

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

**MUNICIPIO DE AGUADA  
AUDITORÍA 2012-2013  
30 DE JUNIO DE 2013**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA**

***BASIC FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION AND  
INDEPENDENT AUDITORS' REPORT  
(WITH ADDITIONAL REPORTS REQUIRED  
UNDER OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2013***



***Hon. Jessie Cortés Ramos***

***Mayor***

***Mr. Juan O. Rodríguez***

***Finance Director***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA**

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## INDEPENDENT AUDITOR'S REPORT

Hon. Jessie Cortés Ramos and  
Members of the Municipal Legislature of the  
Commonwealth of Puerto Rico  
Municipality of Aguada  
Aguada, Puerto Rico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Aguada Project, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Jardines de Aguada Project, which statements reflect total assets of \$1,284,359 as of June 30, 2013, and total revenues of \$438,011 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Jardines de Aguada Project, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Aguada, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-16 and 68-71 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.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Puerto Rico, Municipality of Aguada's basic financial statements. The supplementary information shown in pages 72 through 77, are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

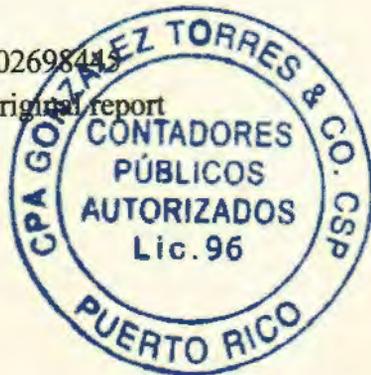
The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, on our consideration of the Commonwealth of Puerto Rico, Municipality of Aguada's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commonwealth of Puerto Rico, Municipality of Aguada's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 19, 2014

The stamp number 02698443  
was affixed to the original report



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***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

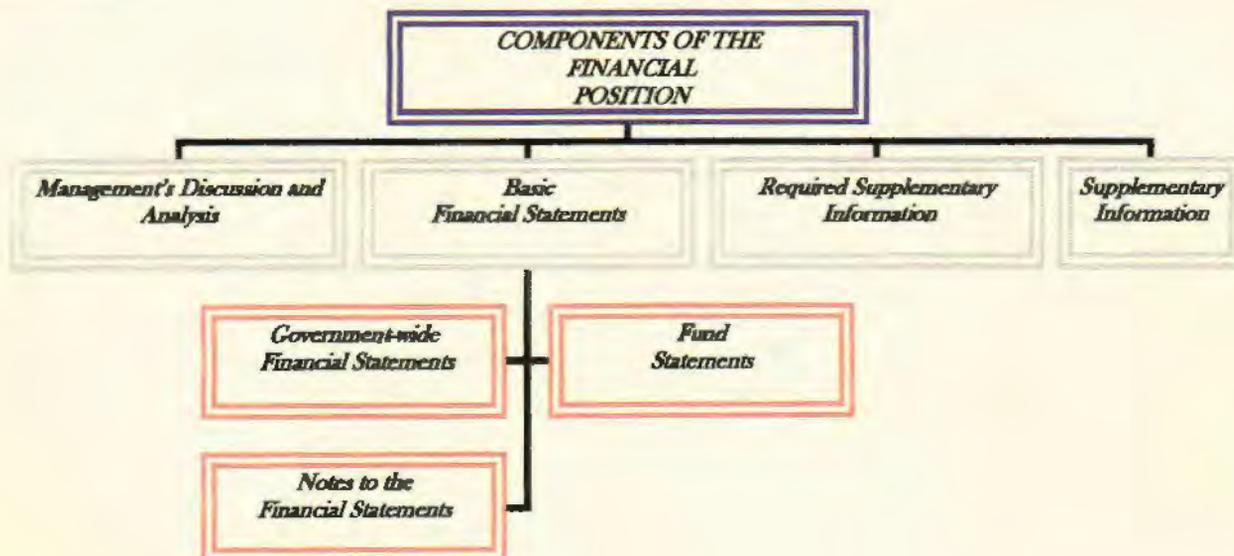
The discussion and analysis of the Municipality of Aguada's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$36,331,302 (net position). Of this amount, the Municipality presented an unrestricted net position (deficit) of \$(1,021,500).
- For the Municipality's governmental activities revenues decreased 12% but expenses reports no significant change when compared with fiscal year 2012. As a result, the net position increased \$1,146,650 or 3% with respect of prior year restated net position.
- A net change - increase in the fund balances of the Municipality's governmental funds of \$409,502 in the fiscal year 2013 resulted in reported ending fund balances of \$13,128,946, increasing 3% with respect to 2012 year. Approximately 16% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2013, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$323,778. The unassigned fund balance amounts to \$990,903, a decrease of 4% as compared to 2012.
- The investment in capital assets (total primary government) as of June 30, 2013 was \$41,726,932 (net of depreciation).
- Long-term debt (total primary government) increased to \$21,325,542 or approximately 5% with respect to the prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$89,645.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2013**

