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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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MUNICIPALITY OF AGUADA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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PART I - FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Aguada, as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Jardines de Aguada Project, as of June 30, 2008. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for Jardines de Aguada Project, is based on the report of the other auditors.

Except as described in the following 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 we able to satisfy ourselves by means of other auditing procedures.

As more fully described in Note 20 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, 2008; 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely component unit, each major fund and the aggregate remaining fund information of the Municipality of Aguada as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2008, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 also not a required part of the

basic financial statements of the Municipality. The schedule of expenditures of federal awards 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.

Ortiz, Rivera, Rivera & Co.

San Juan, Puerto Rico
December 13, 2008

The stamp 2363615 was affixed
to the original of this report.



Commonwealth of Puerto Rico
MUNICIPALITY OF AGUADA, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The following discussion and analysis of the Municipality of Aguada' financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2008 by \$26,428,407 (net assets).
- Revenues decreased by \$1,905,680 (9%) and expenses increased by \$1,877,622 (10%) in comparison with year 2007.
- Net change in net assets amounted to \$3,127,606, a decrease of 11% with respect to prior year (2007) net change. Net change is mainly due to the change in presentation of the Component Unit, Jardines de Aguada.

Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$9,375,932.
- The General Fund reported an excess of revenues over expenditures and other financing uses of \$855,634 and an unreserved fund balance of \$1,764,238.

General Financial Highlights

- The investment in capital assets as of June 30, 2008 was \$20,855,369.
- Long term debt general and special obligations increased by \$1,702,593, approximately 15% with respect to prior year balance.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$313,258.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.

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

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *Statement of Net Assets* – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality. The second statement – the *Statement of Activities* – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

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

- **Fund Financial Statements**

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

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

- **Notes to the financial statements**

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

Required supplementary information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2008 and 2007:

**Municipality of Aguada
Condensed Statement of Net Assets
June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Current assets	\$ 16,817,556	\$ 11,752,339
Capital assets	29,906,369	32,055,826
Total assets	<u>46,723,925</u>	<u>43,808,165</u>
Current liabilities	9,036,476	3,279,333
Noncurrent liabilities	11,259,042	10,266,376
Total liabilities	<u>20,295,518</u>	<u>13,545,709</u>
Invested in capital assets, net of related debt	20,855,369	25,067,211
Restricted	3,715,692	5,185,182
Unrestricted	1,857,346	10,063
Total net assets	<u>\$ 26,428,407</u>	<u>\$ 30,262,456</u>

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$ 26,428,407 at June 30, 2008.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2008 and 2007:

Municipality of Aguada Condensed Statement of Activities June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Program revenues		
Charges for services	\$ 4,212,828	\$ 1,509,753
Operating grants and contributions	1,159,887	6,873,319
Capital grants and contributions	2,324,917	1,386,897
General revenues:		
Property taxes	4,969,622	2,520,058
Municipal license tax	1,285,420	1,252,864
Grants and contributions not restricted to specific programs	5,955,256	8,364,561
Interest, fines and penalties	182,130	
Miscellaneous	195,382	261,480
Loss on disposition of assets	(26,952)	(4,762)
Total revenues	<u>20,258,490</u>	<u>22,164,170</u>
Expenses		
General government	7,698,009	8,980,791
Public safety	992,467	826,494
Public works	5,811,558	4,083,470
Recreation	1,413,945	920,653
Health and welfare	2,314,224	1,886,682
Economic development	2,120,000	1,698,467
Interest on long-term debt	545,204	621,228
Total expenses	<u>20,895,407</u>	<u>19,017,785</u>
Change in net assets	(636,917)	3,146,385
Net assets, beginning of year	<u>27,065,324</u>	<u>26,409,628</u>
Net assets, end of year	<u>\$ 26,428,407</u>	<u>\$ 29,556,013</u>

The Municipality's net assets decreased by \$3,127,606, due to the exclusion of Jardines de Aguada in the financial statements to be presented discretely. Approximately 29 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 25 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2008, the governmental funds reported combined ending fund balances of \$9,375,932. Of total combined fund balances, \$1,764,238 constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 34% of total ending general fund balance. For the year ended June 30, 2008, the fund balance of the general fund increased by \$855,634 when compared with the prior year. The principal component of the net increases is an excess of revenues over expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2008-2007 presented an increase of 3% with respect to prior year budget. Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The revised budget revenues exceeded the actual revenues by \$493,564. The most significant variances were in charges for services and rent by \$373,461.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality had \$29,906,369 invested in capital assets, including buildings, land, construction in progress and equipment. This amount represents a net decrease of \$3,617,956 or 11% from the prior year, as restated.

