

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE AGUADA
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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MUNICIPALITY OF AGUADA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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, 2011, 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, 2011. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and in our opinion, the amounts included for Jardines de Aguada Project, are based on the report of the other auditors.

Except as described in the following paragraphs, 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 unable to satisfy ourselves by means of other auditing procedures.

As more fully described in Note 23 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, 2011; 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, 2011, 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 22, 2011, 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 4 through 9, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 of Aguada's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
December 22, 2011

The stamp E16543 was affixed
to the original of this report.



Ortiz, Rivera, Rivera & Co.

Commonwealth of Puerto Rico
MUNICIPALITY OF AGUADA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011. 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 2011 by \$28,436,220 (net assets).

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 \$9,320,274.
- The General Fund reported an unassigned fund balance of \$1,125,514.

General Financial Highlights

- The investment in capital assets, net of related debts as of June 30, 2011 was \$23,192,744.
- Long term debt general and special obligations decreased by \$1,359,037, approximately 9% with respect to prior year balance that decreased by 2%.

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, 2011 and 2010:

Municipality of Aguada Condensed Statement of Net Assets June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Current assets	\$ 16,532,892	\$ 18,534,000
Capital assets	<u>32,562,744</u>	<u>31,285,845</u>
Total assets	<u>49,095,636</u>	<u>49,819,845</u>
Current liabilities	7,157,496	8,762,221
Noncurrent liabilities	<u>13,501,920</u>	<u>12,614,497</u>
Total liabilities	<u>20,659,416</u>	<u>21,376,718</u>
Invested in capital assets, net of related debt	23,192,744	21,084,845
Restricted	3,676,100	4,876,981
Unrestricted	<u>1,567,376</u>	<u>2,480,521</u>
Total net assets	<u>\$ 28,436,220</u>	<u>\$ 28,442,347</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 \$ 28,436,220 at June 30, 2011.

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, 2011 and 2010:

Municipality of Aguada Condensed Statement of Activities June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Program revenues		
Charges for services	\$ 3,468,576	\$ 4,149,575
Operating grants and contributions	1,936,316	1,343,850
Capital grants and contributions	2,708,998	4,186,387
General revenues:		
Property taxes	4,397,699	4,564,963
Municipal license tax	1,438,315	1,672,179
Grants and contributions not restricted to specific programs	6,938,718	6,317,949
Interest, fines and penalties	242,391	322,583
Miscellaneous	61,177	133,815
	<u>21,192,190</u>	<u>22,691,301</u>
Total revenues		
Expenses		
General government	8,612,875	9,028,138
Public safety	1,270,760	869,772
Public works	3,691,171	3,802,289
Recreation	2,033,612	1,806,760
Health and welfare	1,224,169	1,199,312
Economic development	3,829,831	3,800,782
Interest on long-term debt	548,512	600,676
	<u>21,210,930</u>	<u>21,107,729</u>
Total expenses		
Change in net assets	(18,740)	1,583,572
Net assets, beginning of year	<u>28,454,960</u>	<u>26,858,775</u>
Net assets, end of year	<u>\$ 28,436,220</u>	<u>\$ 28,442,347</u>

The Municipality's net assets decreased by \$18,740. Aproximately 33 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 28 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, 2011, the governmental funds reported combined ending fund balances of \$9,320,274. Of total combined fund balances, \$1,125,514 constitutes unassigned 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. Unassigned fund balance of the general fund represents approximately 74% of total ending general fund balance. For the year ended June 30, 2011, the fund balance of the general fund decreased by \$751,462 when compared with the prior year. The principal component of the net decreased is an excess of expenditures over revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2010-2011 presented a increase of 7% 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 \$508,285. The most significant variances were on Charges for Services and Rent by \$182,599 and Property Taxes by \$182,584.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality had \$32,562,744 invested in capital assets, including buildings, land, construction in progress and equipment. This amount represents a net increase of \$1,276,899 or 4% from the prior year.