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 position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets 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 position 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 are divided into two categories: governmental and business-type activities. The governmental activities report the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through taxes (property, sales and use and municipal license) and intergovernmental revenues. Included in the governmental activities are the governmental funds. Business-type activities charges fees to customers to finance the costs of their activities. The activities of *Jardines de Aguada Project* are included here.

- ***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 as by bond covenants. The Municipality has two kinds of funds: governmental and proprietary funds.

**Governmental funds** - 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 as on balances of spendable 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**Proprietary funds** – services for which the Municipality charges customers a fee are generally reported as proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information and are accounted for using the economic resources measurement focus and the accrual basis of accounting. The Municipality's proprietary funds consist of an enterprise fund, the same as business-type activities. The Municipality reports the activities of *Jardines de Aguada Project* as an enterprise fund.

The fund statements focus on major funds. The Municipality's major governmental and enterprise funds are funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds or other nonmajor enterprise funds.

- ***Notes to financial statements***

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

**Required supplementary information**

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

**Supplementary information**

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Position**

The following table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**TABLE 1**

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2013	2012 (as restated)	2013	2012	2013	2012 (as restated)
<b>Assets</b>						
Current and other assets	\$ 19,071,607	\$ 21,790,305	\$ 236,691	\$ 269,168	\$ 19,308,298	\$ 22,059,473
Capital assets	40,679,264	38,755,762	1,047,668	1,019,596	41,726,932	39,775,358
<b>Total assets</b>	<b>59,750,871</b>	<b>60,546,067</b>	<b>1,284,359</b>	<b>1,288,764</b>	<b>61,035,230</b>	<b>61,834,831</b>
<b>Liabilities</b>						
Current and other liabilities	5,903,563	7,504,695	84,885	82,169	5,988,448	7,586,864
Long-term liabilities	16,672,722	17,013,436	2,042,758	2,083,829	18,715,480	19,097,265
<b>Total liabilities</b>	<b>22,576,285</b>	<b>24,518,131</b>	<b>2,127,643</b>	<b>2,165,998</b>	<b>24,703,928</b>	<b>26,684,129</b>
<b>Net Position</b>						
Net investment in capital assets	30,970,605	30,519,880	(1,036,161)	(1,101,892)	29,934,444	29,417,988
Restricted	7,330,095	6,530,864	88,263	150,241	7,418,358	6,681,105
Unrestricted (deficit)	(1,126,114)	(1,022,808)	104,614	74,417	(1,021,500)	(948,391)
<b>Total net position</b>	<b>\$ 37,174,586</b>	<b>\$ 36,027,936</b>	<b>\$ (843,284)</b>	<b>\$ (877,234)</b>	<b>\$ 36,331,302</b>	<b>\$ 35,150,702</b>

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2013, assets exceeded its liabilities by \$36,331,302. Net position reported an increase of 3% with respect to fiscal period 2012.

The largest portion of the Municipality's net position (82 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

As of June 30 2013, the Municipality presented an unrestricted net position (deficit) of \$(1,021,500). This deficit primarily arises from long-term obligations such as compensated absences and judgment and claims, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section.

