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

MUNICIPIO DE AGUADA
AUDITORÍA 2011-2012

30 DE JUNIO DE 2012

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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PART I - FINANCIAL SECTION

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Puerto Rico Board of Certified Public Accountants

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, 2012, 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, 2012. 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 paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As more fully described in Note 22 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.

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In our opinion, 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, 2012 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, 2012, 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.

As described in Note 23 to the financial statements, the beginning balance of net assets has been restated to adjust the balance of capital assets. In addition, the beginning balance of fund balance of other governmental funds has been restated to present the State Legislative Joint Resolutions fund as major fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4 to 9 and 50 to 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Aguada's financial statements. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the schedule of expenditures of federal awards* is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico
November 30, 2012

Ortiz, Rivera, Rivera & Co.

The stamp E41533 was affixed
to the original of this report.

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Commonwealth of Puerto Rico
MUNICIPALITY OF AGUADA, PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012. 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 2012 by $35,203,305 (net assets).
- Revenues increased by $1,958,131 (12%) and expenses increased by $1,008,228 (6%) in comparison with year 2011.
- The municipality net assets increased by $3,808,975 in comparison with year 2011.

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 $14,126,860.
- The General Fund reported an unreserved fund balance of $1,696,165.

General Financial Highlights

- The investment in capital assets as of June 30, 2012 was $25,512,481.

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, 2012 and 2011:

Municipality of Aguada
Condensed Statement of Net Assets
June 30, 2012 and 2011

	2012	2011
Current assets	$ 22,161,869	$ 16,532,892
Capital assets	38,625,481	32,562,744
Total assets	60,787,350	49,095,636
Current liabilities	8,035,009	7,157,496
Noncurrent liabilities	17,549,036	13,501,920
Total liabilities	25,584,045	20,659,416
Invested in capital assets, net of related debt	25,512,481	23,192,744
Restricted	7,293,276	3,676,100
Unrestricted	2,397,548	1,567,376
Total net assets	$ 35,203,305	$ 28,436,220

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 $ 35,203,305 at June 30, 2012.

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, 2012 and 2011:

Municipality of Aguada
Condensed Statement of Activities
June 30, 2012 and 2011

	2012	2011
Program revenues:		
Charges for services	$ 4,184,341	$ 3,468,576
Operating grants and contributions	1,370,328	1,936,316
Capital grants and contributions	2,223,853	2,708,998
General revenues:		
Property taxes	4,715,523	4,397,699
Municipal license tax	1,383,006	1,438,315
Grants and contributions not restricted to specific programs	9,298,018	6,938,718
Interest, fines and penalties	264,551	242,391
Miscellaneous	233,278	61,177
Loss on disposition of assets	(9,289)	
Total revenues	23,663,609	21,192,190
Expenses:		
General government	10,437,959	8,612,875
Public safety	866,721	1,270,760
Public works	1,818,379	3,691,171
Recreation	1,206,392	2,033,612
Health and welfare	1,218,400	1,224,169
Economic development	3,482,427	3,829,831
Interest on long-term debt	824,356	548,512
Total expenses	19,854,634	21,210,930
Change in net assets	3,808,975	(18,740)
Net assets, beginning of year, as restated	31,394,330	28,454,960
Net assets, end of year	$ 35,203,305	$ 28,436,220

The Municipality's net assets increased by $3,808,975. Approximately 39 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 25 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2012, the governmental funds reported combined ending fund balances of $14,126,860. Of total combined fund balances, $1,696,165 constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 76% of total ending general fund balance. For the year ended June 30, 2012, the fund balance of the general fund increased by $696,833 when compared with the prior year. The principal component of the net increases is an excess of revenues over expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2011-2012 presented an increase of 3% with respect to prior year budget. Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The revised budget revenues exceeded the actual revenues by $89,690. The most significant variances were on Licenses and Permits by $418,351 and Interest, fines and penalties by $137,608.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality had $38,625,418 invested in capital assets, including buildings, land, construction in progress and equipment. This amount represents a net increase of $6,306,412 or 16% from the prior year.