Municipality of Aguada Capital Assets (Net) June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Non-depreciable assets:		
Land	\$ 4,234,136	\$ 4,234,136
Construction in Progress	5,234,088	3,826,339
Depreciable assets:		
Buildings and building improvements	19,738,008	19,263,279
Vehicles, machinery and equipments	1,613,196	1,578,481
Infrastructure	<u>1,743,316</u>	<u>2,383,610</u>
Total	<u>\$ 32,562,744</u>	<u>\$ 31,285,845</u>

The Municipality acquired a total of \$4,081,105 of capital assets during the fiscal year 2010-2011 as follows:

- Construction in Progress – \$2,415,095
- Acquisition of Equipment and Vehicles – \$ 292,761
- Buildings and Buildings Improvements - \$1,373,249

Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2011.

Long term debt

At year-end, the Municipality had \$13,113,828 in general and special obligation bonds, a decrease of \$1,359,037 or 9% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2011 and 2010:

**Municipality of Aguada
Long-term Debt
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
General obligations Bonds and Notes	\$ 9,370,000	\$ 10,201,000
LIMS Debt	26,081	76,006
CRIM	72,362	-
Labor Department	63,228	110,048
Financing of Delinquent Accounts Debts	184,223	192,996
Puerto Rico Health Insurance Administration	34,036	28,363
Claims and judgments	305,090	767,800
Compensated absences	<u>3,058,808</u>	<u>3,096,652</u>
Total	<u>\$ 13,113,828</u>	<u>\$ 14,472,865</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2011-2012 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 2012 are \$14,253,881, approximately \$451,762 or 3% more than the fiscal year 2011. 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, 2011**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Jardines de Aguada</u>
Cash and cash equivalents (Note 2)	\$ 3,382,770	\$ 45,781
Cash with fiscal agent (Note 2)	5,081,880	
Certificates of deposit (Note 2)	2,765,384	
Accounts receivable:		
Sales and use taxes	121,180	
Other	300,000	23,110
Interests	13,832	
Deferred charges	55,122	
Due from other agencies (Note 9)	4,812,724	
Restricted deposits		116,480
Other assets		1,019
Capital assets, net (Note 11)	32,562,744	1,076,925
	<hr/>	<hr/>
Total assets	<u>\$ 49,095,636</u>	<u>\$ 1,263,315</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$ 962,909	\$ 41,850
Due to other agencies (Note 12)	3,347,373	
Deferred revenues (Note 13):		
Municipal license taxes	938,341	
Federal government	854,220	
Intergovernmental	178,623	
Matured bonds payable	692,000	
Matured interest payable	184,030	
Noncurrent liabilities (Note 15):		
Due within one year	1,510,849	34,534
Due in more than one year	11,602,979	2,121,486
Accrued interest payable	388,092	
Total liabilities	<hr/> 20,659,416	<hr/> 2,197,870

Net Assets

Investment in capital assets, net of related debt (Note 18)	24,159,951	
Restricted for:		
Debt service	2,708,893	
Capital projects	967,207	
Unrestricted	600,169	(934,555)
	<hr/>	<hr/>
Total net assets	<u>\$ 28,436,220</u>	<u>\$ (934,555)</u>

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Jardines de Aguada</u>
Primary Government:					
General government	\$ 8,612,875	\$ -	\$ -	\$ (7,004,038)	\$ -
Public safety	1,270,760			(1,270,760)	
Public works	3,691,171		2,708,998	(982,173)	
Recreation	2,033,612			(2,033,612)	
Health and welfare	1,224,169	1,936,316		712,147	
Economic development	3,829,831			(3,829,831)	
Interest on long-term debt	548,512			(548,512)	
Total	\$ 21,210,930	\$ 1,936,316	\$ 2,708,998	(14,956,779)	-
Component Unit:					
Jardines de Aguada	\$ 428,058	\$ -	\$ -		(17,345)
General revenues:					
Property taxes (Note 6)				4,397,699	
Municipal license tax (Note 7)				1,438,315	
Sales and use tax (Note 8)				1,859,739	
Grants and contributions not restricted to specific programs				6,938,718	
Interest, fines and penalties				242,391	275
Miscellaneous				61,177	
Total general revenues				14,938,039	275
Change in net assets				(18,740)	(17,070)
Loss on disposition of assets					
Net assets at beginning of year, as restated (Note 24)				28,454,960	(917,485)
Net assets at end of year				\$ 28,436,220	\$ (934,555)