***Changes in net position***

The following table summarizes the changes in net position for the fiscal years ended 2013 and 2012:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

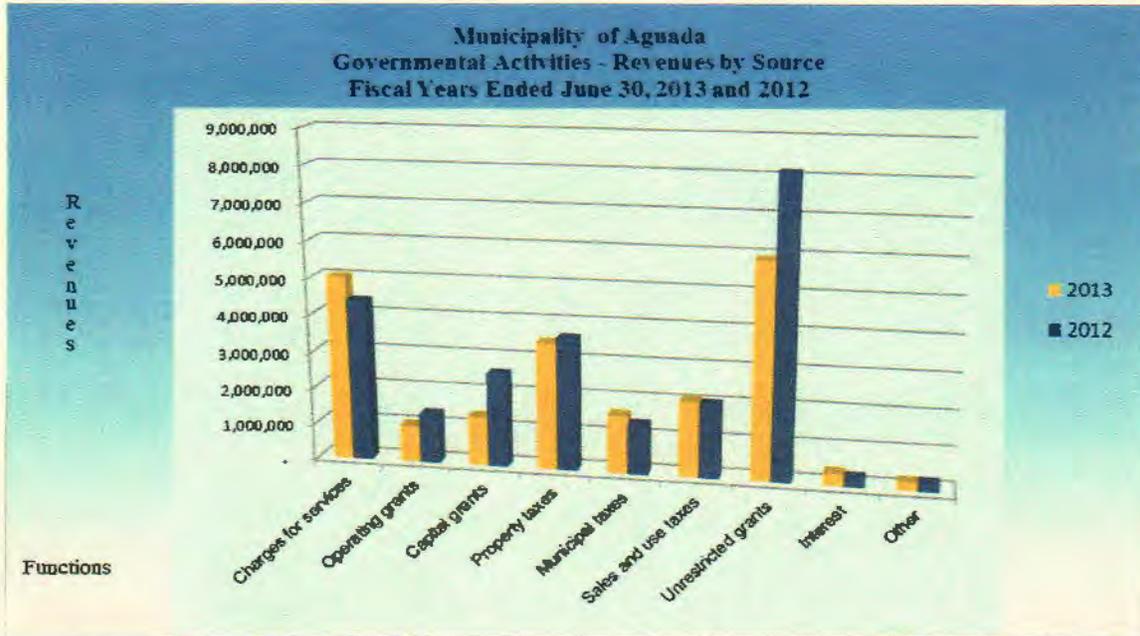
**TABLE 2**

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2013	2012 (as restated)	2013	2012	2013	2012 (as restated)
<b>Program revenues:</b>						
Fees, fines and charges for services	\$ 5,027,054	\$ 4,398,262	\$ 437,618	\$ 433,669	\$ 5,464,672	\$ 4,831,931
Operating grants and contributions	1,014,037	1,358,788	-	-	1,014,037	1,358,788
Capital grants and contributions	1,370,367	2,587,450	-	-	1,370,367	2,587,450
<b>General revenues:</b>						
Property taxes	3,490,615	3,624,809	-	-	3,490,615	3,624,809
Municipal license taxes	1,619,774	1,383,006	-	-	1,619,774	1,383,006
Sales and use taxes	2,085,442	2,034,930	-	-	2,085,442	2,034,930
Grants and contributions not restricted to specific programs	5,901,079	8,139,881	-	-	5,901,079	8,139,881
Interest and other	581,371	488,540	401	325	581,772	488,865
<b>Total revenues</b>	<b>21,089,739</b>	<b>24,015,666</b>	<b>438,019</b>	<b>433,994</b>	<b>21,527,758</b>	<b>24,449,660</b>
<b>Expenses:</b>						
General government	8,140,818	10,437,959	361,934	310,760	8,502,752	10,748,719
Public works and sanitation	5,788,626	3,507,096	-	-	5,788,626	3,507,096
Public safety	1,000,391	866,721	-	-	1,000,391	866,721
Culture and recreation	2,021,284	1,206,392	-	-	2,021,284	1,206,392
Health	492,975	402,168	-	-	492,975	402,168
Housing, welfare and community development	1,737,769	2,609,942	-	-	1,737,769	2,609,942
Education	29,650	-	-	-	29,650	-
Interest on long term debt	731,576	824,356	42,135	65,912	773,711	890,268
<b>Total expenses</b>	<b>19,943,089</b>	<b>19,854,634</b>	<b>404,069</b>	<b>376,672</b>	<b>20,347,158</b>	<b>20,231,306</b>
<b>Change in net position</b>	<b>1,146,650</b>	<b>4,161,032</b>	<b>33,950</b>	<b>57,322</b>	<b>1,180,600</b>	<b>4,218,354</b>
Net position-beginning of year, as restated	36,027,936	31,866,904	(877,234)	(934,556)	35,150,702	30,932,348
<b>Net position-end of year</b>	<b>\$ 37,174,586</b>	<b>\$ 36,027,936</b>	<b>\$ (843,284)</b>	<b>\$ (877,234)</b>	<b>\$ 36,331,302</b>	<b>\$ 35,150,702</b>