Municipality of Aguada
Capital Assets (Net)
June 30, 2012 and 2011

	2012	2011 (as restated)
Non-depreciable assets:		
Land	$ 4,261,866	$ 4,234,136
Construction in Progress	3,486,719	5,234,088
Depreciable assets:		
Buildings and building improvements	23,315,741	20,493,655
Vehicles, machinery and equipment	4,012,933	4,098,504
Infrastructure	3,548,222	1,460,471
Total	$ 38,625,481	$ 35,520,854

The Municipality acquired a total of $8,145,782 of capital assets during the fiscal year 2011-2012 as follows:

- Land - $27,730

- Construction in Progress – $1,887,205
- Acquisition of Equipment and Vehicles – $ 359,848
- Buildings and Buildings Improvements - $3,634,574
- Infrastructure - $2,236,425

Other projects related to repair and maintenance of roads (not capitalized) was developed during the year 2012.

Long term debt

At year-end, the Municipality had $16,796,750 in general and special obligation bonds, an increase of $3,739,309 or 29% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2012 and 2011.

Municipality of Aguada
Long-term Debt
June 30, 2012 and 2011

	2012	2011
General obligations Bonds and Notes	$ 13,113,000	$ 9,370,000
LIMS Debt	-	26,081
CRIM	56,387	72,362
Labor Department	7,092	63,228
Financing of Delinquent Accounts Debts	175,450	184,223
Puerto Rico Health Insurance Administration	39,708	34,036
Claims and judgments	305,090	305,090
Compensated absences	3,156,410	3,058,808
Total	$ 16,853,137	$ 13,113,828

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2012-2013 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 2013 are $14,264,676, approximately $10,795 or 1% more than the fiscal year 2012. 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, 2012

ASSETS

	Governmental Activities	Jardines de Aguada
Cash and cash equivalents **(Note 2)**	$ 4,406,830	$ 88,355
Cash with fiscal agent **(Note 2)**	8,898,810	
Certificates of deposit **(Note 2)**	2,281,879	
Accounts receivable:		
Municipal license taxes	11,951	
Rent, licenses and permits	119,511	
Sales and use taxes	233,774	
Tenants		29,515
Other	490,000	38
Interests	3,199	
Due from other agencies **(Note 8)**	5,715,915	
Restricted deposits		150,241
Other assets		1,019
Capital assets, net **(Note 10)**	38,625,481	1,019,596
Total assets	$ 60,787,350	$ 1,288,764

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 NET ASSETS
JUNE 30, 2012

LIABILITIES AND NET ASSETS

	Governmental Activities	Jardines de Aguada
Liabilities		
Accounts payable and accrued liabilities	$ 853,458	$ 44,509
Due to other agencies **(Note 11)**	4,176,744	
Deferred revenues **(Note 12):**		
Municipal license taxes	1,030,184	
Federal government	630,619	
Intergovernmental	174,024	
Matured bonds payable	883,000	
Matured interest payable	286,980	
Noncurrent liabilities **(Note 14)**:		
Due within one year	1,406,138	37,658
Due in more than one year	15,446,999	2,083,829
Accrued interest payable	695,899	
Total liabilities	25,584,045	2,165,996
Net Assets		
Investment in capital assets, net of related debt **(Note 17)**	25,512,481	
Restricted for:		
Debt service	3,047,880	
Capital projects	4,245,396	
Unrestricted	2,397,548	(877,232)
Total net assets	$ 35,203,305	$ (877,232)