Municipality of Aguada		7%
Capital Assets (Net)		
June 30, 2008 and 2007		
	2008	2007
Non-depreciable assets:		
Land	\$ 3,889,636	\$ 3,889,636
Construction in Progress	3,207,306	2,940,703
Depreciable assets:		
Buildings and building improvements	17,326,161	17,762,951
Vehicles, machinery and equipments	2,050,633	2,327,248
Infrastructure	3,432,633	3,447,209
Total	\$ 29,906,369	\$ 30,367,747

The Municipality acquired a total of \$928,929 of capital assets during the fiscal year 2007-2008 as follows:

- Construction in Progress – \$545,512
- Acquisition of Equipment and Vehicles – \$383,417

Other projects related to repair and maintenance of roads (not capitalized) were developed during the year 2008.

Long term debt

At year-end, the Municipality had \$12,909,016 in general and special obligation bonds, an increase of \$1,702,593 or 15% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2008 and 2007:

General obligations Bonds and Notes	\$ 9,051,000	\$ 8,809,000
LIMS Debt	167,489	209,361
Financing of Delinquent Accounts Debts	210,542	219,315
Claims and judgements	767,800	-
Compensated absences	<u>2,712,185</u>	<u>1,968,747</u>
 Total	 <u><u>\$ 12,909,016</u></u>	 <u><u>\$ 11,206,423</u></u>
		\$ (1,702,593)
		-15%
		5,249,078.00
		9,375,932.00
		56%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2009 are \$13,276,842, approximately \$850,352 or 7% more than the fiscal year 2008. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Finance Department at (787) 868-0315 or P.O. Box 517, Aguada, Puerto Rico 00602.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF NET ASSETS
JUNE 30, 2008**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Jardines de Aguada</u>
Cash and cash equivalents (Note 2)	\$ 5,780,344	\$ 41,807
Cash with fiscal agent (Note 2)	5,103,642	
Accounts receivables:		
Sales and use taxes	136,008	
Other	280,438	8,586
Deferred charges	55,122	
Due from other agencies (Note 9)	5,462,002	
Restricted deposits		48,384
Other assets		1,872
Capital assets, net (Note 11)	29,906,369	1,367,547
	<hr/>	<hr/>
Total assets	\$ 46,723,925	\$ 1,468,196
	<hr/>	<hr/>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 790,519	\$ 20,872
Due to other agencies (Note 12)	2,310,800	
Deferred revenues (Note 13)		
Municipal license taxes	1,096,208	
Federal government	2,346,179	
Commonwealth	187,058	
Matured bonds payable	425,000	
Matured interest payable	230,738	
Noncurrent liabilities (Note 15):		
Due within one year	1,649,974	26,645
Due in more than one year	11,259,042	2,216,738
Accrued interest payable		12,917
Total liabilities	20,295,518	2,277,172
	<hr/>	<hr/>
Net Assets		
Investment in capital assets, net of related debt	20,855,369	
Restricted for:		
Debt service	1,445,887	
Capital projects	2,269,805	
Unrestricted	1,857,346	(808,976)
	<hr/>	<hr/>
Total net assets	\$ 26,428,407	\$ (808,976)
	<hr/>	<hr/>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Primary Government:				
General government	\$ 7,698,009	\$ -	\$ -	\$ (5,361,134)
Public safety	992,467			(992,467)
Public works	5,811,558		2,324,917	(3,486,641)
Recreation	1,413,945			(1,413,945)
Health and welfare	2,314,224	1,159,887		(1,154,337)
Economic development	2,120,000			(2,120,000)
Interest on long-term debt	545,204			(545,204)
Total	\$ 20,895,407	\$ 1,159,887	\$ 2,324,917	(15,073,728)
Component Unit:				
Jardines de Aguada	\$ 441,337	\$ -	\$ -	(50,316)
General revenues:				
Property taxes				4,969,622
Municipal license tax				1,285,420
Sales and use taxes				1,875,953
Grants and contributions not restricted to specific programs				5,955,256
Interest, fines and penalties				182,130
Miscellaneous				195,382
Loss on disposition of assets				(26,952)
Total general revenues				14,436,811
Change in net assets				(636,917)
Net assets at beginning of year, as restated (Note 21)				27,065,324
Net assets at end of year				\$ 26,428,407

