

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

MUNICIPIO DE AGUADA
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2006

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

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COMISIONADO
DIVISION DE GOBIERNO
E INTERCOMUNICACION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)**

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of 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 (Municipality)**, as of and for the fiscal year ended June 30, 2006, 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 an opinion on these basic financial statements based on our audit.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

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

As more fully described in Note 16 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. 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, 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 certain infrastructure capital assets in governmental activities as explained in third paragraph, and except for the effect of not determining and recording the liability of the estimate of solid waste landfill post closure care costs as described in the fourth paragraph, 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**, as of June 30, 2006, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, 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 funds information of the **Municipality**, as of June 30, 2006, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.



INDEPENDENT AUDITORS' REPORT

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006 on our consideration of the **Municipality's** internal control over financial reporting on our test 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 and budgetary comparison information on pages 4 through 12, and 31 and 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CPA Diaz-Martinez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
November 9, 2006



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

As management of the Municipality of Aguada (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 13).

HIGHLIGHTS

Financial Highlights

1. The assets of the Municipality exceeded its liabilities at the close of the current fiscal year by \$26.4 million (net assets).
2. As of June 30, 2006, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$ 1,304,868 an increase of \$ 93,577 in comparison with the prior year. Equivalent of 40 % of this total amount \$521,947, is available for spending in future years.
3. The Municipality's activity expenses decrease \$0.039 millions (\$17,726,342 (2005) less 17,687,065 (2006)) in comparison with prior year, and revenues increase in \$346,393 (\$16,399,779 (2006) more \$16,053,386 (2005)). This decrease in expenses is primarily due to less Culture and Recreation Activities (\$1,014,494 or 8% of the total decrease). The results of activities for years 2005-06 produced a decrease in net assets of \$ 1,287,286 in this fiscal year.
4. The total cost of the Municipality's mayor programs (CDBG) amounted to \$ 1,318,674
5. The investment in capital assets for this year is \$1,679,900 representing an increase of 7% in comparison with prior year.
6. Loans principal payments were \$486,770, increase long-term debt. The balance due for compensated absences increase by \$445,726 (\$ 1,470,158 (2005) \$1,915,885 (2006) during this fiscal year.
7. Resources available for appropriation were \$ 351,806 more than budgeted for the General Fund.
8. Is important to note that in Statement of Revenue, Expenditures, and change in Fund Balance, we considered Capital Outlay of \$2,132,717 & a Principal Dept Payment of \$486,770 that amount not constituted an expense, but increase the capacity payment of the Municipality.

Municipality Highlights

- The Municipality continued the construction Improvements of track bleachers. Improvements are expected to be finish during next fiscal year.
- The Municipality continued the construction of a Gymnasium in a Passive Recreational Area, in an effort to complete it in the next fiscal years. These facilities will provide sports and recreational activities to adults and all families. This facility was constructed with fund from CDBG (Economic Development Fund) and a Municipal loan, this facility has provided an economic benefit to the Municipality.
- The Municipality began the construction of a Child's City (Parque Del Niño), expected to end in the next fiscal years. These facilities will provide educational and recreational activities to all families' children. We recommended operated this park with private organization, and implementation of a small charge to use these facilities.
- Is important to note that preceding facilities mentioned has a cost to operate, that increase the Municipality expenditures in the next fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

- General Funds is the fund used to operate the Municipality, this fund increase by \$93,577 in comparison with the preceding fiscal year.

USING THIS ANNUAL REPORT

The new financial statement's focus (implemented last year) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 12. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 13), since last year, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets (note: infrastructure incurred before July 1, 2002 will be added later) and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the City.

The Statement of Activities (see page 14) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's major funds begins on page 15. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see page 15) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found on pages 19 through 30.

Infrastructure Assets

The Municipality implemented the major model portions of GASB Statement No. 34 during the last and current fiscal year. Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. The **Municipality** elected to depreciate these assets, which are planned to be included for fiscal year 2005-2006.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

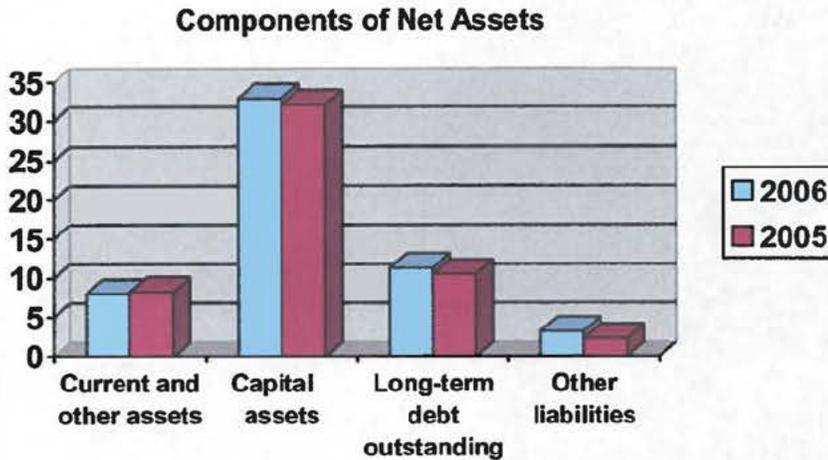
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$26.4 million at the close of the recent fiscal year. The following table reflects the condensed statement of Net Assets compared to prior year as restated.

Table 1

	Net Assets (In millions)	
	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 8	\$ 8.3
Capital assets	<u>33</u>	<u>32.2</u>
Total assets	<u>41</u>	<u>40.5</u>
Current and other liabilities	3.2	2.3
Long-term debt outstanding	<u>11.3</u>	<u>10.5</u>
Total liabilities	<u>14.6</u>	<u>12.8</u>
Net assets:		
Invested in capital assets, net of debt	25	23.7
Restricted	2.3	5.4
Unrestricted	<u>(.8)</u>	<u>(1.5)</u>
Total net assets	<u>\$ 26.4</u>	<u>\$27.70</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006



For more detailed information see the Statement of Net Assets (page 13).