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Unit: Jardines de Aguada
Primary Government:						
General government	$ 10,437,959	$ 2,149,411	$ -	$ -	$ (8,288,548)	$ -
Public safety	866,721				(866,721)	
Public works	1,818,379			2,223,853	405,474	
Recreation	1,206,392				(1,206,392)	
Health and welfare	1,218,400		1,370,328		151,928	
Economic development	3,482,427				(3,482,427)	
Interest on long-term debt	824,356				(824,356)	
Total	$ 19,854,634	$ 2,149,411	$ 1,370,328	$ 2,223,853	(14,111,042)	-
Component Unit:						
Jardines de Aguada	$ 376,671	$ 433,669	$ -	$ -		56,998
General revenues:						
Property taxes **(Note 5)**					4,715,523	
Municipal license tax **(Note 6)**					1,383,006	
Sales and use tax **(Note 7)**					2,034,930	
Grants and contributions not restricted to specific programs					9,298,018	
Interest, fines and penalties					264,551	325
Miscellaneous					233,278	
Loss on disposition of assets					(9,289)	
Total general revenues					17,920,017	325
Change in net assets					3,808,975	57,323
Net assets at beginning of year, as restated **(Note 23)**					31,394,330	(934,555)
Net assets at end of year					$ 35,203,305	$ (877,232)

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2012

Assets	General	SBGP	Debt Service	State Legislative Joint Resolutions	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents **(Note 2)**	$ 1,163,885	$ 30	$ -	$ 2,030,402	$ -	$ 1,212,513	$ 4,406,830
Cash with fiscal agent **(Note 2)**	4,111		4,101,338		4,245,396	547,965	8,898,810
Certificates of deposit **(Note 2)**	1,106,495			402,000		773,384	2,281,879
Accounts receivable:							
Municipal license taxes **(Note 7)**	11,951						11,951
Sales and use taxes			116,522			117,252	233,774
Rent, licences and permits	119,511						119,511
Interests	3,199						3,199
Other receivables	490,000						490,000
Due from other agencies **(Note 8)**	4,508,860	813,967				393,088	5,715,915
Due from other funds **(Note 9)**	339,687						339,687
Total assets	$ 7,747,699	$ 813,997	$ 4,217,860	$ 2,432,402	$ 4,245,396	$ 3,044,202	$ 22,501,556

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2012

Liabilities and Fund Balance (Deficit)	General	SBGP	Debt Service	State Legislative Joint Resolutions	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Liabilities							
Accounts payable and accrued liabilities	$ 156,940	$ 282,447	$ -	$ 181,283	$ -	$ 232,788	$ 853,458
Due to other agencies **(Note 11)**	4,176,744						4,176,744
Due to other funds **(Note 9)**		100,755				238,932	339,687
Deferred revenues:							
Municipal license tax **(Note 12)**	1,030,184						1,030,184
Intergovernmental	174,024						174,024
Federal grants		630,619					630,619
Matured bonds payable			883,000				883,000
Matured interest payable			286,980				286,980
Total liabilities	5,537,892	1,013,821	1,169,980	181,283	-	471,720	8,374,696
Commitments and Contingencies (Notes 20 and 21)							
Fund Balances (Deficit)							
Restricted			3,047,880	2,251,119		2,108,429	7,407,428
Committed					4,245,396	406,951	4,652,347
Assigned	513,642					31,500	545,142
Unassigned	1,696,165	(199,824)				25,602	1,521,943
Total fund balance (deficit)	2,209,807	(199,824)	3,047,880	2,251,119	4,245,396	2,572,482	14,126,860
Total liabilities and fund balance (deficit)	$ 7,747,699	$ 813,997	$ 4,217,860	$ 2,432,402	$ 4,245,396	$ 3,044,202	$ 22,501,556

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balances - governmental funds	$ 14,126,860
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	38,625,481
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)**	(17,549,036)
Net assets of governmental activities	$ 35,203,305

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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, 2012