**Revenues, governmental activities** - the four major sources of revenues of the Governmental Activities of the Municipality in fiscal year 2013 are: unrestricted grants and contributions (28%), charges for services (24%), property taxes (17%) and sales and use taxes (10%). Revenues decreased 12% due mainly to a 47%, 25% and 27% decrease in capital grants, operating grants and unrestricted grants revenues respectively with respect to fiscal year 2012. The Municipality reported less income on certain federal and state grants and contributions including CDBG and Commonwealth Legislature Resolutions. The following **Figure 1** illustrates the revenue comparison between 2013 and 2012:

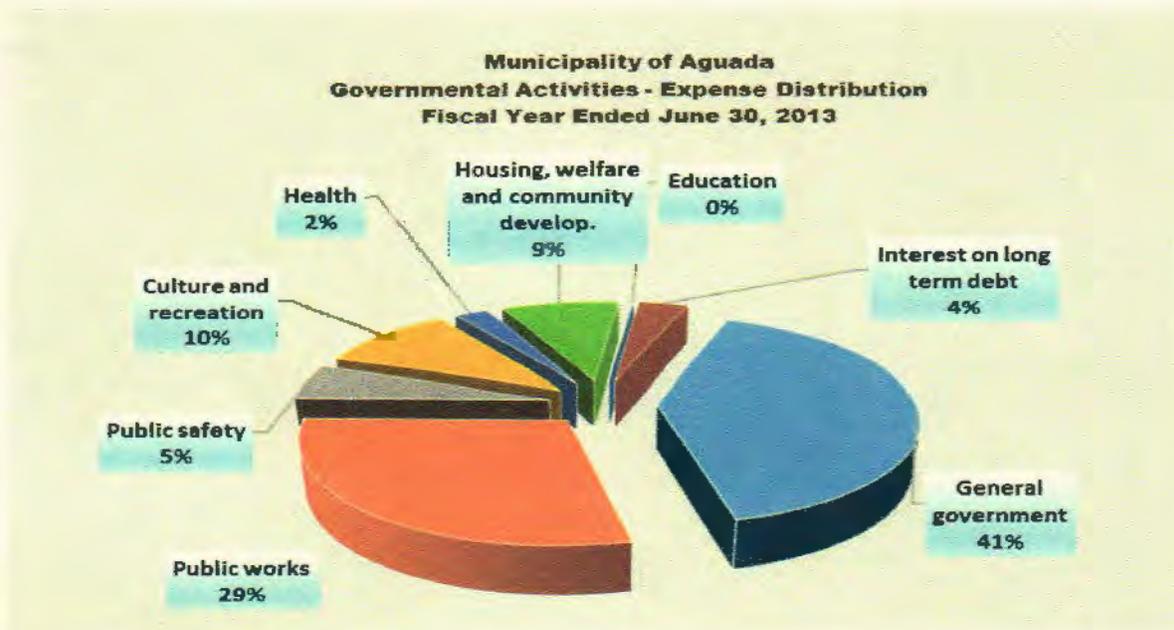
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**Figure 1**



Revenues, business-type activities – revenues of business-type activity of *Jardines de Aguada Project* consists mainly from charges for services – rental income paid by tenants and HUD – and remains stable with respect to fiscal year 2012.