The largest portion of the Municipality's net assets (94 percent) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt that is still outstanding used to acquire those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining portion of the Municipality's net assets (negative 2 percent) of unrestricted deficit is more related to the effect of the new financial statements focus, than on the availability of resources that may be used to meet the Municipality's ongoing obligations to citizens and creditors, subject to certain law requirements. For example, the restricted balance for vested compensated absences established is for the total vested amount as of 6/30/2006, rather than by the final amount that is going to be paid in the future that usually is less than restricted due to vacation and sick leave taken over accumulated. Also the valuation of the capital assets under the new financial statements focus and the method used to compute its accumulated depreciation are factors of consideration to understand the unrestricted deficit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

Table 2

	Changes in Net Assets (in millions)	
	Governmental Activities	
<u>REVENUES</u>	<u>2006</u>	<u>2005</u>
Program Revenues:		
Charges for services	\$.55	\$.29
Federal grants-operating	4.00	5.16
General Revenues:		
Property taxes	1.57	1.44
Municipal license tax	1.18	1.15
Licenses and permits	0.49	0.38
Intergovernmental	8.20	7.23
Rent	0.08	0.05
Others	<u>.34</u>	<u>0.42</u>
Total Revenues	<u>16.41</u>	<u>16.12</u>
<u>EXPENSES</u>		
Program Expenses:		
General government	\$7.28	\$ 7.27
Public safety	.86	0.77
Public works	2.70	2.30
Culture and Recreation	1.01	1.21
Sanitation	1.58	2.37
Human Services and welfare	1.9	2.10
Urban Development	1.7	1.10
Public Instruction	.13	.12
Interest on long-term debt	<u>.54</u>	<u>0.53</u>
Total Expenses	<u>17.70</u>	<u>17.77</u>
Increase (Decrease) in Net Assets	<u>\$(1.3)</u>	<u>\$(1.65)</u>

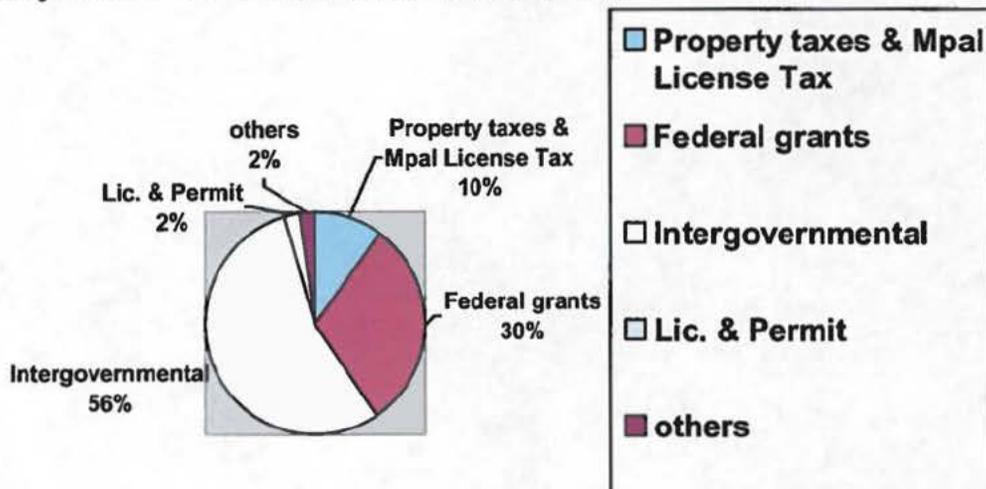
Revenues

The increase in property taxes can be attributable to normal economic environment. The largest portion of the Municipality's revenue (49 percent) represents intergovernmental revenue. Such revenue consists primarily of funds received from de Commonwealth of Puerto Rico, "In lieu of tax" payments from the quasi-public corporation, the Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. The overall increase of 0.12% without the portion attributable to taxes and grants approximates inflation. An additional portion of the Municipality's revenue (27 percent) reflects its federal grants. Grants (federal and state) are considered recurring revenues, although minor changes from year to year are considered normal.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Revenues by Source - Governmental Activities 2005-06



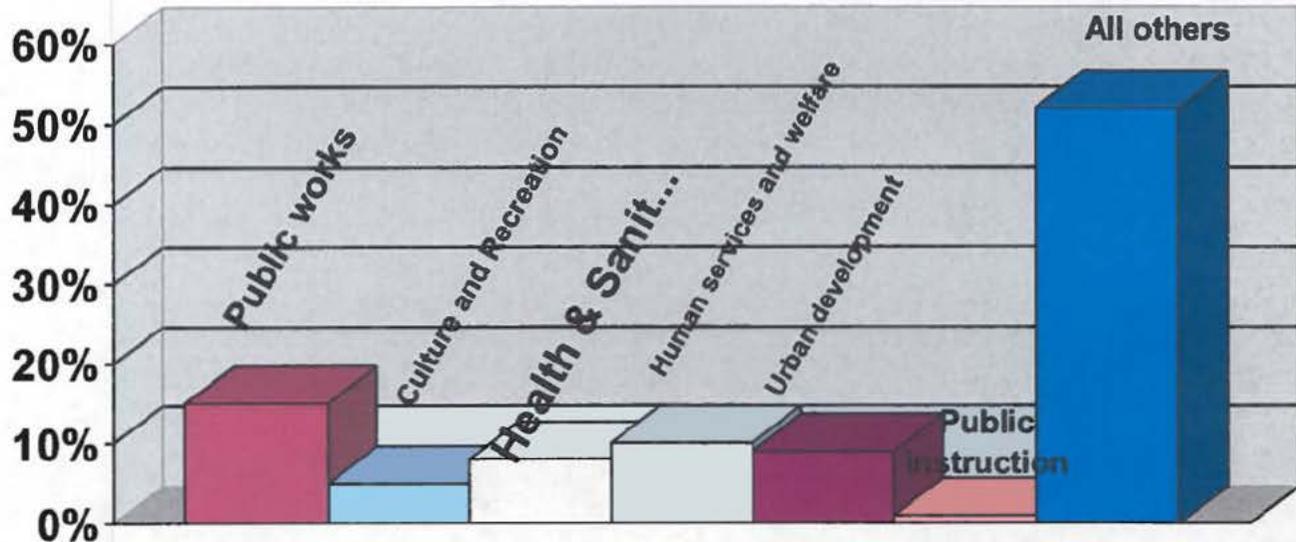
Expenses

Total cost of all programs and services decreased by \$.07millions. For the most part, expenses remain the same. One significant variance however, was a decrease in sanitation. Table 3 compares the cost of each of the Municipality of Aguada largest programs with prior year.

Table 3
Governmental Activities
(in Millions)

	Total cost Of services	
	2006	2005
Public works	\$2.70	\$2.30
Culture and Recreation	1.01	1.21
Sanitation	1.58	2.37
Human services and welfare	1.90	2.10
Urban development	1.70	1.10
Public instruction	.13	0.12
All others	8.68	8.57
Totals	\$17.70	\$17.77

Expenses by Use - Governmental Activities 2005-06



THE MUNICIPALITY'S FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 15 and 16) reported a combined fund balance of \$4.1 million which is same last year's total of \$4.1 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures. The General Fund experienced a \$93,577 increase from a fund balance of \$1,211,291 in the previous year to \$1,304,868 at the end of the current year. The primary reason for the Government fund's increase in the current year was an excess of revenues over expenditures from the General fund and Debt Service fund of \$258,709.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times decreasing the original budget by \$ 59,591 thousands (see page 31 for budget to actual comparisons). The current year operations resulted in a \$.3 million net gain.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the Municipality had \$ 33 million invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$ 1.7 million or 9 % from the end of last year.