	General	SBGP	Debt Service	State Legislative Joint Resolutions	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes **(Note 5)**	$ 3,501,888	$ -	$ 1,213,635	$ -	$ -	$ -	$ 4,715,523
Municipal license taxes **(Note 6)**	1,383,006						1,383,006
Sales and use tax **(Note 7)**			677,425			1,357,505	2,034,930
Licenses and permits	369,009						369,009
Charges for service and rents	1,780,402						1,780,402
Intergovernmental revenues **(Note 13)**:							
Federal grants and contributions		920,799				1,370,328	2,291,127
State contributions	7,893,018			1,405,000		1,303,054	10,601,072
Interest, fines and penalties	261,063		3,396	92			264,551
Other revenues	206,991	20				26,267	233,278
Total revenues	15,395,377	920,819	1,894,456	1,405,092	-	4,057,154	23,672,898
EXPENDITURES							
Current:							
General government	8,538,358			494,940	27,017	421,147	9,481,462
Public safety	793,165						793,165
Public works	4,608,613						4,608,613
Recreation	724,917					414,248	1,139,165
Health and welfare	402,168					778,936	1,181,104
Economic development		891,257				2,591,170	3,482,427
Capital outlays					994,794	298,790	1,293,584
Debt service:							
Principal retirement			1,140,243				1,140,243
Interest and other			516,549				516,549
Total expenditures	15,067,221	891,257	1,656,792	494,940	1,021,811	4,504,291	23,636,312
Excess (deficiency) of revenues over (under) expenditures	328,156	29,562	237,664	910,152	(1,021,811)	(447,137)	36,586
OTHER FINANCING SOURCES (USES)							
Bond issuance	470,000				4,300,000		4,770,000
Transfers in	1,902		103,225			200,000	305,127
Transfers out	(103,225)		(1,902)	(200,000)			(305,127)
Total other financing sources (uses)	368,677	-	101,323	(200,000)	4,300,000	200,000	4,770,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	696,833	29,562	338,987	710,152	3,278,189	(247,137)	4,806,586
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 23)	1,512,974	(229,386)	2,708,893	1,540,967	967,207	2,819,619	9,320,274
FUND BALANCE (DEFICIT) AT END OF YEAR	$ 2,209,807	$ (199,824)	$ 3,047,880	$ 2,251,119	$ 4,245,396	$ 2,572,482	$ 14,126,860

OK
05/03/2013

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

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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, 2012

Net change in fund balances - total governmental funds	$ 4,806,586
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.	4,511,208
• 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.	(1,397,292)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(4,770,000)
• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.	1,133,965
• Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources.	(9,289)
• Change in accrued interest expense which does not require the use of current financial resources.	(307,807)
• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	
• Deferred charges	(55,122)
• Puerto Rico Health Insurance Administration	(5,672)
• Compensated absences	(97,602)
Changes in net assets of governmental activities	$ 3,808,975

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

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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.

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- 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.

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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

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the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

During 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"*. 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.

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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 60 days of 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.

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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.

5) State Legislative Joint Resolution

The State Legislative Joint Resolution fund is used to account for certain operations grants awarded by the Legislative of the Commonwealth of Puerto Rico to subsidy certain operations and administrative activities of the Municipality.

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.

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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).

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:

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

g. Fund Balances

During fiscal year 2011, 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

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(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.

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, 2012.

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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 implementation of GASB No. 54.

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, 2012 amounted to $140,409. The current insurance policies have not been cancelled or terminated. The CRIM also deducted $289,335 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.

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j. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
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
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

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

k. Use of Estimates

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

3. 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 $17.5 million difference is as follows:

Bonds payable	$13,113,000
Compensated absences	3,156,410
Note payable	175,450
Accrued interest	695,899
Claims and judgments	305,090
Other long-term liabilities	103,187
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	$17,549,036

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4. 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 $6.6 million in the governmental activities were fully collateralized at June 30, 2012. The deposits at GDB of approximately $4.2 million that are restricted principally for capital projects and the $4.1million 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.

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.

5. 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.

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

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

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

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

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

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

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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 2011-12, 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, during the year ended June 30, 2012, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by approximately $251,815. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 8)

6. 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, 2012. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that 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%

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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 $1,030,184, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

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

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

a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,

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

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.

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8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority	$ 4,083,021
Commissioner Office of Municipal Affairs	813,967
Other governmental funds	393,088
Puerto Rico Treasury Department	174,024
Municipal Revenues Collection Center (General Fund)	251,815
Total	$ 5,715,915

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	$ 238,932
General Fund	SBGP	100,755
		$ 339,687

The balance of $238,932 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, 2012 consisted of the following:

Transfer In	Transfer Out	Amount
General	Debt Service	$ 1,902
Debt Service	General	103,225
Other Governmental Funds	State Legislative Joint Resolutions	200,000
Total		$ 305,127

The transfer from the general fund to the debt service fund of $103,225 represents monies transferred to cover debt service payments as become due.