**Figure 2**



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**Expenses, governmental activities** - Figure 2 illustrate the distribution of expenses in fiscal year 2013. As disclosed, the largest governmental activities expenses are general government with 41%, public works and sanitation with 29% and culture and recreation with 10%. Total expenses increased only .4% when compared with fiscal year 2012.

**Expenses, business-type activities** - expenses of business-type activity of *Jardines de Aguada Project* consists of administrative and operational expenses and remains stable with respect to fiscal year 2012.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2013 governmental activities expenses net of program revenue and the general revenues available to finance remaining costs:

**TABLE 3**

<b>Expenses Net of Program Revenues-Governmental Activities Fiscal Year ended June 30, 2013</b>	
<b>Net expenses</b>	<b>2013</b>
General government	\$ (2,992,140)
Public works and sanitation	(4,951,054)
Public safety	(1,000,391)
Culture and recreation	(2,017,784)
Health	(492,975)
Housing, welfare and community development	(316,061)
Education	(29,650)
Interest on long term debt	(731,576)
<b>Total expenses, net of program revenues</b>	<b>(12,531,631)</b>
<b>General revenues</b>	
Taxes	7,195,831
Grants and contributions not restricted to specific programs	5,901,079
Interest and other	581,371
<b>Total general revenues</b>	<b>13,678,281</b>
<b>Change in net position</b>	<b>\$ 1,146,650</b>

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues, as disclosed in the above Table 3.

Expenses of the business-type activity were fully covered by charges for services.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**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, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party.

For the fiscal year ended June 30, 2013, the governmental funds reported ending fund balances of \$13,128,946, a net increase of 3% in comparison with the prior year. Of the total fund balances, \$2,063,480 (or 16%) constitutes unrestricted fund balance, of which \$627,737 (or 5%) are unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

- ***General Fund***

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 18% of total ending fund balances. Of the total fund balance 29% of the fund balance is committed, 30% is assigned. The remainder of \$990,903 is unassigned fund balance, which represents 41% of the total fund balance. This unassigned fund balance decreased 4% with respect to the prior year. The total fund balance of the general fund is distributed between (1) Fund 01 of \$1,137,674 and, (2) special funds of \$1,288,972. These special funds represent fund balance of the general fund committed or assigned for specific purposes recorded in the Municipality's accounting system as special funds.

During the fiscal year the fund balance of the general fund increased by \$323,778. The main sources of revenues of the general fund in fiscal year 2013 are: intergovernmental subsidies from the Commonwealth with 36%, taxes (property taxes, sales and use taxes and municipal license taxes) with 32% and charges for services with 31%. Revenues decreased 4% in comparison to 2012. The largest expenditures of the general fund are public works and sanitation with 47%, general government with 31% and public safety with 9%. Expenditures decreased 4% as compared to 2012 year. As disclosed above, the general fund is distributed between Fund 01 and other special funds. The increase in general fund of \$323,778 is the net effect of: (1) a negative change in fund balance of \$(410,677) in Fund 01 and, (2) a positive change of \$734,455 in the other special funds.

- ***Community Development Block Grant Program Fund ("CDBG")***

Over the prior year CDBG's fund revenues increased and expenditures decreased, producing a positive net change in fund balance. A negative beginning balance restatement of \$166,633 caused an 83% decrease in the beginning fund balance. The restatement is explained in the notes to the financial statements.

- ***Commonwealth Legislature Fund***

This fund report revenue sources from grants provided by the Commonwealth's Legislature restricted for specific purposes. During the 2013 the fund balance decreased \$701,298. The fund received additional grants of \$100,000. Amounts were expended mainly in public works and capital outlays.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2013**

- ***Debt Service Fund***

The debt service fund had an increase in fund balance during the current year of \$277,082 to bring the year end fund balance to \$3,426,975 which represents 26% of total fund balances. The increase essentially results from a decrease in principal debt payments. Revenues increased slightly 1% on property and sales taxes deposited in the redemption funds.