**Table 4
Capital Assets at Year-end
(Net of Depreciation, in millions)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 3.60	\$ 3.58
Construction in progress	5.63	5.09
Building and improvements	17.80	17.54
Furniture, fixture, Equipment and vehicles	2.32	2.30
Land Improvements	0.19	0.21
Infrastructure	<u>3.46</u>	<u>3.48</u>
Totals	<u>\$33.00</u>	<u>\$32.20</u>

This year's major additions included (in millions):

Improvements to construction of a Athletic Court	.36
Improvements to construction of a Children Play Ground	.42
Improvements to construction of a Gymnasium	.27
Improvement to Passive Recreation Park in Espinal	.09
Land	.03
Equipment and vehicles	.64
Las Marias and Mamey Basketball Court	.23

Debt Outstanding

As of year-end, the Municipality had \$12.3 million in debt (bonds and other long-term debts) outstanding compared to the \$10.5 million last year, a 17% net increase (considering new issues and debt retirement).

**Table 5
Outstanding Debt at Year-end
(In millions)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
General obligation bonds and notes	\$ 7.6	\$ 6.2
LIMS Debt	\$ 0.2	\$ 0.2
Financing of Delinquent Accounts Debt	\$ 0.3	\$ 0.3
Mortgage Payable	\$ 2.3	2.3
Other Debts	<u>0.0</u>	<u>0.0</u>
Sub-total	10.3	9.0
Compensated absences	<u>1.9</u>	<u>1.5</u>
Totals	<u>\$12.3</u>	<u>\$10.5</u>

The Municipality made principal payments of \$ 0.5 million during the current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The Municipality levies an annual special tax of 1.20% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$ 2.6 million is below the legal limitation. More detailed information about the Municipality's long-term debts is presented in note 9 to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor and the legislative exercise the executive power by the Municipal Assembly, which has 14 members. The Mayor and the Municipal Assembly are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The Municipality has maintained a higher than average population growth compared to that of Puerto Rico for the period from 1990 to 2000, averaging annual gains of 12.7%. The average family income of families in the Municipality has been one of the lowest of any of the municipalities of Puerto Rico, and during the period from 1990 to 2000 the growth rate for average family income in the Municipality was comparable to that of Puerto Rico, averaging annual gains of 44.5%. The Municipality has an unemployment rate that compared favorable with the majority of the municipalities in Puerto Rico. As of June 30, 2005 the unemployment rate of the Municipality averaged 13.3% as compared to 10.6% in Puerto Rico (Source Department of Labor and Human Resources of the Commonwealth of Puerto Rico).

The factors mentioned above, among others, were taken into account when adopting the Municipality's budget for fiscal year 2006-07. Amounts available for appropriations (revenues) in the General Fund Budget are \$ 11.5 million, an increase of 4% over the 2005-06 original budget of \$ 11 million. Property taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the effect that inflation will have on program costs. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2006-07.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors 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 the report or need additional financial information, contact the Municipality's Director of Finance Office on the 2nd floor of the City Hall, Colon Street #226, P.O. Box 517, Aguada, Puerto Rico 00602.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments.....	\$ 3,450,675
Cash with Fiscal Agent.....	2,307,751
Receivables (net):	
Property Taxes.....	3,380
Federal Grants.....	1,489,682
Due from Local Government (Note 4).....	604,199
Others (Note 5).....	<u>150,346</u>
Deferred Charges (Note 9).....	43,816
Capital Assets (Note 8):	
Land, Improvements, and Construction in Progress.....	9,242,766
Other Capital Assets, [Net of Depreciation].....	<u>23,716,234</u>
Total Capital Assets.....	<u>32,959,000</u>
TOTAL ASSETS	<u>41,008,849</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	778,150
Accrued Interest.....	179,791
Claims and Judgments.....	130,531
Christmas Bonus.....	234,896
Deferred Revenue.....	997,071
Long-Term Liabilities (Note 9):	
Due within One Year.....	917,725
Due in More than One Year.....	<u>11,361,057</u>
Total Liabilities	<u>14,599,221</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	24,918,718
Restricted for:	
Debt Service.....	866,824
Community Development Projects.....	1,229,153
Other Purposes.....	225,657
Unrestricted (Deficit).....	<u>(830,724)</u>
TOTAL NET ASSETS	<u>\$26,409,628</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Governmental Activities:					
Mayor and Municipal Legislature	\$ 596,787	\$ -	\$ -	\$ -	(\$ 596,787)
General Government.....	6,682,363	551,460	1,219,768	-	(4,911,135)
Public Safety	855,695	-	-	-	(855,695)
Public Works	2,699,727	-	-	-	(2,699,727)
Culture and Recreation	1,014,494	-	-	-	(1,014,494)
Health and Sanitation.....	1,576,402	-	12,168	-	(1,564,234)
Human Services and Welfare	1,935,732	-	1,768,997	-	(166,735)
Urban Development.....	1,660,300	-	377,909	593,100	(689,291)
Public Instruction.....	129,905	-	-	-	(129,905)
Loss on Retirement of Capital Asset.....	8,425	-	-	-	(8,425)
Interest on Long-Term Debt.....	527,235	-	-	-	(527,235)
Total Governmental Activities	<u>\$17,687,065</u>	<u>\$ 551,460</u>	<u>\$ 3,378,842</u>	<u>\$ 593,100</u>	<u>(13,163,663)</u>
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					612,112
Property Taxes, levied for Debt Service.....					959,523
Volume of Business Taxes.....					1,179,979
Construction Tax.....					494,717
Intergovernmental					8,207,083
Rent.....					78,713
Miscellaneous					<u>344,250</u>
Total General Revenues					<u>11,876,377</u>
CHANGE IN NET ASSETS.....					(1,287,286)
Net Assets – Beginning of Year					<u>27,696,914</u>
NET ASSETS – ENDING OF YEAR.....					<u>\$26,409,628</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL	SBGP	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash (Note 2)	\$ 1,920,036	\$ 117,282	\$ -	\$ 1,413,357	\$ 3,450,675
Cash with Fiscal Agent	-	-	1,100,784	1,206,967	2,307,751
Receivables:					
Property Taxes	-	-	3,380	-	3,380
Federal Grants	-	1,430,251	-	59,431	1,489,682
Due from Other Funds	842,890	-	-	-	842,890
Due from Governmental Units	253,660	-	-	350,539	604,199
Others Receivables	134,654	-	-	15,692	150,346
Total Assets	\$ 3,151,240	\$ 1,547,533	\$ 1,104,164	\$ 3,045,986	\$ 8,848,923
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 342,367	\$ 82,500	\$ 315,000	\$ 225,248	\$ 965,115
Accrued Interest	-	-	179,791	-	179,791
Claims and Judgments	130,531	-	-	-	130,531
Due to Governmental Units	128,035	-	-	-	128,035
Due to Other Funds	-	235,880	9,705	597,305	842,890
Deferred Revenues:					
Volume of Business Tax	991,779	-	-	-	991,779
Intergovernmental- Commonwealth	253,660	-	-	-	253,660
Federal Grants	-	1,229,153	-	5,292	1,234,445
Total Liabilities	1,846,372	1,547,533	504,496	827,845	4,726,246
Fund Balances:					
Reserve For:					
Encumbrances	238,309	-	-	-	238,309
Debt Service	-	-	599,668	-	599,668
Future Expenditures	-	-	-	2,218,141	2,218,141
Unreserved	1,066,559	-	-	-	1,066,559
Total Fund Balances	1,304,868	-	599,668	2,218,141	4,122,677
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,151,240	\$ 1,547,533	\$ 1,104,164	\$ 3,045,986	\$ 8,848,923