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government	Balance June 30, 2011 (As restated)	Increases	Decreases	Balance June 30, 2012
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 4,234,136	$ 27,730	$ -	$ 4,261,866
Construction in progress	5,234,088	1,887,205	3,634,574	3,486,719
Total capital assets, not being depreciated	9,468,224	1,914,935	3,634,574	7,748,585
Capital assets, being depreciated:				
Buildings and building improvements	32,730,097	3,634,574	-	36,364,671
Vehicles, machinery and equipment	8,310,134	359,848	9,429	8,660,553
Infrastructure	10,693,620	2,236,425	-	12,930,045
Total capital assets, being depreciated	51,733,851	6,230,847	9,429	57,955,269
Less accumulated depreciation for:				
Buildings and building improvements	12,236,442	812,488	-	13,048,930
Vehicles, machinery and equipment	4,211,630	436,130	140	4,647,620
Infrastructure	9,233,149	148,674	-	9,381,823
Total accumulated depreciation	25,681,221	1,397,292	140	27,078,373
Total capital assets, being depreciated, net	26,052,630	4,833,555	9,289	30,876,896
Governmental activities capital assets, net	$ 35,520,854	$ 6,748,490	$ 3,643,863	$ 38,625,481

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

Recreation	$ 67,227
Public works	427,390
Public safety	73,556
General government	791,823
Health and welfare	37,296
Total	$ 1,397,292

Capital asset activity for Jardines de Aguada Project, a discretely component unit, for the year ended June 30, 2012 was as follows:

Component Unit-Jardines de Aguada	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 93,700	$ -	$ -	$ 93,700
Total capital assets, not being depreciated	93,700	-	-	93,700
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	1,242	-	26,294
Equipment	114,994	24,039	-	139,033
Total capital assets, being depreciated	3,299,707	25,281	-	3,324,988
Total accumulated depreciation	2,316,482	82,610	-	2,399,092
Total capital assets, being depreciated, net	983,225	(57,329)	-	925,896
Governmental activities capital assets, net	$ 1,076,925	$ (57,329)	$ -	$ 1,019,596

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11. DUE TO OTHER AGENCIES

Puerto Rico Electric Power Authority	$ 4,083,021
Retirement System Administration	78,886
Puerto Rico Water and Sewer Authority	14,311
General Services Administration	526
Total	$ 4,176,744

12. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of $1,030,184 in the general fund related to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-2013.

13. 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.

14. LONG-TERM DEBTS

Bonds

$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.	$ 9,000
$2,030,000 series of 1993 for construction purposes, payable in annual installments of $30,000 to $185,000, excluding variable interests up to 8.20% through July 1, 2018.	895,000
$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.	133,000

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$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.	$ 1,215,000
$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.	505,000
$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.	655,000
$635,000 series of 2004 for construction and purchase of equipment, payable in annual installments of $10,000 to $50,000, excluding variable interests up to 5.31% through July 1, 2028.	505,000
$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.	510,000
$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.	380,000
$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.	1,100,000
$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.	270,000

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$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.	$ 618,000
$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.	750,000
$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.	548,000
$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.	30,000
$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.	355,000
$345,000 series of 2012 for construction purposes, payable in annual installments of $5,000 to $35,000, excluding interests of 6%-7.50% through July 1, 2036.	340,000
$980,000 series of 2012 for construction purposes, payable in annual installments of $25,000 to $90,000, excluding interests of 6%-7.50% through July 1, 2031.	955,000
$245,000 series of 2012 for construction purposes, payable in annual installments of $5,000 to $20,000, excluding interests of 6%-7.50% through July 1, 2031.	240,000