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2008**

<u>Assets</u>	General	SBGP Fund	Debt Service	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 2)	\$ 2,437,114	\$ 899	\$ -	\$ 1,164	\$ 3,341,167	\$ 5,780,344
Cash with fiscal agent (Note 2)			2,084,461	2,268,641	750,540	5,103,642
Accounts receivables:						
Sales and use tax (Note 8)					136,008	136,008
Other receivables	280,438					280,438
Due from other agencies (Note 9)	2,520,437	2,529,527	17,164		394,874	5,462,002
Due from other funds (Note 10)	695,095				11,090	706,185
Total assets	<u>\$ 5,933,084</u>	<u>\$ 2,530,426</u>	<u>\$ 2,101,625</u>	<u>\$ 2,269,805</u>	<u>\$ 4,633,679</u>	<u>\$ 17,468,619</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2008**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>SBGP Fund</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Account payable and accrued liabilities	\$ 152,528					790,519
Due to other agencies (Note 12)	2,310,800	\$ 402,267	-	-	\$ 235,724	\$ 2,310,800
Due to other funds (Note 10)	11,000	183,523			511,572	706,185
Deferred revenues:						
Municipal license tax (Note 13)	1,096,208					1,096,208
Intergovernmental	187,058					187,058
Federal grants		2,346,179	425,000			2,346,179
Matured bonds payable			230,738			425,000
Matured interest payable			655,738			230,738
Total liabilities	<u>3,757,684</u>	<u>2,931,969</u>	<u>655,738</u>	<u>-</u>	<u>747,296</u>	<u>8,092,687</u>
Commitments and Contingencies (Notes 18 and 19)						
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	411,162		1,445,887			411,162
Debt service				2,269,805		1,445,887
Capital projects					3,886,383	2,269,805
Unreserved fund balance	1,764,238	(401,543)				5,249,078
Total fund balance (deficit)	<u>2,175,400</u>	<u>(401,543)</u>	<u>1,445,887</u>	<u>2,269,805</u>	<u>3,886,383</u>	<u>9,375,932</u>
Total liabilities and fund balance (deficit)	<u>\$ 5,933,084</u>	<u>\$ 2,530,426</u>	<u>\$ 2,101,625</u>	<u>\$ 2,269,805</u>	<u>\$ 4,633,679</u>	<u>\$ 17,468,619</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total fund balances - governmental funds \$ 9,375,932

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 29,906,369
- Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 55,122
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (12,909,016)

Net assets of governmental activities \$ 26,428,407

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

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

	General	SBCP Fund	Debt Service	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 3,851,125	-	\$ 1,118,497	-	-	\$ 4,969,622
Municipal license taxes (Note 7)	1,285,420	-	-	-	-	1,285,420
Sales and use tax (Note 8)	-	-	289,214	-	1,586,739	1,875,953
Licenses and permits	1,368,826	-	-	-	-	1,368,826
Charges for service and rents	968,049	-	-	-	-	968,049
Intergovernmental revenues (Note 14):						
Federal grants and contributions	5,955,256	883,241	-	-	1,159,887	7,948,384
State contributions	130,483	-	45,419	-	1,441,676	1,617,578
Interest, fines, and penalties	174,515	-	-	-	6,228	180,743
Other revenues	-	-	-	-	20,867	20,867
Total revenues	13,733,674	883,241	1,453,130	-	4,215,397	20,285,442
EXPENDITURES						
Current:						
General government	5,667,506	-	-	-	473,506	6,141,012
Public safety	944,139	-	-	-	1,372	945,511
Public works	4,365,206	-	-	-	-	4,365,206
Recreation	678,882	-	-	-	-	678,882
Health and welfare	1,192,975	-	-	-	1,118,038	2,311,013
Economic development	-	1,373,136	-	469,779	2,120,000	3,493,136
Capital outlays	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	598,645	-	-	598,645
Interest and other	-	-	545,204	-	-	545,204
Total expenditures	12,848,708	1,373,136	1,143,849	469,779	3,712,916	19,548,388
Excess (deficiency) of revenues over (under) expenditures	884,966	(489,895)	309,281	(469,779)	502,481	737,054
OTHER FINANCING SOURCES (USES)						
Loan proceeds	-	-	-	790,000	-	790,000
Transfers in	46,798	-	76,130	-	-	122,928
Transfers out	(76,130)	-	(46,798)	-	-	(122,928)
Total other financing sources (uses)	(29,332)	-	29,332	790,000	-	790,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	855,634	(489,895)	338,613	320,221	502,481	1,527,054
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 21)	1,319,766	88,352	1,107,274	1,949,584	3,383,902	7,848,878
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 2,175,490	\$ (401,543)	\$ 1,445,887	\$ 2,269,805	\$ 3,886,383	\$ 9,375,932