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total Fund Balances – Governmental Funds (Page 15) \$ 4,122,677

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 13)
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are
not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 9,242,766	
Depreciable Capital Assets	36,718,226	
Infrastructure Assets	12,919,854	
Accumulated Depreciation	<u>(25,921,846)</u>	
Total Capital Assets		32,959,000

Other assets used in governmental activities are not financial resources and therefore are
not reported in the funds:

Deferred Revenues		43,816
-------------------------	--	--------

Some of the **Municipality's** revenues will be collected after year-end but are not available
soon enough to pay for the current period's expenditures and therefore are deferred in
the funds:

CDBG.....	1,229,153	
Intergovernmental	136,212	
Christmas Bonus Reimbursement	<u>117,448</u>	1,482,813

Some liabilities are not due and payable in the current period and therefore are not reported
in the funds. Those liabilities consist of:

General and Notes Payables	(7,242,000)	
Note Payable – CRIM (LIMS)	(248,848)	
Note Payable – CRIM (Doubtful Accounts).....	(266,800)	
Christmas Bonus.....	(234,896)	
Compensated Absences	(1,915,884)	
Mortgage Payable.....	<u>(2,290,250)</u>	
Total Long-Term Liabilities.....		<u>(12,198,678)</u>

Total Net Assets of Governmental Activities (Page 13)..... \$26,409,628

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	GENERAL	SBGP	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Property Taxes	\$ 612,112	\$ -	\$ 959,523	\$ -	\$ 1,571,635
Volume of Business Taxes	1,179,979	-	-	-	1,179,979
Federal Assistanes	-	1,318,674	-	1,761,717	3,080,391
Intergovernmental	8,125,497	-	-	1,219,768	9,345,265
Licenses and Permits	494,717	-	-	-	494,717
Rent	78,713	-	-	-	78,713
Miscellaneous	895,710	-	-	19,448	915,158
Total Revenues.....	<u>11,386,728</u>	<u>1,318,674</u>	<u>959,523</u>	<u>3,000,933</u>	<u>16,665,858</u>
EXPENDITURES					
Current:					
Mayor and Municipal Legislature.....	524,949	-	-	98,834	623,783
General Government	4,006,699	524,289	-	1,903,583	6,434,571
Public Safety.....	800,583	-	-	-	800,583
Public Works.....	2,142,247	-	-	129,366	2,271,613
Culture and Recreation.....	1,053,036	-	-	-	1,053,036
Sanitation.....	1,417,280	-	-	7,785	1,425,065
Public Instruction	37,057	-	-	92,848	129,905
Human Services and Welfare.....	1,091,479	-	-	734,189	1,825,668
Urban Development.....	-	190,707	-	538,074	728,781
Capital Outlay	118,619	603,678	-	1,410,420	2,132,717
Debt Payment:					
Bond Issue Costs.....	-	-	15,393	-	15,393
Principal	-	-	486,770	-	486,770
Interest and Other Charges.....	-	-	527,235	-	527,235
Total Expenditures.....	<u>11,191,949</u>	<u>1,318,674</u>	<u>1,029,398</u>	<u>4,915,099</u>	<u>18,455,120</u>
OTHER FINANCING SOURCES (USES)					
Proceed of Note.....	-	-	-	1,812,414	1,812,414
Operating Transfers – In	-	311,728	235,007	1,960,140	2,506,875
Operating Transfers – Out	(101,202)	(311,728)	-	(2,093,945)	(2,506,845)
Total Other Financing Sources and Uses.....	<u>(101,202)</u>	<u>-</u>	<u>235,007</u>	<u>1,678,609</u>	<u>1,812,414</u>
Net Change in Fund Balances.....	93,577	-	165,132	(235,557)	23,152
Fund Balance – Beginning.....	1,211,291	-	434,536	2,453,698	4,099,525
FUND BALANCES – ENDING	<u>\$ 1,304,868</u>	<u>\$ -</u>	<u>\$ 599,668</u>	<u>\$ 2,218,141</u>	<u>\$ 4,122,677</u>

*OK
10/21/07*

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances – Total Governmental Funds (Page 17)		\$ 23,152
Amounts reported for Governmental Activities in the Statement of Activities (Page 14) are different because:		
Governmental funds report capital 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. In the current period, these amounts are:		
Urban Development and Capital Outlay	\$ 2,132,717	
Depreciation Expense	<u>(1,375,789)</u>	
Excess of Capital Outlay over Depreciation Expense		756,928
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.....		(8,425)
Governmental funds only report the proceeds received in the current financial resources are not reported as revenues in the funds		1,482,813
Revenues in the Statement of Revenues that correspond to prior year resources are not reported as revenues in the Statement of Activities		(1,748,892)
Proceeds from General Obligation bonds is an other Financing Sources in the Governmental funds, but increase Long Term Liabilities in the Statement of Net Assets:		(1,812,414)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were.		486,771
Governmental Funds report the effect of bonds issuance costs as expenditures when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amounts is the effect of these differences:		
Bonds Issuance Costs	15,393	
Amortization of Deferred Charges	<u>(2,543)</u>	
		12,850
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 governmental funds. These activities consist of:		
Increase in Mortgage Payable	(15,594)	
Increase in Christmas Bonus	(18,749)	
Increase in Compensated Absences	<u>(445,726)</u>	<u>(480,069)</u>
Change in Net Assets of Governmental Activities (Page 14)		<u>(\$ 1,287,286)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Aguada, Puerto Rico (Municipality)** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Municipality's** financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Municipality** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Municipality**.