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$830,000 series of 2012 for construction purposes, payable in annual installments of $15,000 to $70,000, excluding interests of 6%-7.50% through July 1, 2036.	$ 820,000
$255,000 series of 2012 for construction purposes, payable in annual installments of $5,000 to $30,000, excluding interests of 6%-7.50% through July 1, 2031.	250,000
$345,000 series of 2012 for construction purposes, payable in annual installments of $5,000 to $35,000, excluding interests of 6%-7.50% through July 1, 2036.	340,000
$700,000 series of 2012 for construction purposes, payable in annual installments of $15,000 to $65,000, excluding interests of 6%-7.50% through July 1, 2031.	685,000
$470,000 series of 2012 for construction purposes, payable in annual installments of $55,000 to $90,000, excluding interests of 6%-7.50% through July 1, 2018.	415,000
$600,000 series of 2012 for construction purposes, payable in annual installments of $10,000 to $50,000, excluding interests of 6%-7.50% through July 1, 2036.	590,000
Total bonds	$13,113,000

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

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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).

	Bonds Payable		Note Payable-CRIM (Law 146)	
	Principal	Interest	Principal	Interest
2013	$ 862,000	$ 813,442	$ 8,773	$ 10,914
2014	923,000	562,711	8,773	10,368
2015	843,000	513,019	8,773	9,822
2016	901,000	459,832	8,773	9,276
2017	806,000	413,390	8,773	8,730
2018-2022	3,289,000	1,415,990	43,865	35,468
2023-2027	2,574,000	698,680	43,865	21,826
2028-2032	2,200,000	244,293	43,855	8,185
2033-2037	715,000	14,250	-	-
	$ 13,113,000	$ 5,135,607	$ 175,450	$ 114,589

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
2013	$ 37,658
2014	41,070
2015	44,794
2016	48,859
2017	53,300
Thereafter	1,895,805
	$ 2,121,486

As described in Note 5, 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	$ 9,370,000	$ 4,770,000	$ 1,027,000	$ 13,113,000	$ 862,000
Note payable-CRIM (LIMS)	26,081		26,081	-	-
Note payable-(Law 146)	184,223		8,773	175,450	8,773
Total long-term debt	9,580,304	4,770,000	1,061,854	13,288,450	870,773
Other Long-Term Liabilities:					
Due to Labor Department	63,228		56,136	7,092	7,092
Due to CRIM	72,362		15,975	56,387	56,387
Puerto Rico Health Insurance Administration	34,036	5,672		39,708	39,708
Claims and judgements	305,090			305,090	305,090
Compensated absences	3,058,808	368,437	270,835	3,156,410	127,088
Total other liabilities	3,533,524	374,109	342,946	3,564,687	535,365
Total noncurrent liabilities	$ 13,113,828	$ 5,144,109	$ 1,404,800	$ 16,853,137	$ 1,406,138
Component Unit:					
Jardines de Aguada Project mortgage payable	$ 2,156,020	$ -	$ 34,534	$ 2,121,486	$ 37,658

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15. FUND BALANCES

As of June 30, 2012, fund balances are comprised of the following:

	General	SBGP	Debt Service	State Legislative Joint Resolution	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Restricted:							
General government	$ -	$ -	$ -	$ -	$ -	$ 81,272	$ 81,272
Health and welfare						217,774	217,774
Economic development				2,251,119		1,150,964	3,402,083
Capital outlays						658,418	658,418
Debt service			3,047,880				3,047,880
Committed:							
Economic development						406,952	406,952
Capital outlays					4,245,396		4,245,396
Assigned:							
General government	254,504						254,504
Public safety	7,407						7,407
Public works	215,667					31,500	247,167
Recreation	20,853						20,853
Health and welfare	15,211						15,211
Unassigned	1,696,165	(199,824)				25,602	1,521,943
	$ 2,209,807	$ (199,824)	$ 3,047,880	$ 2,251,119	$4,245,396	$ 2,572,482	$ 14,126,860

16. FUND BALANCE DEFICIT

The following fund had a deficit in fund balance at June 30, 2012:

Fund	Deficit
SBGP	$(199,824)

The deficit of the SBGP Fund will be eliminated by grant proceeds in fiscal year 2013.