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[Handwritten date: 6/30/08]

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

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

Net change in fund balances - total governmental funds \$ 1,527,054

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 928,929
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,363,355)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (790,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 598,645
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. (26,952)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.
 - Claims and judgements (767,800)
 - Accrued compensated absences (743,438)

Changes in net assets of governmental activities \$ (636,917)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		Original	Final		
REVENUES							
Property taxes	\$ 3,243,609	\$ 3,243,609	\$ 3,243,609	\$ 877,697	\$ 877,697	\$ 1,118,497	\$ 240,800
Municipal license taxes	1,325,000	1,325,000	1,334,146	-	-	-	9,146
Sales and use tax	-	-	1,244,524	-	-	-	353,833
Licenses and permits	529,000	890,691	954,049	-	-	-	373,461
Charges for services and rent	580,588	580,588	5,841,933	-	-	-	(12,052)
Intergovernmental revenues:							
State contributions	5,853,985	5,853,985	488,968	-	-	-	190,938
Interest, fines, and penalties	298,030	298,030	174,515	-	-	-	(421,763)
Other revenues	596,278	596,278	13,281,745	877,697	877,697	1,453,130	45,419
Total revenues	12,426,490	12,788,181	13,281,745	877,697	877,697	1,453,130	575,433
EXPENDITURES							
Current:							
General government	5,336,779	5,379,608	5,573,009	-	-	-	(193,401)
Public safety	1,049,600	948,550	946,800	-	-	-	1,750
Public works	4,291,536	4,538,502	4,533,904	-	-	-	4,598
Recreation	727,348	697,671	695,670	-	-	-	2,001
Health and welfare	1,021,227	1,223,850	1,219,104	-	-	-	4,746
Debt service:							
Principal				438,000	438,000	598,645	160,645
Interest				439,697	439,697	545,204	105,507
Total expenditures	12,426,490	12,788,181	12,968,487	877,697	877,697	1,143,849	266,152
Excess of revenues over expenditures	\$ -	\$ -	\$ 313,258	\$ -	\$ -	\$ 309,281	\$ 309,281

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. ORGANIZATION

The Municipality of Aguada, Puerto Rico (Municipality) was founded in 1510. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14". GASB Statement 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. The Jardines de Aguada Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Jardines de Aguada Project is a 70 unit dwelling unit's project located at Aguada, Puerto Rico. The Project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) and USDA-RD with respect to rental charges and operating methods. The Project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. The Project's Major Programs is its Section 515 Direct Loan and its Section 8 Housing Assistance Payments.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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.

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

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

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

2) SBGP

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

4) Loans and Bonds

The Loans and Bonds fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

d. Cash and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposits with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the capital project's fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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.

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	20-40 years
Buildings and building improvements	15-50 years
Vehicles and equipment	10-15 years

g. Reservation of Fund Balance

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

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

2) Debt Service

Represents net assets available to finance future debt service payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

3) Capital Projects

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

4) Other Specified Purposes

Represent financial resources set aside for use in federal and state grant programs.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2008 amounted to approximately \$316,092. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$203,315 for workers compensation insurance covering all municipal employees.

i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
52	Land and Other Real Estate Held as Investments by Endocuments	2008-09
53	Accounting and Financial Reporting for Derivative Instruments	2009-10

The impact of these statements on the Municipality's financial statement has not yet been determined.

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2008 is presented below for the general fund.