- ***Bonds and Notes Issuance Fund***

During the year 2013 the Municipality recorded as other financing sources the issuance of a general obligation bond of \$75,000 for improvements to a basketball court; a \$1,490,000 special obligation bond for the construction of the "Club Deportivo Vacacional" project and a \$200,000 special obligation bond for the "Remodelacion Plaza Monumento el Soldado" project. The fund expended \$1,230,049 in capital projects during 2013.

**General Fund Budgetary Highlights** - the general fund original budget for the fiscal year 2012-2013 presented a .1% decrease with respect to the prior year budget. During the year amendments of \$201,452 increased the original budget to \$14,466,128. Actual revenues fall short from the revised budgeted revenues by \$28,398 (net) but the Municipality reported a positive variance of \$402,247 between revised budgeted appropriations and actual expenditures. Actual expenditures exceeded actual revenues by \$(89,646). During 2013 year the Municipality approved a readjustment of \$463,495 from prior year fund balance to be expended in capital projects.

**Proprietary funds**

The Municipality's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The net position (deficit) of *Jardines de Aguada Project* ("the Project") at the end of the fiscal year amounted to \$(843,284) resulting mainly from a negative net investment in capital assets of \$(1,036,161). This negative balance is the result of the balance of the net capital assets of \$1,047,668 less the balance of the related mortgage payable of \$2,083,829. The Project reported a positive change in net position of \$33,950 in the statement of revenues, expenses and changes in net position

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality's capital assets for its governmental and business-type activities amounted \$40,679,264 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This amount represents a net increase of 5% over the prior year. The following **Table 4** discloses the capital assets balances as of June 30, 2013:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**Table 4**

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2013	2012 (as restated)	2013	2012	2013	2012 (as restated)
<b>Non-depreciable assets:</b>						
Land	\$ 4,327,185	\$ 4,261,866	\$ 93,700	\$ 93,700	\$ 4,420,885	\$ 4,355,566
Construction in progress	1,771,327	3,680,839	-	-	1,771,327	3,680,839
<b>Depreciable assets (net):</b>						
Land improvements	-	-	112,563	125,405	112,563	125,405
Buildings and buildings improvements	25,013,313	23,315,741	815,730	784,686	25,829,043	24,100,427
Infrastructure	8,499,834	6,186,255	-	-	8,499,834	6,186,255
Vehicles, machinery and equipment	1,067,605	1,311,061	25,675	15,804	1,093,280	1,326,865
<b>Total</b>	<b>\$ 40,679,264</b>	<b>\$ 38,755,762</b>	<b>\$ 1,047,668</b>	<b>\$ 1,019,595</b>	<b>\$ 41,726,932</b>	<b>\$ 39,775,357</b>

**Governmental activities** - the Municipality's governmental activities major capital projects that were still in construction as of June 30, 2013 are as follows:

- Sport Complex Boulevard - \$381,262
- Construction of Splash Park - \$300,366
- Espinal Elderly Center - \$270,570

During the year the Municipality transferred \$3,682,991 from construction in progress for finished infrastructure and building and building improvements projects.

**Business-type activities** – capital asset's building improvements increased \$101,603 which is the most significant addition during the year.

More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**Long-term debt**

The following is a summary of the Municipality's outstanding debt as of June 30, 2013 and 2012:

**TABLE 5**

<i>Outstanding Long-term Debt – Governmental Activities</i>		
<i>Fiscal years ended June 30,</i>		
	Governmental Activities	
	2013	2012 (as restated)
General, Special Obligation Bonds and Notes	\$ 14,830,000	\$ 13,996,000
Note payable to CRIM-financing of delinquent accounts	166,660	175,432
Compensated absences	2,557,994	2,873,279
Christmas Bonus	237,173	244,945
Payable to CRIM-property tax advances current	-	56,387
Judgments and claims	500,000	6,000
Payable to EPA	15,000	22,500
Payable to PREPA	975,957	928,395
<b>Total</b>	<b>\$ 19,282,784</b>	<b>\$ 18,302,938</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2013**

The beginning balance of long term debt was restated for a net amount of \$1,449,801 resulting in a total beginning balance of \$18,302,938. At year-end, the governmental activities of the Municipality had \$14,830,000 in general and special bonds and notes outstanding, a net increase with respect to the prior year since it has issued long term debt during 2013 in the amount of \$1,765,000. With respect to other long-term debts (other than general obligation bonds and notes) the most significant increase resulted from a settled legal claim of \$500,000, paid subsequent to June 30, 2013.