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit 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, and; (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.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Municipality's** balance; and discrete – presentation of the component unit's financial data in column separate from the **Municipality's** balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the **Municipality** as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

The basic financial statements includes the operations of Jardines de Aguada Project (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 US 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 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**.

B. Financial Statement Presentation

The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the **Municipality** as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

B. Financial Statement Presentation (continuation)

Business-type activities, which rely to a significant extent on fees and charges for support, are not reported since the Municipality don't have such activities.

The focus of the *Statement of Net Assets* is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The *Statement of Net Assets* presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in Capital Assets, Net of Related Debt* – These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- *Restricted Net Assets* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, then the unrestricted resources as they are needed.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Governmental Fund Financial Statements

The fund financial statements (the *Balance Sheet*, the *Statement of Revenues, Expenditures, and Changes in Fund Balance Net Assets*) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds

in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Required Supplementary Information

Required supplementary information consists of the Management Discussion and Analysis – a narrative introduction and analytical overview of the Municipality's financial activities. Also consists of the Budgetary Comparison Schedule – General Fund (see Section D of Note 1) as required by GASB.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements (the *Statement of Net Assets* and the *Statement of Activities*) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when susceptible to accrual; as soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

C. Measurement Focus and Basis of Accounting (continuation)

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, money must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due.

Property taxes, volume of business taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

SBGP Fund – This is the fund used to account for all the transactions of the State Block Grant Program. The primary objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The non-major funds are combined in a single column in the fund financial statements.

D. Budgetary Data

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts

Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Payments of encumbrances of prior year are recorded as expenditures under GAAP but not under the budgetary basis.
3. Interfund transactions of the General Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

E. Cash and Investment

The Director of Finance of the **Municipality** is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico and is not collateralized.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with law.

F. 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 to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivable are shown net of an allowances for uncollectible, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: (See Table 1)

CAPITAL ASSETS	YEARS
Buildings and Building Improvements	15-50
Infrastructure	20-40
Vehicles, Machinery and Equipment	10-15

I. Compensated Absences

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality's** employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria:

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continuation)

I. Compensated Absences (continuation)

1. The **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality's** employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and government-wide presentations (see Note 9).

J. Insurance

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Municipality's** insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the **Municipality**.

K. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. Transfer includes interest earned on restricted cash with fiscal agent in the Debt Service Fund and operating and capital improvement 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.

However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund.

N. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

NOTE 2 CASH 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 3** 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, 2006:

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 by not in the **Municipality's** name.

continue

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 CASH AND INVESTMENTS (continuation)

During the year, the **Municipality** invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2006, the market value of investments recorded in General Fund approximated its carrying value as follow: (See Table 4)

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	TABLE 4 EXPIRATION DATE
Aguada Cooperative	99920478	\$ 600,000	5.30%	07-19-06
Aguada Cooperative	99920479	600,000	5.30%	08-19-06
Popular Bank of Puerto Rico ...	1110000013	600,000	1.95%	07-30-06
TOTAL		\$1,800,000		

NOTE 4 DUE FROM GOVERNMENTAL UNITS

Following are the amounts due from governmental units as of June 30, 2006: (See Table 5)

TABLE 5 DUE FROM GOVERNMENTAL UNITS		AMOUNT
Puerto Rico Treasury Department (Law Num. 43).....		\$144,084
Puerto Rico Treasury Department (Christmas Bonus)....		117,448
Municipal Revenue Collection Center (CRIM).....		136,212
Department of Labor and Human Resources.....		206,455
Total From to Governmental Units		\$604,199

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2006, the **Municipality's** custodial credit risk was approximately \$2.4 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the **Municipality** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

NOTE 5 OTHERS RECEIVABLES

As of June 30, 2006, the amount of \$150,346 corresponds to rent, construction taxes and volume of business taxes.

Governmental funds report *deferred revenue* in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenues* and *unearned revenue* reported in the governmental funds were as follow:

	Unavailable	Unearned
Volume of Business Taxes	\$ -	\$ 991,779
Other Major Funds	-	5,292
SBGP	1,229,153	-
Intergovernmental	136,212	-
Christmas Bonus	117,448	-
Total Deferred/Unearned Revenue	\$1,482,813	\$ 997,071

TABLE 3	CATEGORY			CARRYING AMOUNT	BANK BALANCE
	1	2	3		
Deposits in Commercial Banks.....	\$2,250,675	\$ -	\$ -	\$2,250,675	\$2,480,895
Deposits in Credit Unions	1,200,000	-	-	1,200,000	1,200,000
Deposits in Governmental Bank.....	-	-	2,307,751	2,307,751	2,424,626
Total	\$3,450,675	\$ -	\$2,307,751	\$5,758,426	\$6,105,521
Reconciliation to Government-Wide Statement of Net Assets:					
			UNRESTRICTED	RESTRICTED	TOTAL
Carrying amount of deposits in Commercial Banks and Credit Unions			\$1,920,036	\$1,530,639	\$3,450,675
Carrying amount of deposits in Government Bank			-	2,307,751	2,307,751
Total			\$1,920,036	\$3,838,390	\$5,758,426

NOTE 6 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. (See Table 6)

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2006 are summarized as follows: (See Table 7)

TABLE 6 INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
Other Major Fund	Debt Service	\$149,533	Mortgage Principal and Interest Payments
Other Major Fund	Debt Service	15,393	Bond Issue Costs
General Fund	Debt Service	70,081	Mortgage Principal
General Fund	Other Funds	31,121	Specific Project Funding
		\$266,128	

TABLE 7		
INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Funds	\$597,305
General Fund	SBGP	235,880
General Fund	Debt Service Fund	9,705
Total		\$842,890

continue

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2006, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following: (See Table 8)

TABLE 8	AMOUNT
Water and Sewer Authority.....	\$ 8,828
Puerto Rico Treasury Department.....	110,605
Department of Labor and Human Resources.....	7,389
Others Agencies	1,213
Total Due to Governmental Units	\$ 128,035

NOTE 8 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2006 was as follows (See Table 9)