Excess of revenues over expenditures - budgetary basis	\$ 313,258
Basis of accounting differences:	
Net change in receivables	2,330,965
Net change in payables	(1,909,993)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(260,426)
Current year encumbrances recorded as expenditures for budgetary basis	<u>411,162</u>
Excess of revenues over expenditures - GAAP basis	\$ <u>884,966</u>

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

current period and therefore are not reported in the funds. The details of the approximately \$12.1 million difference are as follows:

Bonds payable	\$ 9,051,000
Notes payable	378,031
Claims and judgements	767,800
Compensated absences	<u>2,712,185</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$12,909,016</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$2.5 million in the governmental activities were fully collateralized at June 30, 2008. The deposits at GDB of approximately \$2.3 million that are restricted principally for capital projects, and the \$2.1 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.83% for real property and 6.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.00%	2.00%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.83%</u>	<u>6.83%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2007-08, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2008, the amount received by CRIM, less than the amount collected from taxpayers and charges by CRIM received by the Municipality for the same period by approximately \$608,000 of which \$303,000 corresponds to the year ended June 30, 2008, \$226,000 corresponding to the municipal subsidy from the months of October 2007 through March 2008, and \$79,000 from prior year. Such amount is presented as due from other governmental agencies in the general fund in the basic financial statements. (See Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2008. The annual Municipal License Tax is determined based on the gross income of all

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commerce and industrial organizations who have operations in the Municipality of Aguada, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Aguada, are as follows:

Financial, savings and loans associations	=	1.50%
Other organizations	=	.50%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$1.1 million, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,

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c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Commissioner Office of Municipal Affairs	\$2,529,527
Puerto Rico Electric Power of Authority	1,725,864
Puerto Rico Treasury Department	187,058
Municipal Revenues Collection Center (General Fund)	607,515
Municipal Revenues Collection Center (Debt Service Fund)	17,164
Other governmental funds	<u>394,874</u>
 Total	 <u>\$5,462,002</u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2008 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$511,572
Other Governmental Funds	General Fund	11,090
General Fund	SBGP	<u>183,523</u>
		<u>\$706,185</u>

The balance of \$511,572 due from other governmental funds represent disbursements made by the general fund to cover various projects and payroll and related benefits.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2)

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2008 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 46,798
Debt Service	General	<u>76,130</u>
Total		<u>\$122,928</u>

The transfer from the general fund to the debt service fund of \$76,130 represents monies transferred to cover debt service payments as become due.

11. CAPITAL ASSETS

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

<u>Primary Government</u>	<u>Balance June 30, 2007 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 3,889,636	\$ -	\$ -	\$ 3,889,636
Construction in process	2,940,703	545,512	278,909	3,207,306
Total capital assets, not being depreciated	<u>6,830,339</u>	<u>545,512</u>	<u>278,909</u>	<u>7,096,942</u>
Capital assets, being depreciated:				
Buildings and building improvements	28,362,531	278,909		28,641,440
Vehicles, machinery and equipment	9,264,694	383,417	63,948	9,584,163
Infrastructure	12,919,854			12,919,854
Total capital assets, being depreciated	<u>50,547,079</u>	<u>662,326</u>	<u>63,948</u>	<u>51,145,457</u>
Less accumulated depreciation for:				
Buildings and building improvements	10,599,580	715,699		11,315,279
Vehicles, machinery and equipment	6,937,446	633,080	36,996	7,533,530
Infrastructure	9,472,645	14,576		9,487,221
Total accumulated depreciation	<u>27,009,671</u>	<u>1,363,355</u>	<u>36,996</u>	<u>28,336,030</u>
Total capital assets, being depreciated, net	<u>23,537,408</u>	<u>(701,029)</u>	<u>26,952</u>	<u>22,809,427</u>
Governmental activities capital assets, net	<u>\$ 30,367,747</u>	<u>\$ (155,517)</u>	<u>\$ 305,861</u>	<u>\$ 29,906,369</u>

**COMMONWEALTH OF PUERTO RICO
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Depreciation expense was charged to functions/programs of the Municipality as follows:

General government	\$ 45,759
Public safety	46,956
Public works	532,366
Recreation	735,063
Health and welfare	<u>3,211</u>
Total	<u>\$1,363,355</u>

Capital asset activity for Jardines de Aguada Project, a discretely component unit for the year ended June 30, 2008 was as follows:

<u>Component Unit- Jardines de Aguada</u>	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Total capital assets, not being depreciated	<u>93,700</u>	<u>-</u>	<u>-</u>	<u>93,700</u>
Capital assets, being depreciated:				
Land improvements	513,685			513,685
Buildings and building improvements	2,644,917	1,059		2,645,976
Furniture and fixtures	18,585	1,006		19,591
Equipment	90,840	6,188		97,028
Total capital assets, being depreciated	<u>3,268,027</u>	<u>8,253</u>	<u>-</u>	<u>3,276,280</u>
Total accumulated depreciation	<u>1,893,228</u>	<u>109,205</u>	<u>-</u>	<u>2,002,433</u>
Total capital assets, being depreciated, net	<u>1,374,799</u>	<u>(100,952)</u>	<u>-</u>	<u>1,273,847</u>
Jardines de Aguada Project capital assets, net	<u>\$ 1,468,499</u>	<u>\$ (100,952)</u>	<u>\$ -</u>	<u>\$ 1,367,547</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2008 are as follows:

Puerto Rico Electric Power Authority	\$1,788,827
Retirement System Administration	173,222
Puerto Rico Treasury Department	189
Puerto Rico Water and Sewer Authority	6,097
State Insurance Fund Corporation	164,259
Puerto Rico Labor Department	<u>178,206</u>
Total	<u>\$2,310,800</u>

13. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of approximately \$1.1 million in the general fund related to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

14. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and other governmental funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2008 are as follows:

Bonds

\$275,000 series of 1988 for construction purposes, payable in annual installments of \$11,000 to \$19,000, excluding interests of 5% through July 1, 2012.	\$ 70,000
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\$125,000 series of 1989 for construction purposes, payable in annual installments of \$6,000 to \$9,000, excluding variable interests up to 8% through July 1, 2013.	\$ 39,000
\$2,030,000 series of 1993 for construction purposes, payable in annual installments of \$30,000 to \$185,000, excluding variable interests up to 8.20% through July 1, 2018.	1,370,000
\$350,000 series of 1994 for construction purposes, payable in annual installments of \$8,000 to \$26,000, excluding interests to 4.50% through July 1, 2018.	202,000
\$2,040,000 series of 1997 for construction purposes, payable in annual installments of \$30,000 to \$185,000, excluding variable interests up to 6.56% through July 1, 2021.	1,595,000
\$915,000 series of 1998 for construction purposes, payable in annual installments of \$15,000 to \$85,000, excluding variable interests up to 6.56% through July 1, 2020.	695,000
\$845,000 series of 2003 for construction purposes, payable in annual installments of \$15,000 to \$70,000, excluding variable interests up to 5.31% through July 1, 2027.	765,000
\$635,000 series of 2004 for construction and purchase of equipment, payable in annual installments of \$10,000 to \$50,000, excluding variable interests up to 5.31% through July 1, 2028.	585,000
\$600,000 series of 2005 for construction of a sanitary sewer system, payable in annual installments of \$15,000 to \$40,000, excluding interests of 4.50% through July 1, 2031.	570,000
\$518,000 series of 2006 for purchase of equipment, payable in annual installments of \$64,000 to \$84,000, excluding interests of 4.25% through July 1, 2012.	315,000

**COMMONWEALTH OF PUERTO RICO
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\$295,000 series of 2006 for purchase of equipment, payable in annual installments of \$35,000 to \$55,000, excluding interests of 6.50% through July 1, 2012.	\$ 220,000
\$360,000 series of 2006 for purchase of equipment, payable in annual installments of \$40,000 to \$60,000, excluding interests of 7% through July 1, 2012.	270,000
\$445,000 series of 2006 for construction purposes, payable in annual installments of \$5,000 to \$35,000, excluding interests of 6.50% through July 1, 2030.	430,000
\$1,245,000 series of 2007 for construction purposes, payable in annual installments of \$20,000 to \$105,000, excluding interests of 7% through July 1, 2031.	1,225,000
\$790,000 series of 2008 for purchase of equipment, payable in annual installments of \$90,000 to \$140,000, excluding interests of 7.50% through July 1, 2014.	<u>700,000</u>
Total bonds	<u>\$9,051,000</u>

Note Payable - CRIM (LIMS)

On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$209,361 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM or the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$41,879, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property taxes and amounts of municipal equalization fund send to the Municipality by the CRIM.