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, 2011**

<u>Assets</u>	<u>General</u>	<u>SBGP</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 1,101,745	\$ 55	-	-	\$ 2,280,970	\$ 3,382,770
Cash with fiscal agent (Note 2)			3,568,230	967,207	546,443	5,081,880
Certificates of deposit (Note 2)	1,324,364				1,441,020	2,765,384
Accounts receivable:						
Sales and use taxes			16,693		104,487	121,180
Interests	12,626				1,206	13,832
Other receivables	300,000					300,000
Due from other agencies (Note 9)	3,401,969	1,037,569			373,186	4,812,724
Due from other funds (Note 10)	394,069					394,069
Total assets	\$ 6,534,773	\$ 1,037,624	\$ 3,584,923	\$ 967,207	\$ 4,747,312	\$ 16,871,839

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, 2011**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>SBGP</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 557,462	\$ 314,542	\$ -	\$ -	\$ 90,905	\$ 962,909
Due to other agencies (Note 12)	3,347,373					3,347,373
Due to other funds (Note 10)		98,248			295,821	394,069
Deferred revenues:						
Municipal license tax (Note 13)	938,341					938,341
Intergovernmental	178,623					178,623
Federal grants		854,220				854,220
Matured bonds payable			692,000			692,000
Matured interest payable			184,030			184,030
Total liabilities	<u>5,021,799</u>	<u>1,267,010</u>	<u>876,030</u>	<u>-</u>	<u>386,726</u>	<u>7,551,565</u>
Commitments and Contingencies (Notes 21 and 22)						
Fund Balances (Deficit)						
Restricted			2,708,893		3,578,035	6,286,928
Committed				967,207	738,446	1,705,653
Assigned	387,460				24,920	412,380
Unassigned	1,125,514	(229,386)			19,185	915,313
Total fund balance (deficit)	<u>1,512,974</u>	<u>(229,386)</u>	<u>2,708,893</u>	<u>967,207</u>	<u>4,360,586</u>	<u>9,320,274</u>
Total liabilities and fund balance	<u>\$ 6,534,773</u>	<u>\$ 1,037,624</u>	<u>\$ 3,584,923</u>	<u>\$ 967,207</u>	<u>\$ 4,747,312</u>	<u>\$ 16,871,839</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, 2011**

Total fund balances - governmental funds \$ 9,320,274

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 32,562,744
- 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)** (13,501,919)

Net assets of governmental activities \$ 28,436,221

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, 2011

	General	SBCG	Debt Service	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 3,157,482	\$ -	\$ 1,240,217	\$ -	\$ -	\$ 4,397,699
Municipal license taxes (Note 7)	1,438,315	-	588,032	-	1,271,707	1,438,315
Sales and use tax (Note 8)	578,138	-	-	-	-	1,859,739
Licenses and permits	1,030,699	-	-	-	-	578,138
Charges for service and rents	-	-	-	-	-	1,030,699
Intergovernmental revenues (Note 14):						
Federal grants and contributions	6,938,718	886,948	-	-	1,936,316	2,823,264
State contributions	239,158	-	2,834	-	1,822,050	8,760,768
Interest, fines, and penalties	54,736	-	-	-	399	242,391
Other revenues	13,437,246	886,948	1,831,083	-	6,440	61,176
Total revenues					5,036,912	21,192,189
EXPENDITURES						
Current:						
General government	8,295,819	-	-	1,495	667,458	8,964,772
Public safety	812,358	-	-	-	-	812,358
Public works	3,896,977	-	-	-	-	3,896,977
Recreation	694,356	-	-	-	614,540	1,308,896
Health and welfare	359,483	1,169,473	-	1,785,250	861,712	1,221,195
Economic development	-	-	-	-	2,660,358	3,829,831
Capital outlays	-	-	-	-	557,495	2,342,745
Debt service:						
Principal retirement	-	-	921,579	-	-	921,579
Interest and other	-	-	443,282	-	-	443,282
Total expenditures	14,058,993	1,169,473	1,364,861	1,786,745	5,361,563	23,741,635
Excess (deficiency) of revenues over (under) expenditures	(621,747)	(282,525)	466,222	(1,786,745)	(324,651)	(2,549,446)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,671	-	-	-	-	-
Transfers out	(131,386)	-	-	-	10,073	133,057
Total other financing sources (uses)	(129,715)	-	119,642	-	10,073	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(751,462)	(282,525)	585,864	(1,786,745)	(314,578)	(2,549,446)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 24)	2,264,436	53,139	2,123,029	2,753,952	4,675,164	11,869,720
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 1,512,974	\$ (229,386)	\$ 2,708,893	\$ 967,207	\$ 4,360,586	\$ 9,320,274