TABLE 9	BALANCE JULY 1, 2005	ADJUSTMENTS	INCREASES	DECREASES	BALANCE JUNE 30, 2006
Non-Depreciable Capital Assets:					
Land.....	\$ 3,580,336	\$ -	\$ 28,000	\$ -	\$ 3,608,336
Construction in Progress	5,097,726	-	1,456,676	(919,972)	5,634,430
Total Non-Depreciable Capital Assets	8,678,062	-	1,484,676	(919,972)	9,242,766
Depreciable Capital Assets:					
Buildings	26,667,363	-	922,395	-	27,589,758
Infrastructure	12,919,854	-	-	-	12,919,854
Vehicles, Machinery and Equipment.....	8,010,289	-	645,618	(41,124)	8,614,783
Land Improvements.....	513,685	-	-	-	513,685
Total Depreciable Capital Assets	48,111,191	-	1,568,013	(41,124)	49,638,080
Less Accumulated Depreciation:					
Buildings	(9,121,344)	-	(735,784)	-	(9,857,128)
Infrastructure	(9,443,493)	-	(14,576)	-	(9,458,069)
Vehicles, Machinery and Equipment.....	(5,709,039)	-	(608,306)	32,699	(6,284,646)
Land Improvements.....	(304,880)	-	(17,123)	-	(322,003)
Total Accumulated Depreciation	(24,578,756)	-	(1,375,789)	32,699	(25,921,846)
Total Depreciable Capital Assets (Net)	23,532,435	-	192,224	(8,425)	23,716,234
CAPITAL ASSETS, NET.....	\$32,210,497	\$ -	\$ 1,676,900	(\$ 928,397)	\$32,959,000

Depreciation expenses were charged to governmental functions/programs as follows: (See Table 10)

TABLE 10	AMOUNT
General Government	\$ 68,789
Public Safety	55,032
Public Works.....	343,947
Culture and Recreation.....	440,252
Health and Sanitation.....	151,337
Human Service and Welfare.....	110,064
Urban Development	206,368
Total Depreciation Expenses	\$1,375,789

NOTE 9 GENERAL LONG-TERM DEBTS

A. GENERAL AND SPECIAL OBLIGATIONS BONDS AND NOTES

The principal long-term obligations of the Municipality are general and special obligations bonds and notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 10). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy sent to the Municipality.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 GENERAL LONG-TERM DEBTS (continuation)

General and special obligations bonds payable as of June 30, 2006, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$2,040,000, Series 1997, for construction purposes, payable in annual installments ranging from \$30,000 to \$185,000, excluding variable interests up to 6.56% through July 1, 2021.....	\$1,715,000
\$910,000, Series 1998, for construction purposes, payable in annual installments ranging from \$15,000 to \$85,000, excluding variable interests up to 6.58% through July 1, 2020.....	755,000
\$845,000, Series 2003, for construction purposes, payable in annual installments ranging from \$15,000 to \$70,000, excluding variable interests up to 5.31% through July 1, 2027.....	800,000
\$635,000, Series 2004, for construction and purchase of equipment, payable in annual installments ranging from \$10,000 to \$50,000, excluding variable interests up to 5.31% through July 1, 2028	615,000
\$600,000, Series 2005, for construction of a sanitary sewer system, payable in annual installments ranging from \$15,000 to \$40,000, excluding interests of 4.50% through July 1, 2031	600,000
\$518,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$64,000 to \$84,000, excluding interests of 4.25% through July 1, 2012	454,000
\$295,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$35,000 to \$55,000, excluding interests of 6.50% through July 1, 2012	295,000
\$360,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$40,000 to \$60,000, excluding interests of 7.00% through July 1, 2012	<u>360,000</u>
Total General Obligations Bonds	<u>5,594,000</u>

Special Obligations Bonds:

\$275,000, Series 1988, for construction purposes, payable in annual installments ranging from \$11,000 to \$19,000, excluding interests of 5% through July 1, 2012.....	100,000
\$125,000, Series 1989, for construction purposes, payable in annual installments ranging from \$6,000 to \$9,000, excluding variable interests up to 8% through July 1, 2013.....	52,000
\$460,000, Series 1991, for construction purposes, payable in annual installments of \$55,000, excluding variable interests up to 6.40% through July 1, 2006.....	55,000

\$2,030,000, Series 1993, for construction purposes, payable in annual installments ranging from \$30,000 to \$185,000, excluding variable interests up to 8.20% through July 1, 2018.....	1,525,000
\$350,000, Series 1994, for construction purposes, payable in annual installments ranging from \$8,000 to \$26,000, excluding interests of 4.50% through July 1, 2018.....	<u>231,000</u>
Total Special Obligations Bonds.....	<u>1,963,000</u>
Total General and Special Obligations.....	<u>\$7,557,000</u>

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2006 are as follows (See Table 11):

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2006	\$ 433,000	\$ 424,886	\$ 857,886
2007	403,000	420,533	823,533
2008	433,000	396,552	829,552
2009	453,000	370,816	823,816
2010	484,000	343,380	827,380
2011-2015	2,095,000	1,286,787	3,381,787
2016-2020	2,061,000	550,351	2,611,351
2021-2025	750,000	188,848	938,848
2026-2028	<u>445,000</u>	<u>40,745</u>	<u>485,745</u>
TOTAL	<u>\$ 7,557,000</u>	<u>\$ 4,022,898</u>	<u>\$11,579,898</u>

B. BOND ISSUANCE COSTS (DEFERRED CHARGES)

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

C. MORTGAGES PAYABLE

Mortgages Payable consists of permanent residences loans provided by USDA-Rural Development. The land and buildings of the Project secure the mortgages notes. The mortgages are payable in monthly installments including interest, through 2032 as follows: (See Table 12)

	NOTE 1	NOTE 2	NOTE 3	TOTAL
Mortgage Interest Rate	8.50%	10.75%	6.38%	
Subsidy Interest Rate	6.50%	8.75%	4.38%	
Monthly Payment 2004-2005.....	<u>\$ 10,076</u>	<u>\$ 2,666</u>	<u>\$ -</u>	<u>\$ 12,742</u>
Monthly Payment 2005-2006.....	<u>\$ 10,076</u>	<u>\$ 2,666</u>	<u>\$ 2,311</u>	<u>\$ 15,053</u>
Balance June 30, 2005.....	<u>\$1,560,607</u>	<u>\$ 334,214</u>	<u>\$ 360,586</u>	<u>\$2,255,407</u>
Balance June 30, 2006.....	<u>\$1,543,730</u>	<u>\$ 331,770</u>	<u>\$ 414,749</u>	<u>\$2,290,249</u>

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**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 GENERAL LONG-TERM DEBTS (continuation)

The maturates of the mortgages notes at June 30, 2006 for the next five (5) years and thereafter are as follows: (See Table 13)