Note Payable - CRIM (Law 146)

April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$219,315, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Amount is repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

The annual requirements for the amortization of general long-term debts at June 30, 2008, are as follows:

	<u>Bonds Payable</u>		<u>Note Payable - CRIM (Law 146)</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 558,000	\$ 515,865	\$ 8,773	\$ 13,096
2010	593,000	522,707	8,773	12,550
2011	629,000	482,932	8,773	12,004
2012	674,000	444,168	8,773	11,458
2013	753,000	402,757	8,773	10,914
2014-2018	2,269,000	1,499,069	43,865	46,380
2019-2023	1,855,000	753,338	43,865	32,740
2024-2028	1,100,000	363,480	43,865	19,100
2029-2033	620,000	73,135	35,082	5,458
	<u>\$ 9,051,000</u>	<u>\$ 5,057,451</u>	<u>\$ 210,542</u>	<u>\$ 163,700</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Note Payable - CRIM (LIMS)</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 44,201	\$ 9,315
2010	47,082	6,634
2011	49,925	3,790
2012	26,281	776
	<u>\$ 167,489</u>	<u>\$ 20,515</u>

Component Unit

The mortgages payable by the discretely component unit is owed by Jardines de Aguada Project and consists of permanent residences loans provided by USDA Rural Development. The land and buildings of the Project secure the mortgage notes. The mortgages are payable in monthly installments including interest of \$10,939 through 2056. Interests on the three notes are not available, but fluctuate from 6.38% to 10.75%.

The principal maturities of the mortgages in each of the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 26,645
2010	29,047
2011	31,671
2012	34,534
2013	37,659
Thereafter	<u>2,083,827</u>
	<u>\$2,243,383</u>

**COMMONWEALTH OF PUERTO RICO
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As described in Note 6, the Municipality levies an annual special tax of 1.03% of the assessed value of real property. 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 property taxes are collected and retained by the CRIM.

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 8,809,000	\$ 790,000	\$ 548,000	\$ 9,051,000	\$ 558,000
Note payable-CRIM (LIMS)	209,361		41,872	167,489	44,401
Note payable-CRIM (Law 146)	219,315		8,773	210,542	8,773
Total long-term debt	<u>9,237,676</u>	<u>790,000</u>	<u>598,645</u>	<u>9,429,031</u>	<u>611,174</u>
Other Long-Term Liabilities:					
Claims and judgements		767,800		767,800	767,800
Compensated absences	1,968,747	939,723	196,285	2,712,185	271,000
Total other liabilities	<u>1,968,747</u>	<u>1,707,523</u>	<u>196,285</u>	<u>3,479,985</u>	<u>1,038,800</u>
Total noncurrent liabilities	<u>\$ 11,206,423</u>	<u>\$ 2,497,523</u>	<u>\$ 794,930</u>	<u>\$ 12,909,016</u>	<u>\$ 1,649,974</u>
Component Unit:					
Jardines de Aguada Project mortgage payable	<u>\$ 2,267,826</u>	<u>\$ -</u>	<u>\$ 23,993</u>	<u>\$ 2,243,833</u>	<u>\$ 26,645</u>

16. RETIREMENT PLAN

a. Plan Description

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 System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of 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.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2008 was approximately \$398,000. The Municipality's payroll for employees covered by ERS was approximately \$4.3 million. The Municipality total payroll for all employees was approximately \$6.8 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

19. COMMITMENTS

The Municipality of Aguada had several outstanding or planned construction projects as of June 30, 2008. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Loans and Bonds' funds that amounted to approximately \$2.3 million.

20. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality discontinued the operation and ceased to accept solid waste in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure and postclosure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost," the Municipality should perform a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations and to determine an estimate of postclosure costs. As of June 30, 2008, no amount has been estimated as post closure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America and state and federal regulations.

21. RESTATEMENTS

a. Net Assets

The beginning balance of net assets as of July 1, 2007 has been restated as follows:

Net assets at beginning of year as previously reported	\$29,503,174
To reclassify component unit as discretely component unit - Jardines de Aguada	(2,003,029)
To correct accounting errors	(<u>434,821</u>)
Net assets at beginning of year as restated	<u>\$27,065,324</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

b. Fund Balance

The beginning fund balance of the general fund and other governmental funds has been restated for the following:

	General	Other Governmental Funds
Beginning fund balances, as previously reported	\$ 1,700,434	\$ 4,628,357
To reclassify sales and use tax fund	(380,668)	380,668
To reclassify component unit as discretely component unit, Jardines de Aguada		759,282
To reclassify the loans and bonds funds		(1,949,584)
To correct accounting records		(434,821)
	\$ 1,319,766	\$ 3,383,902