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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, 2011**

Net change in fund balances - total governmental funds \$ (2,549,446)

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. 3,073,759
- 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. (1,796,860)
- 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. 1,399,228
- Change in accrued interest expense which does not require the use of current financial resources. (105,230)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in
 - CRIM (72,362)
 - Puerto Rico Health Insurance Administration (5,673)
 - Compensated absences 37,844

Changes in net assets of governmental activities \$ (18,740)

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, 2011

	General Fund			Debt Service Fund		
	Budgeted Amounts		Actual	Budgeted Amounts		Actual
	Original	Final		Original	Final	
REVENUES						
Property taxes	\$ 3,472,513	\$ 3,472,513	\$ 3,289,929	\$ 1,210,690	\$ 1,240,217	\$ 29,527
Municipal license taxes	1,470,000	1,470,000	1,412,320			
Sales and use tax					588,032	588,032
Licenses and permits	703,000	703,000	578,138			
Charges for services and rent	1,114,630	1,114,630	932,031			
Intergovernmental revenues:						
State contributions	6,487,476	6,635,646	6,609,820			
Interest, fines, and penalties	356,000	356,000	364,840		2,834	2,834
Other revenues	198,500	198,500	254,926			
Total revenues	13,802,119	13,950,289	13,442,004	1,210,690	1,831,083	620,393
EXPENDITURES						
Current:						
General government	7,799,401	8,217,200	8,204,648			
Public safety	854,064	824,848	814,313			
Public works	3,947,065	4,089,397	3,958,442			
Recreation	769,496	777,674	749,704			
Health and welfare	432,093	423,664	364,756			
Debt service:						
Principal				659,000	921,579	262,579
Interest				551,690	443,282	(108,408)
Total expenditures	13,802,119	14,332,783	14,091,863	1,210,690	1,364,861	154,171
OTHER FINANCING SOURCES						
Reprogramming funds	-	382,494	382,494			
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (267,365)	\$ -	\$ 466,222	\$ 466,222

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, 2011**

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

- 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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

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

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

For the fiscal year ended June 30, 2011, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 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, Cash with Fiscal Agent, and Certificates of Deposits

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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

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 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

g. Fund Balances

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

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2011.

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, 2011 amounted to approximately \$425,242. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$344,400 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 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, 2011**

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>
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53	2011-12

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 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, 2011 is presented below for the general fund.

Excess of expenditures over revenues - budgetary basis	\$ (267,365)
Basis of accounting differences:	
Net change in receivables	(931,059)
Net change in payables	485,977
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(296,760)
Current year encumbrances recorded as as expenditures for budgetary basis	<u>387,460</u>
Excess of expenditures over revenues - GAAP basis	<u><u>\$ (621,747)</u></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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 current period and therefore are not reported in the funds. The details of the approximately \$13.5 million difference is as follows:

Bonds payable	\$ 9,370,000
Compensated absences	3,058,808
Note payable	210,304
Accrued interest	388,092
Claims and judgments	305,090
Other long-term liabilities	<u>169,626</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u><u>\$13,501,920</u></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 \$6.1 million in the governmental activities were fully collateralized at June 30, 2011. The deposits at GDB of approximately \$967,000 that are restricted principally for capital projects and the \$3.5 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 \$250,000.

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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 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 taxpayer	< <u>.20%</u> >	< <u>.20%</u> >
	<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.