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17. NET ASSETS

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

Capital assets, net of accumulated	$ 38,625,481
Outstanding balance on capital related debt	(13,113,000)
Total invested in capital assets, net of related	$ 25,512,481

18. 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 of 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

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fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (10.275% 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 10.275% of gross salary. Contributions' requirements are established by law.

The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012 was approximately $430,868.The Municipality's payroll for employees covered by ERS was approximately $ 4.2 million. The Municipality total payroll for all employees was approximately $7.5 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

19. 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.

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20. CONTINGENCIES

a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

21. COMMITMENTS

The Municipality of Aguada had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Loans and Bonds' fund that amounted to approximately $4.2 million.

22. 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, 2012, 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 Unites States of America and state and federal regulations.

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23. RESTATEMENT

a. Net Assets:

The beginning balance of net assets as of July 1, 2011 has been restated as follows:

Net assets at beginning of year as previously reported	$ 28,436,220
Understatement in capital assets	2,958,110
Net assets at beginning of year as restated	$ 31,394,330

b. Fund Balance:

The beginning fund balance of the Other Governmental Funds has been restated to present the State Legislative Joint Resolution fund as major fund, as follows:

	State Legislative Joint Resolutions	Other Governmental Funds
Beginning fund balances, as previously reported	$ -	$ 4,360,586
To reclassify fund balances	1,540,967	(1,540,967)
Beginning fund balance, as restated	$ 1,540,967	$ 2,819,619

24. SUBSEQUENT EVENTS

On September 7, 2012, the Government Development Bank for Puerto Rico (GDB) approved the issuance of $200,000 general obligation bond to the Municipality for the improvements to the "Plaza Monumento El Soldado". The interest rate range from 6% to 7.5% and the maturity date is July 1, 2027.

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On September 7, 2012, GDB approved the issuance of $75,000 general obligation bond to the Municipality for improvement to a basketball court. The interest rate range from 6% to 7.5% and the maturity date is July 1, 2027.

On September 7, 2012, GDB approved the issuance of $1,490,000 general obligation bond to the Municipality for construction of a vacational sport club. The interest rate range from 6% to 7.5% and the maturity date is July 1, 2037.

In addition, in preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through November 30, 2012, the date the financial statements were available to be issued.

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PART II - REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	$ 3,250,072	$ 3,250,072	$ 3,250,072	$ -
Municipal license taxes	1,450,650	1,450,650	1,507,110	56,460
Licences and permits	667,850	667,850	249,499	(418,351)
Charges for services and rent	1,347,636	1,347,636	1,590,402	242,766
State contributions	6,864,397	6,864,397	7,033,343	168,946
Interest, fines and penalties	410,000	410,000	272,392	(137,608)
Other revenues	263,276	263,276	261,373	(1,903)
Total revenues	14,253,881	14,253,881	14,164,191	(89,690)
EXPENDITURES				
Current:				
General government	8,139,685	8,767,762	8,553,567	214,195
Public safety	865,701	803,640	800,571	3,069
Public works	3,980,774	3,954,870	3,932,720	22,150
Recreation	872,224	762,714	745,770	16,944
Health and welfare	395,497	428,782	417,379	11,403
Total expenditures	14,253,881	14,717,768	14,450,007	267,761
OTHER FINANCING SOURCES				
Reprogramming funds	-	463,887	463,887	-
Excess of revenues over expenditures	$ -	$ -	$ 178,071	$ 178,071

Explanatioon of Differences:

Sources/Inflows of resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 14,164,191
Differences - budget to GAAP:	
Net change in receivables	1,231,186
Total revenues as reportesd on the statement of revenues, expenditures, and changes in fund balances (deficit)	$ 15,395,377
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule	$ 14,450,007
Differences - budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(387,460)
Net change in payables	491,032
Current year encumbrances recorded as expenditures for budgetary purposes	513,642
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)	$ 15,067,221

See note to Budgetary Comparison Schedule.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTE TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, 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 certain appropriations within the budget known as Mayor's Executive Orders do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2012 representing the original budget.