PART II - SINGLE AUDIT SECTION

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Housing Choice Vouchers	14.871	\$ 650,309
Pass-through Commissioner Office of Municipal Affairs State Block Grant Program - SBGP	14.228	1,373,136
Pass-through Puerto Rico Department of Family Emergency Shelter Grants Program	14.231	<u>52,025</u>
Subtotal U.S. Department of HUD		<u>2,075,470</u>
U.S. Department of Agriculture		
Pass-through USDA-Rural Development Housing Preservation Grant	10.433	35,090
Water and Waste Disposal Systems for Rural Communities	10.760	<u>17,225</u>
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558	<u>17,069</u>
Subtotal U.S. Department of Agriculture		<u>69,384</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Puerto Rico Department of Family Child Care and Development Block Grant	93.575	<u>215,041</u>
Subtotal U.S. Department of HHS		<u>215,041</u>
U.S. Department of Justice		
Pass-through the Office of Municipal Affairs Public Safety Partnership and Community Policing Grants	16.710	<u>1,372</u>
Subtotal U.S. Department of Justice		<u>1,372</u>
U.S. Department of Transportation		
Pass-through Transit Security Commission State and Community Highway Safety	20.600	1,932
Federal Transit Formula Grants	20.507	<u>50,215</u>
Subtotal U.S. Department of Transportation		<u>52,147</u>
U.S. Department of Education		
Pass-through Puerto Rico Department of Education Safe and Drug Free Schools and Communities	84.186	<u>184,112</u>
Subtotal U.S. Department of Education		<u>184,112</u>
U.S. Federal Emergency Management Agency		
Pass-through Office of the Governor Authorized Representative Public Assistant Grants	83.544	<u>3,896</u>
Subtotal U.S. Federal Emergency Management Agency		<u>3,896</u>
TOTAL		<u>\$ 2,601,422</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Aguada's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Expenditures as per basic financial statements:	
Expenditures included in SBGP Fund	\$1,373,136
Federal expenditures included within the other nonmajor governmental funds	<u>1,228,286</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$2,601,422</u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Aguada, as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 13, 2008. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill postclosing costs and, accordingly, has not recorded an expense for the current period. 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 we able to satisfy ourselves by means of other auditing procedures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Aguada in a separate letter dated December 13, 2008.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

San Juan, Puerto Rico
December 13, 2008

The stamp 2363616 was affixed
to the original of this report.



Ortiz, Rivera, Rivera & Co.

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

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

Compliance

We have audited the compliance of Municipality of Aguada with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Municipality of Aguada's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Aguada's management. Our responsibility is to express an opinion on Municipality of Aguada'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 Municipality of Aguada'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 Municipality of Aguada's compliance with those requirements.

In our opinion, the Municipality of Aguada complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2008.

Internal Control over Compliance

The management of Municipality of Aguada is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Aguada'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

Ortiz, Rivera Rivera '6

San Juan, Puerto Rico
December 13, 2008

The stamp 2363617 was attached to the original of this report.



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

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the basic financial statements of the Municipality of Aguada.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Aguada were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Aguada express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Aguada are reported in number 3 of this schedule.
- g. The program tested as major program is SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Aguada was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 Housing Choice Voucher CFDA No. 14.871	Condition 2007-111-01 The inspections forms were not initiated on each page, nor signed at the end by the Section 8 Housing Inspector, the owner, and the tenant, as required in the administrative plan. In addition, the date of inspection was not written on five (5) inspection forms.	Condition was not observed.
Section 8 Housing Choice Voucher CFDA No. 14.871	Condition 2007-111-02 The Housing Assistance Payment contract was not signed by the owner.	Condition was not observed.



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Aguada
Departamento de Finanzas

Hon. Luis A. Echevarría Santiago
Alcalde

9 de enero de 2009

Sr. Omar Negrón
Comisionado
Oficina Asuntos Municipales
PO Box 70167
San Juan, Puerto Rico 00936-8167

Estimada señor Negrón:

**RE: ESTADOS FINANCIEROS
JUNIO 30, 2008**

Reciba un cordial saludo de este servidor.

Adjunto copia de los estados financieros del Municipio al cierre del 30 de junio de 2008, preparados por la firma Ortiz, Rivera y Rivera & Co.

Agradeceré que dudas o información adicional favor comunicarse con este servidor.

Cordialmente,

Orlando Ortiz Cabán
Director de Finanzas Interino

UNIDAD DE CORREO
RECIBIDO
09 JAN 14 PM 1:32
Calle 110