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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. 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 2010-11, 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, 2011, the amount collected from taxpayers and charges by CRIM received by the Municipality is less than amount advanced by CRIM for the same period by approximately \$72,362. Such amount is presented as due to CRIM in the government wide financial statements. (See Note 15)

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7. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represents taxes which are due and uncollected at June 30, 2011. The annual Municipal License Tax is determined based on the gross income of all 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 \$938,341, 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,

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- 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,
- 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:

Puerto Rico Electric Power Authority	\$ 3,223,346
Commissioner Office of Municipal Affairs	1,037,569
Other governmental funds	373,186
Puerto Rico Treasury Department	<u>178,623</u>
 Total	 <u><u>\$ 4,812,724</u></u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2011 are as follow

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental	\$ 295,821
General Fund	SBGP	<u>98,248</u>
		<u><u>\$ 394,069</u></u>

The balance of \$295,821 due from other governmental funds represents 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) transactions are recorded in the accounting system, and (3) payments between funds are made.

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b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2011 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 1,671
Debt Service	General	121,313
Other	General	10,073
		<hr/>
Total		<u>\$ 133,057</u>

The transfer from the general fund to the debt service fund of \$121,313 represents monies transferred to cover debt service payments as become due.

11. CAPITAL ASSETS

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

<u>Primary Government</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,234,136	\$ -	\$ -	\$ 4,234,136
Construction in progress	3,826,339	2,415,095	1,007,346	5,234,088
Total capital assets, not being depreciated	<hr/> 8,060,475	<hr/> 2,415,095	<hr/> 1,007,346	<hr/> 9,468,224
Capital assets, being depreciated:				
Buildings and building improvements	31,541,492	1,373,249	-	32,914,741
Vehicles, machinery and equipment	10,411,277	292,761	46,542	10,657,496
Infrastructure	12,919,854	-	-	12,919,854
Total capital assets, being depreciated	<hr/> 54,872,623	<hr/> 1,666,010	<hr/> 46,542	<hr/> 56,492,091
Less accumulated depreciation for:				
Buildings and building improvements	12,278,213	898,520	-	13,176,733
Vehicles, machinery and equipment	8,832,796	258,046	46,542	9,044,300
Infrastructure	10,536,244	640,294	-	11,176,538
Total accumulated depreciation	<hr/> 31,647,253	<hr/> 1,796,860	<hr/> 46,542	<hr/> 33,397,571
Total capital assets, being depreciated, net	<hr/> 23,225,370	<hr/> (130,850)	<hr/> -	<hr/> 23,094,520
Governmental activities capital assets, net	<u>\$ 31,285,845</u>	<u>\$ 2,284,245</u>	<u>\$ 1,007,346</u>	<u>\$ 32,562,744</u>

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

Recreation	\$ 724,716
Public works	525,208
Public safety	458,402
General government	85,560
Health and welfare	<u>2,974</u>
 Total	 <u><u>\$ 1,796,860</u></u>

Capital asset activity for Jardines de Aguada Project, a discretely component unit for the year ended June 30, 2011 was as follows:

<u>Component Unit-Jardines de Aguada</u>	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</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	2,645,976	-	-	2,645,976
Furniture and fixtures	25,052	-	-	25,052
Equipment	108,788	6,206	-	114,994
Total capital assets, being depreciated	<u>3,293,501</u>	<u>6,206</u>	<u>-</u>	<u>3,299,707</u>
Total accumulated depreciation	<u>2,227,756</u>	<u>88,726</u>	<u>-</u>	<u>2,316,482</u>
Total capital assets, being depreciated, net	<u>1,065,745</u>	<u>(82,520)</u>	<u>-</u>	<u>983,225</u>
Governmental activities capital assets, net	<u>\$ 1,159,445</u>	<u>\$ (82,520)</u>	<u>\$ -</u>	<u>\$ 1,076,925</u>

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12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2011 are as follows:

Puerto Rico Electric Power Authority	\$ 3,223,345
Retirement System Administration	83,458
Puerto Rico Water and Sewer Authority	39,583
Workmen Compensation	461
General Services Administration	<u>526</u>
Total	<u>\$ 3,347,373</u>

13. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of \$938,341 in the general fund related to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-2012.