The outstanding debt of the business-type activity consist of permanent residences loans provided by USDA-Rural Development. There were no significant changes with respect to 2012 year.

More detailed information about the Municipality's long-term liabilities is presented in Note G of the financial statements.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's officials considered certain factors when establishing the fiscal year's 2013-2014 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2013 stands at 15%, and the Commonwealth rate stands at 13.8%.

For year 2013-2014 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$13,773,934 representing a decrease of approximately 3% with respect to prior year estimates. Budgeted expenditures are expected to rise according to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2013-2014 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

As part of the budgetary management of the general fund for fiscal period 2013-2014 effective on July 1, 2013 the Municipal Legislature approved Ordinance No. 53 Series 2012-2013 as amended by Ordinance No. 4 Series 2013-2014 to establish a fiscal and administrative reorganization process to review the Municipality's organizational structure, administrative operations and processes to identify ways to improve efficiency and productivity. The process was implemented in order to address the general economic conditions, the fiscal condition of the Municipality and the reduction of funds and awards from the federal government. As part of this process, Ordinance 53 as amended implemented a salary reduction plan which is temporary until the Finance Director certifies that the plan has generated sufficient recurrent resources to cover the projected general fund's budgetary shortfall. For more details please refer to Note S of the basic financial statements.

As more fully described in Note S the Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economy recession since 2006. As a result of these matters, credit ratings agencies have been consistently downgrading the Commonwealth's and certain public corporation's general obligation bonds ratings. In order to address these matters the Commonwealth began to make legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico ("GDB"), its fiscal agent, and strength sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, along others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

Among other actions on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Act's provides for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

On February 4, 2014, February 7, 2014 and February 11, 2014 Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") respectively, lowered its ratings on the Commonwealth of Puerto Rico's general obligation (GO) debt and other of its instrumentalities such as GDB, ERS and COFINA. The downgrades follow S&P's, Moody's and Fitch's evaluation of liquidity and access to markets. It is the opinion of the Municipality's management that the corrective actions taken and to be taken in current and fiscal periods thereafter will lower the impact of this decision and cause a positive turnaround on the Commonwealth's and the Municipality's finances.

**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 any questions about this report or need any additional information contact the Finance Department at the Municipality of Aguada, Box 517, Aguada, P.R. 00602.

***BASIC FINANCIAL STATEMENTS***

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,800,246	\$ 122,333	\$ 4,922,579
Receivables, net			
Municipal license taxes	178,279	-	178,279
Sales and use taxes	104,795	-	104,795
Rent	17,393	-	17,393
Others	1,791	25,076	26,867
Due from:			
Commonwealth Government	1,680,534	-	1,680,534
Federal Government	374,556	-	374,556
Restricted assets:			
Cash and cash equivalents	1,794,023	88,263	1,882,286
Cash with fiscal agents	10,119,990	-	10,119,990
Other Assets	-	1,019	1,019
Capital assets:			
Land and construction in progress	6,098,512	93,700	6,192,212
Other capital assets, net	34,580,752	953,968	35,534,720
Total capital assets, net	40,679,264	1,047,668	41,726,932
<b>Total assets</b>	<b>59,750,871</b>	<b>1,284,359</b>	<b>61,035,230</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	1,445,392	43,815	1,489,207
Accrued interest payable	364,353	-	364,353
Due to:			
Commonwealth Government	389,449	-	389,449
Unearned revenues			
Municipal license taxes	1,094,307	-	1,094,307
Long term liabilities:			
Due within one year	2,610,062	41,070	2,651,132
Due in more than one year	16,672,722	2,042,758	18,715,480
<b>Total liabilities</b>	<b>22,576,285</b>	<b>2,127,643</b>	<b>24,703,928</b>
<b>NET POSITION</b>			
Net investment in capital assets	30,970,605	(1,036,161)	29,934,444
Restricted for:			
Capital projects	2,386,775	-	2,386,775
Debt service	4,257,385	-	4,257,385
Other specified purposes	685,935	88,263	774,198
Unrestricted (deficit)	(1,126,114)	104,614	(1,021,500)
<b>Total net position</b>	<b>\$ 37,174,586</b>	<b>\$ (843,284)</b>	<b>\$ 36,331,302</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013**