Year Ending June 30,	Aggregate Obligation
2007	\$ 22,424
2008	24,443
2009	26,645
2010	29,049
2011	31,671
2012-2016	206,906
2017-2021	319,666
2022-2026	494,984
2027-2031	768,262
2032-2036	68,161
2037-2041	51,297
2042-2046	70,495
2047-2051	96,877
2052-2056	79,370
	<u>2,290,250</u>
Less Current Portion	<u>(22,424)</u>
TOTAL	<u>\$2,267,826</u>

D. OTHER LONG-TERM DEBTS

Following are the Other Long-Term Debts (See Table 14):

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006
Note Payable – CRIM (LIMS) ..	\$ 286,087	\$ -	\$ 37,239	\$ 248,848
Note Payable – CRIM (Delinquent Accounts)	283,166	-	16,366	266,800
Compensated Absences.....	<u>1,470,158</u>	<u>879,779</u>	<u>434,053</u>	<u>1,915,884</u>
TOTAL	<u>\$2,039,411</u>	<u>\$ 879,779</u>	<u>\$ 487,658</u>	<u>\$2,431,532</u>

E. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2006: (See Table 15)

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Bonds	\$ 4,095,000	\$ 1,773,000	\$ 274,000	\$ 5,594,000	\$ 273,000	\$ 5,321,000
Special Bonds	2,112,000	-	149,000	1,963,000	160,000	1,803,000
Mortgage Pay..	2,255,407	55,009	20,166	2,290,250	22,424	2,267,826
Others Debts...	<u>2,039,411</u>	<u>879,779</u>	<u>487,658</u>	<u>2,431,532</u>	<u>462,301</u>	<u>1,969,231</u>
TOTAL	<u>\$10,501,818</u>	<u>\$ 2,707,788</u>	<u>\$ 930,824</u>	<u>\$12,278,782</u>	<u>\$ 917,725</u>	<u>\$11,361,057</u>

NOTE 10 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 11).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 9). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 11 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 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 8.08% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the Municipality of 1.25% of both taxes represent the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 10). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000, to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 PROPERTY TAXES (continuation)

In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the General Fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipality Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 12 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

NOTE 13 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

Recognized as a special item is the legal case settlement from the Puerto Rico Electric Power Authority, a component unit of the Commonwealth of Puerto Rico.

NOTE 14 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The **Municipality** adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The **Municipality** contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invest in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 EMPLOYEE'S RETIREMENT PLAN (continuation)

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows (See Table 16):

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions. The total pension expenditures recorded in the category of administration for the current and the previous years are as follows: (See Table 17)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2006. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes

financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

NOTE 15 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS	TABLE 16
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.	
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.	
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).	

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims, except for one lawsuit for the amount of \$130,531 which have final sentence. This amount should be paid during fiscal year 2006-2007.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2006	\$232,260	\$129,926
2005	\$236,841	\$110,247
2004	\$225,601	\$ 57,178
2003	\$218,328	\$ 46,226

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 16 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS
OBLIGATION**

GASBS No. 47, *Accounting for Termination Benefit* (Period beginning after June 15, 2005)

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. 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, 2006.

END OF NOTES

NOTE 17 SUBSEQUENT EVENTS

On June 13, 2006, the Municipality Legislature, by means of Ordinance Number 41, Series 2005-2006, approved the issuance of \$445,000 in general obligation bonds.

Also, **Municipality** has issued an Ordinance Number 23, Series 2006-2007, establishing a Sales and Use Tax of 1.5% effective on January 1st, 2007 on all sales of goods and properties and a variety of other transactions. This tax is to be collected by any merchant dedicated to a business which sells or provides any goods or services described as taxable by the Ordinance or any other ruling set forth by the Municipal Assembly.

The sales tax will apply to all sales, rent contracts, or use transactions, with some exceptions as defined by the ordinance. All merchants required to collect the Sales and Use Tax, are required to file a monthly Sales and Use Tax Return Form, no later than the 20th of the following month from the month being reported.

**NOTE 18 FUTURE ADOPTION OF ACCOUNTING
PRONOUNCEMENT**

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2004; and GASBS No. 46, *Net Assets Restricted by Enabling Legislation*, which is effective for period beginning after June 15, 2005. Early application is encouraged. The **Municipality** has not adopted the requirement of these statements. The following are other pronouncements issued that does not apply to the **Municipality**:

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Period beginning after December 15, 2006)

GASBS No. 44, *Economic Condition Reporting: The Statistical Section* (Period beginning after June 15, 2005)

GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension* (Period beginning after December 15, 2007)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2005	<u>\$ 1,472,319</u>	<u>\$ 1,472,319</u>	<u>\$ 1,472,319</u>	<u>\$ -</u>
Resources (Inflows):				
Property Taxes	612,112	612,112	612,112	-
Volume of Business Taxes	1,224,582	1,224,582	1,179,979	(44,603)
Intergovernmental Revenues	8,046,506	7,789,450	8,125,497	336,047
License and Permits	526,000	607,570	494,717	(112,853)
Rent	56,088	56,088	78,713	22,625
Miscellaneous	<u>622,504</u>	<u>738,399</u>	<u>888,989</u>	<u>150,590</u>
Total Resources (Inflows).....	<u>11,087,792</u>	<u>11,028,201</u>	<u>11,380,007</u>	<u>351,806</u>
Amounts Available for Appropriation.....	<u>12,560,111</u>	<u>12,500,520</u>	<u>12,852,326</u>	<u>351,806</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	640,502	560,192	570,582	(10,390)
General Government	3,796,948	3,838,251	3,901,636	(63,385)
Public Safety.....	873,978	811,923	809,041	2,882
Public Works.....	2,228,751	2,247,431	2,168,867	78,564
Health and Sanitation	1,370,024	1,431,010	1,417,280	13,730
Culture and Recreation.....	970,256	1,081,643	1,066,977	14,666
Human Services and Welfare.....	1,137,083	1,112,995	1,165,180	(52,185)
Public Instruction	31,000	39,855	37,057	2,798
Capital Outlays	39,250	60,755	118,619	(57,864)
Transfer to Other Funds	<u>-</u>	<u>101,202</u>	<u>101,202</u>	<u>-</u>
Total Charges to Appropriations.....	<u>11,087,792</u>	<u>11,285,257</u>	<u>11,356,441</u>	<u>(71,184)</u>
BUDGETARY FUND BALANCE, JUNE 30, 2006.....	<u>\$ 1,472,319</u>	<u>\$ 1,215,263</u>	<u>\$ 1,495,885</u>	<u>\$ 280,622</u>

See accompanying Notes to Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:

Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$12,852,326
Difference – Budget to GAAP:	
Prior-Year Revenue is not inflows of budgetary resources but are <i>revenues</i> for financial reporting purposes.	6,721
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.	<u>(1,472,319)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$11,386,728</u>

Uses/Outflows of Resources:

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 31).....	\$11,356,441
Difference – Budget to GAAP:	
Prior year encumbrances are recorded as expenditures for financial reporting purposes but are not outflows of budgetary resources.....	169,839
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.	(238,309)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(101,202)
Adjustment to Expenditures.....	<u>5,180</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 17)	<u>\$11,191,949</u>

NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2006 (See Page 31)	\$ 1,495,885
Timing Differences:	
Net Change in Encumbrances.....	48,586
Non-budgetary Items	<u>(477,912)</u>
Unrestricted Fund Balance, June 30, 2006 (See Page 15)	<u>\$ 1,066,559</u>

END OF THIS SECTION

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
USDA – Rural Development:			
Rural Rental Housing Loans (E)			
Section 515 Direct Loan (Balance)	10.415	N/A	\$1,875,500
Rural Rental Housing Loans (E)			
Section 515 Direct Loan (New Loan Payments).....	10.415	N/A	414,750
Water and Waste Disposal System for Rural Communities.....	10.760	N/A	<u>531,315</u>
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>26,066</u>
Total U. S. Department of Agriculture.....			<u>2,847,631</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Assistance Payments	14.195	N/A	332,260
Section 8 Housing Choice Vouchers	14.871	N/A	297,075
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228	01-FD-37 02-FC-37 02-AB-37 03-FC-37 03-AB-37 04-FC-37 04-AB-37 05-FC-37 05-AB-37	1,318,674
Total U.S. Department of Housing and Urban Development ...			<u>1,948,009</u>
U.S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Local Law Enforcement Block Grant Program.....	16.592	N/AV	<u>87,468</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>4,883,108</u>

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward).....			<u>\$4,883,108</u>
U.S. Department of Transportation:			
Pass-Through The Transit Security Commission:			
State and Community Highway Safety.....	20.600	N/AV	<u>9,602</u>
U.S. Federal Emergency Management Agency:			
Pass-Through Office of the Governor Authorized Representative (GAR):			
Public Assistant Grants.....	83.544	FEMA1552DR-PR-081	<u>270</u>
U.S. Department of Education:			
Pass-Through Puerto Rico Department of Education:			
Safe and Drug Free Schools and Communities	84.186	N/AV	<u>98,642</u>
U.S. Department of Health and Human Services:			
Pass-Through Puerto Rico Department of Family – Families and Children Administration:			
Child Care and Development Block Grant.....	93.575	N/AV	<u>177,082</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$5,168,704</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Aguada, Puerto Rico**. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The **Municipality** in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the **Municipality**, treated as if 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 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 5 SECTION 515 DIRECT LOAN

The amount of expenditures presented in the Schedule represents the unpaid balance of the mortgage as of June 30, 2006.

NOTE 6 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Aguada, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Aguada, Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2006, which collectively comprise the **Municipality's** basic financial statements and has issued our report thereon dated November 9, 2006. The report on was qualified because we been able to obtain sufficient evidence to certain infrastructure capital assets in governmental activities and the Municipality does not determined and record the liability of the estimate of solid waste landfill post closure care costs required by accounting principle generally accepted in the United States of America. Except as discussed in the preceding 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matter involving internal control over financial reporting and its operation that we consider to be reportable condition. 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-II-01.

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 that are also considered to be material weakness. However, of the reportable condition described above, we consider item 2006-II-01 to be a material weaknesses.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Page 2

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC

Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
November 9, 2006





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Aguada, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Aguada, Puerto Rico (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 fiscal year ended June 30, 2006. The **Municipality's** major federal programs are identified in the summary of auditors' result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. However, the results of our auditing procedures disclosed other of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06-III-01.

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 the internal control over compliance in accordance with OMB Circular A-133.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. 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 weakness.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2007

Caguas, Puerto Rico
November 9, 2006



PART III
FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Reportable condition(s) identified? Yes None Reported
- Material weakness(es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Reportable condition(s) identified? Yes None Reported
- Material weakness (es) identified? Yes No

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.415	Rural Rental Housing Loans
14.195	Section 8 Housing Assistance Payments
14.228	State Block Grant Program
10.760	Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 2006-II-01
CONDITION	It was noted in our tests of property and equipment records that the Municipality did not follow policies and procedures in order to account for infrastructure capital assets and to maintain adequate and updated inventory records. An undeterminable number of municipal roads have not been identified, segregated and valued by the Municipality . <i>This is a prior years finding.</i>
CRITERIA	Accounting principles generally accepted in the United States of America require capital assets to be properly identified, valued and recorded in the Municipality's accounting records and accordingly, reported in the basic financial statements.
CAUSE	Municipality has not established adequate internal controls to assure that infrastructure inventory records are complete and that valuation of such assets is accurate.
EFFECT	Municipality is not presenting all capital assets fairly for financial statement purposes since infrastructure is not complete and is not properly valued.
RECOMMENDATION	We recommend Municipality to take the necessary steps to properly identify and value all municipal roads and complete its infrastructure inventory records, to present accurate amounts of all capital assets.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 2006-III-01
FEDERAL PROGRAM	SECTION 8 HOUSING ASSISTANCE PAYMENT (CFDA NO. 14.195) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TEST AND PROVISIONS
CONDITION	During our analysis of deposits to the Replacement Reserve Account we noticed that the total amount of cash to be deposited in the account was less than the amount required.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart F, Section 880.602 (a)(1)(i) states that an amount equivalent to .006 of the cost of total structures, including main buildings, accessory buildings, garages and other buildings, or any higher rate as required by HUD from time to time, will be deposited in the replacement reserve annually.
CAUSE	The Project didn't deposited in the Replacement Reserve Account the total amount required for the fiscal year.
EFFECT	The Project is not in compliance with 24 CFR, Subpart F, Section 880.602 (a) (1) (i).
RECOMMENDATION	We recommend the management's project to implement proper internal controls in order to assure that at the end of the fiscal year the amount required is deposited on the Replacement Reserve Account.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2005

Finding Number 2005-II-1 **Capital Assets (Government Auditing Standards' findings)**

CFDA Number N/A

Questioned Cost None

Auditee Comments **Municipality** designated an employee for the correction of the missing information related to condition number (4). Also, coordination with the Puerto Rico Transportation Authority is in process in order to correct the information.

FISCAL YEAR 2004

Finding Number 2004-II-1 **Capital Assets (Government Auditing Standards' findings)**

CFDA Number N/A

Questioned Cost None

Auditee Comments See Finding No. 2005-II-1

FISCAL YEAR 2003

Finding Number 2003-II-1 **Capital Assets (Government Auditing Standards' Findings)**

CFDA Number N/A

Questioned Cost None

Auditee Comments See Finding No. 2005-II-1

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE