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, 2011 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.	\$ 19,000
\$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.	17,000

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\$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.	\$ 1,005,000
\$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.	151,000
\$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.	1,305,000
\$910,000 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.	550,000
\$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.	680,000
\$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	525,000
\$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.	525,000
\$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.	84,000
\$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.	55,000

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\$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.	\$ 60,000
\$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.	390,000
\$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.	1,130,000
\$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.	390,000
\$746,000 series of 2009 for construction purposes, payable in annual installments of \$29,000 to \$79,000, excluding interests of 7.50% through July 1, 2023.	653,000
\$820,000 series of 2009 for construction purposes, payable in annual installments of \$10,000 to \$75,000, excluding interests of 7.50% through July 1, 2029.	770,000
\$958,000 series of 2009 for construction purposes, payable in annual installments of \$91,000 to \$152,000, excluding interests of 7.50% through July 1, 2016.	662,000
\$61,000 series of 2009 for purchase of equipment, payable in annual installments of \$7,000 to \$11,000, excluding interests of 7.50% through July 1, 2015.	39,000

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\$370,000 series of 2010 for construction purposes, payable in annual installments of \$5,000 to \$35,000, excluding interests of 7.50% through July 1, 2016. \$ 360,000

Total bonds \$ 9,370,000

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)

On 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 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).

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The annual requirements for the amortization of general long-term debts at June 30, 2011, are as follows:

	Bonds Payable		Note Payable-CRIM (Law 146)	
	Principal	Interest	Principal	Interest
2012	\$ 892,000	\$ 536,278	\$ 8,773	\$ 11,458
2013	722,000	562,711	8,773	10,914
2014	773,000	513,019	8,773	10,368
2015	683,000	459,832	8,773	9,822
2016	726,000	413,390	8,773	9,276
2017-2021	2,757,000	1,415,990	43,865	38,196
2022-2026	1,502,000	698,680	43,865	24,554
2027-2031	1,225,000	244,293	43,865	10,912
2032-2036	90,000	14,250	8,763	546
	<u>\$ 9,370,000</u>	<u>\$ 4,858,443</u>	<u>\$ 184,223</u>	<u>\$ 126,046</u>

	Note Payable-CRIM (LIMS)	
	Principal	Interest
2012	\$ 26,081	\$ 776
	<u>\$ 26,081</u>	<u>\$ 776</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%.

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

Year Ended June 30,	Amount
2012	\$ 34,534
2013	37,658
2014	41,070
2015	44,794
2016	48,859
Thereafter	1,949,105
	\$ 2,156,020

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.

Primary Government	Beginning Balance	Additions	Payments	Ending Balance	Due within One Year
Governmental Activities:					
Bonds payable	\$ 10,201,000	\$ -	\$ 831,000	\$ 9,370,000	\$ 892,000
Note payable-CRIM (LIMS)	76,006		49,925	26,081	26,081
Note payable-(Law 146)	192,996		8,773	184,223	8,773
Total long-term debt	10,470,002	-	889,698	9,580,304	926,854
Other Long-Term Liabilities:					
Due to Labor Department	110,048		46,820	63,228	49,349
Due to CRIM	-	72,362		72,362	72,362
Puerto Rico Health	28,363	5,673		34,036	34,036
Claims and judgements	767,800		462,710	305,090	305,090
Compensated absences	3,096,652	245,046	282,890	3,058,808	123,158
Total other liabilities	4,002,863	323,081	792,420	3,533,524	583,995
Total noncurrent liabilities	\$ 14,472,865	\$ 323,081	\$ 1,682,118	\$ 13,113,828	\$ 1,510,849
Component Unit:					
Jardines de Aguada Project mortgage payable	\$ 2,187,690	\$ -	\$ 31,670	\$ 2,156,020	\$ 34,534

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16. FUND BALANCES

As of June 30, 2011, fund balances are comprised of the following:

	<u>General</u>	<u>SBGP</u>	<u>Debt Service</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 1,555,573	\$ 1,555,573
Public works					189,700	189,700
Health and welfare					349,355	349,355
Economic development					1,096,191	1,096,191
Capital outlays					387,216	387,216
Debt service			2,708,893			2,708,893
Committed:						
Economic development					738,446	738,446
Capital outlays				967,207		967,207
Assigned:						
General government	263,421					263,421
Public safety	1,955					1,955
Public works	61,464				24,920	86,384
Recreation	55,347					55,347
Health and welfare	5,273					5,273
Unassigned	1,125,514	(229,386)			19,185	915,313
	<u>\$ 1,512,974</u>	<u>\$ (229,386)</u>	<u>\$ 2,708,893</u>	<u>\$ 967,207</u>	<u>\$ 4,360,586</u>	<u>\$ 9,320,274</u>

17. FUND BALANCE DEFICIT

The following fund had a deficit in fund balance at June 30, 2011:

<u>Fund</u>	<u>Deficit</u>
SBGP	<u><u>\$(229,386)</u></u>

The deficit of the SBGP Funds will be eliminated by grant proceeds in fiscal year 2012.

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18. NET ASSETS

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated	\$ 32,562,744
Outstanding balance on capital related debt	(9,370,000)
Unspent capital debt proceeds	<u>967,207</u>
Total invested in capital assets, net of related	<u><u>\$ 24,159,951</u></u>

19. 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.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's 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

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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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011 was approximately \$453,848.

The Municipality's payroll for employees covered by ERS was approximately \$4.5 million. The Municipality total payroll for all employees was approximately \$7.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

20. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

21. 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 it 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.

22. COMMITMENTS

The Municipality of Aguada had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Loans and Bonds' funds that amounted to approximately \$967,000.

23. 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.

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, 2011, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

24. RESTATEMENTS

a. Net Assets:

The beginning balance of net assets as of July 1, 2010 has been restated as follows:

Net assets at beginning of year as previously reported	\$ 28,442,347
Overstatement of current liabilities	<u>12,613</u>
Net assets at beginning of year as restated	<u><u>\$ 28,454,960</u></u>

b. Fund Balance:

The beginning fund balance of the Other Governmental Funds has been restated as follows:

	Other Governmental Funds
Beginning fund balances, as previously reported	\$ 4,662,551
Overstatement of current liabilities	<u>12,613</u>
Net assets at beginning of year as restated	<u><u>\$ 4,675,164</u></u>

25. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 22, 2011, the date the financial statements were issued.

PART II - SINGLE AUDIT SECTION

ORTIZ, RIVERA, RIVERA & CO.

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

<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	\$ 632,022
Pass-through Commissioner Office of Municipal Affairs - Community Program SBGP	14.228	1,169,473
Pass-through Puerto Rico Department of Family Emergency Shelter Grants Program	14.231	142,819
Pass-through Department of Family: Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	339,216
Subtotal U.S. Department of HUD		<u>2,283,530</u>
U.S. Department of Agriculture		
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558	18,266
Subtotal U.S. Department of Agriculture		<u>18,266</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Puerto Rico Department of Family Child Care Development Block Grant	93.575	246,172
ARRA/Child Care and Development Block Grant	93.713	29,152
Subtotal U.S. Department of HHS		<u>275,324</u>
U.S. Department of Transportation		
Pass-through Transit Security Commission Federal Transit Formula Grants	20.507	172,842
Subtotal U.S. Department of Transportation		<u>172,842</u>
U.S. Department of Education		
Pass-through Puerto Rico Department of Education Safe and Drug Free Schools and Communities	84.186	52,072
Subtotal U.S. Department of Education		<u>52,072</u>
U.S. Department of Labor		
Pass-through the Commonwealth of Puerto Rico, the Human Resources and Occupational Development Council Workforce Investment Act (WIA) Youth Activities	17.259	18,410
Subtotal U.S. Department of Labor		<u>18,410</u>
U.S. Department of Justice		
Pass-through the Puerto Rico Department of Justice Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	106,944
Subtotal U.S. Department of Justice		<u>106,944</u>
TOTAL		<u>\$ 2,927,388</u>

See notes to Schedule of Expenditures of Federal Awards.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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	\$ 1,169,473
Federal expenditures included within the other nonmajor governmental funds	<u>1,757,915</u>
Total expenditures per schedule of expenditures of federal awards	<u><u>\$ 2,927,388</u></u>

**INDEPENDENT AUDITORS' 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, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 22, 2011. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill post closing 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

Management of the Municipality is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Municipality of Aguada's internal control over financial reporting as 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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*.

This report is intended solely for the information of the management, Commissioner Office of Municipal Affairs, others within the entity 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 22, 2011

The stamp E16544 was affixed to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each Municipality of Aguada's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 11-1.

Internal Control over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on effectiveness. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

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

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

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

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Qualified opinion

Internal control over financial reporting:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.228	State Block Grant Program
14.871	Section 8 Housing Choice Vouchers
14.257	Homelessness Prevention and Rapid Re-Housing
93.575	Child Care Development Block Grant
93.713	ARRA/Child Care and Development Block Grant

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

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

Audited qualified as low-risk auditee? Yes No

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

a. Child Care and Development Block Grant - CFDA No. 93.575

• **Condition 11-1**

The Municipality did not comply with the requirement of preparing and filing the first fund request for the program year 2010-2011 on a timely basis. The first fund request was submitted on November 2, 2010, which due on October 10, 2010. The final report for the program year 2010-2011 was submitted on October 27, 2011, which was due on October 15, 2011.

Cause

The employee responsible for reports have other duties assigned that affect the complaints of the program

Effect

The program is not in compliance with the reporting regulations.

Criteria

The Contract Number 241-2011-000169, into the Municipality and ACUDEN (the Agency) establish on clause number seven, a funds request report semiannually should be submitted during the first ten calendar days of the months of October and April of the program year cover by the contract. In

This report is intended solely for the information of the management, Commissioner Office of Municipal Affairs, others within the entity 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 22, 2011

The stamp E16545 was affixed
to the original of this report



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

addition, a balance sheet or final report should be submitted for the quarter ended September 30, 2011 during the first fifteen calendar days of the following month.

Recommendation

The Municipality should verify the duties assigned to employees in order to comply with the reporting requirements.

Questioned Costs

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, 2011**

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. 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, 2011**

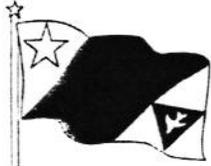
<u>Program</u>	<u>Finding/Non Compliance</u>	<u>Status</u>
<p>SBGP, CFDA No. 14.228</p>	<p>Condition 10-1 - Davis Bacon Act</p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause.</p>	<p>Condition was corrected.</p>
	<p>Condition 10-2 - Period of Availability</p> <p>The Federal Program Office does not request the extension of the contracts for the year program 2007 into the 45 days required. The extension for contracts was made on October 19, 2010, which due on August 17, 2010. The Municipality operates approximately two months without a signed contract.</p>	<p>Condition was corrected.</p>
	<p>Condition 10-3 - Program Income</p> <p>The Municipality did not comply with the requirement of preparing and filing the Estimated Program Income Report for the fiscal year 2010-2011 on a timely basis. The Estimated Program Income Report was submitted in January 26, 2011, which due on July 31, 2010.</p>	<p>Condition was corrected.</p>

CORRECTIVE ACTION PLAN

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Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Aguada
Oficina de Programas Federales

Apartado 517, Aguada, P.R. 00602
Tel. (787) 868-4766

CORRECTIVE ACTION PLAN

December 22, 2011

Cognizant or Oversight Agency for Audit:

Municipality of Aguada respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2011.

The findings from the June 30, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 11-1: Child Care Development Block Grant – CFDA 93.575

Reportable Condition: See Condition 11-1

Recommendation

The Municipality should verify the duties assigned to employees in order to comply with the reporting requirements.

Aguada "Ciudad del Descubrimiento"

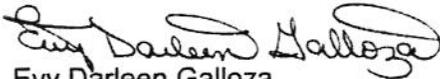


Action Taken

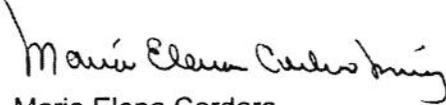
The Municipality will established control procedures in order to make and submit the report in to the required time.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Evy Darleen Galloza at (787) 868-4766.

Cordially,



Evy Darleen Galloza
Federal Program Director



Maria Elena Cordero
Child Care Program Director