (a)	Audit finding reference number(s)[5] (b)
14	.228	1 ☐ Yes 2 ☒ No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	$ 2,055,273.00	1 ☐ Yes 2 ☒ No	1 ☒ Yes 2 ☐ No	U	O	N/A
14	.871	1 ☐ Yes 2 ☒ No	SECTION 8 HOUSING CHOICE VOUCHERS	$ 288,907.00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No		O	N/A
14	.231	1 ☐ Yes 2 ☒ No	EMERGENCY SHELTER GRANTS PROGRAM	$ 11,497.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
10	.558	1 ☐ Yes 2 ☒ No	CHILD AND ADULT CARE FOOD PROGRAM	$ 11,866.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
93	.575	1 ☐ Yes 2 ☒ No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	$ 277,103.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
84	.186	1 ☐ Yes 2 ☒ No	SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES	$ 58,633.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
83	.544	1 ☐ Yes 2 ☒ No	PUBLIC ASSISTANCE GRANTS	$ 5,256.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
16	.592	1 ☐ Yes 2 ☒ No	LOCAL LAW ENFORCEMENT BLOCK GRANT	$ 9,683.00	1 ☐ Yes 2 ☒ No	1 ☐ Yes 2 ☒ No		O	N/A
20	.507	1 ☐ Yes 2 ☒ No	FEDERAL TRANSIT FORMULA GRANTS	$ 18,000.00	1 ☒ Yes 2 ☐ No	1 ☐ Yes 2 ☒ No		O	N/A
	.	1 ☐ Yes 2 ☐ No		$ .00	1 ☐ Yes 2 ☐ No	1 ☐ Yes 2 ☐ No			

TOTAL FEDERAL AWARDS EXPENDED → $ 2,736,218.00

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS

[1] See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

[2] Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. *(See Instructions)*

[3] If major program is marked "Yes," enter only one letter (**U** = Unqualified opinion, **Q** = Qualified opinion, **A** = Adverse opinion, **D** = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

[4] Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under §___ .510(a)) reported for each Federal program.

A. Activities allowed or unallowed
B. Allowable costs/cost principles
C. Cash management
D. Davis – Bacon Act
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of availability of Federal funds
I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None
P. Other

[5] N/A for NONE

Primary EIN: 66 – 0434057

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	66 – 0434057	21		41	
2		22		42	
3		23		43	
4		24		44	
5		25		45	
6		26		46	
7		27		47	
8		28		48	
9		29		49	
10		30		50	
11		31		51	
12		32		52	
13		33		53	
14		34		54	
15		35		55	
16		36		56	
17		37		57	
18		38		58	
19		39		59	
20		40		60	

f. List the multiple DUNS covered in the report.

1	N/A	21	
2		22	
3		23	
4		24	
5		25	
6		26	
7		27	
8		28	
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10		30	
11		31	
12		32	
13		33	
14		34	
15		35	
16		36	
17		37	
18		38	
19		39	
20		40	

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.