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PART III - SINGLE AUDIT SECTION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Housing Choice Vouchers	14.871	$ 687,324
Pass-through Commissioner Office of Municipal Affairs - Community Program SBGP	14.228	891,257
Pass-through Puerto Rico Department of Family Emergency Shelter Grants Program	14.231	283
Pass-through Department of Family: Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	160,299
Subtotal U.S. Department of HUD		1,739,163
U.S. Department of Agriculture		
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558	11,545
Subtotal U.S. Department of Agriculture		11,545
U.S. Department of Health and Human Services (HHS)		
Pass-through Puerto Rico Department of Family Child Care Development Block Grant	93.575	253,948
Subtotal U.S. Department of HHS		253,948
U.S. Department of Transportation		
Pass-through Transit Security Commission Federal Transit Formula Grants	20.507	2,356
Subtotal U.S. Department of Transportation		2,356
U.S. Department of Education		
Pass-through Puerto Rico Department of Education Safe and Drug Free Schools and Communities	84.186	105,339
Subtotal U.S. Department of Education		105,339
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	6,427
Subtotal U.S. Department of Labor		6,427
U.S. Department of Justice		
Pass-through the Puerto Rico Department of Justice Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	71,436
Subtotal U.S. Department of Justice		71,436
U.S. Department of Energy		
Energy Efficiency and Conservation Block Grant Program	81.128	118,851
Subtotal U.S. Department of Energy		118,851
U.S. Department of Homeland Security		
Pass-through the Federal Emergency Management Agency Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	116,480
Pass-through the Puerto Rico Public Security Affairs Homeland Security Grant Program	97.067	54,000
Subtotal U.S. Department of Homeland Security		170,480
TOTAL		$ 2,479,545

See accompanying 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, 2012

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 within SBGP Fund	$ 891,257
Federal expenditures included within the other nonmajor governmental funds	1,588,288
Total expenditures per schedule of expenditures of federal awards	$ 2,479,545

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Puerto Rico Board of Certified Public Accountants

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, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 30, 2012. 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 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.

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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
November 30, 2012

Ortiz, Rivera, Rivera & Co.

The stamp E41534 was affixed to the original of this report.

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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, 2012. 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

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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, 2012. 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 12-1 and 12-2.

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.

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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
November 30, 2012

Ortiz, Rivera, Rivera & Co.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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:

CFDA Numbers	Name of Federal Programs or Cluster
14.228	State Block Grant Program
14.871	Section 8 Housing Choice Vouchers
14.257	Homelessness Prevention and Rapid Re-Housing
81.128	Energy Efficiency and Conservation Block Grant Program

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

Audited qualified as low-risk auditee? ____ Yes __X__ No

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

a. EECBG - CFDA No. 81.128

- **Condition 12-1 – Cash Management**

The Municipality is not in compliance with the procedures established by the federal regulation to minimize the time elapsing between the transfer of funds and their disbursement.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

The continued occurrences of this condition may expose the Municipality to the assessment of interest cost relation to the excess cash on hand which would be paid from local funds.

Criteria

The federal regulation establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

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Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next three days, as established by federal regulations. Federal Funds should only be requested when they are going to be disbursing.

Questioned Costs

None

- **Condition 12-2 – Reporting**

The Municipality did not comply with the requirement of preparing and filing one financial report on a timely basis. During our examination of the Financial Reports, we noted that the Municipality did not send on time the quarterly reports for the following period ended:

Quarterly Financial Report SF-425:

Quarter Ended	Due Date	Date Submitted
06-30-2012	07-31-2012	08-14-2012

Quarterly Progress or Performance Report:

Quarter Ended	Due Date	Date Submitted
06-30-2012	07-31-2012	08-14-2012

Criteria

The Municipality is not in compliance with 45 CFR 74.52 which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management should prepare accurate and timely federal financial reports.

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Cause

The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.

Effect

The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Questioned Costs

None

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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, 2012

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.

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