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Governmental activities:</b>							
General government	\$ 8,140,818	\$ 5,002,535	\$ -	\$ 146,143	\$ (2,992,140)	\$ -	\$ (2,992,140)
Public works and sanitation	5,788,626	21,019	-	816,553	(4,951,054)	-	(4,951,054)
Public safety	1,000,391	-	-	-	(1,000,391)	-	(1,000,391)
Culture and recreation	2,021,284	3,500	-	-	(2,017,784)	-	(2,017,784)
Health	492,975	-	-	-	(492,975)	-	(492,975)
Housing, welfare and community development	1,737,769	-	1,014,037	407,671	(316,061)	-	(316,061)
Education	29,650	-	-	-	(29,650)	-	(29,650)
Interest on long term debt	731,576	-	-	-	(731,576)	-	(731,576)
<b>Total governmental activities</b>	<b>19,943,089</b>	<b>5,027,054</b>	<b>1,014,037</b>	<b>1,370,367</b>	<b>(12,531,631)</b>	<b>-</b>	<b>(12,531,631)</b>
<b>Business-type activities:</b>							
Jardines de Aguada Project	404,069	437,618	-	-	-	33,549	33,549
<b>Total business-type activities</b>	<b>404,069</b>	<b>437,618</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,549</b>	<b>33,549</b>
<b>Total primary government</b>	<b>\$ 20,347,158</b>	<b>\$ 5,464,672</b>	<b>\$ 1,014,037</b>	<b>\$ 1,370,367</b>	<b>(12,531,631)</b>	<b>33,549</b>	<b>(12,498,082)</b>
<b>General revenues</b>							
<b>Taxes:</b>							
Property taxes					3,490,615	-	3,490,615
Municipal license taxes					1,619,774	-	1,619,774
Sales and use taxes					2,085,442	-	2,085,442
Grants and contributions not restricted to specific programs					5,901,079	-	5,901,079
Interest					356,054	8	356,062
Other					225,317	393	225,710
<b>Total general revenues</b>					<b>13,678,281</b>	<b>401</b>	<b>13,678,682</b>
<b>Change in net position</b>							
					1,146,650	33,950	1,180,600
<b>Net position-beginning</b>					<b>36,027,936</b>	<b>(877,234)</b>	<b>35,150,702</b>
<b>Net position-ending</b>					<b>\$ 37,174,586</b>	<b>\$ (843,284)</b>	<b>\$ 36,331,302</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED JUNE 30, 2013**

	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Bonds and Notes Issuance	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 3,954,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,954,862
Receivables, net:							
Municipal license taxes	178,279	-	-	-	-	-	178,279
Sales and use taxes	104,795	-	-	-	-	-	104,795
Rents and construction permits	17,393	-	-	-	-	-	17,393
Other	1,791	-	-	-	-	-	1,791
Due from:							
Commonwealth Government	1,322,885	-	-	101,589	-	256,060	1,680,534
Federal Government	-	244,844	-	-	-	129,712	374,556
Other funds	388,133	-	-	-	-	-	388,133
Restricted assets:							
Cash and cash equivalents	-	29	2,047,424	-	-	591,954	2,639,407
Cash with fiscal agents	660	-	-	4,520,149	5,009,051	590,130	10,119,990
<b>Total assets</b>	<b>\$ 5,968,798</b>	<b>\$ 244,873</b>	<b>\$ 2,047,424</b>	<b>\$ 4,621,738</b>	<b>\$ 5,009,051</b>	<b>\$ 1,567,856</b>	<b>\$ 19,459,740</b>
<b>Liabilities Deferred Inflows of Resources and Fund Balances (Deficit)</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 548,087	\$ 130,682	\$ 248,872	\$ -	\$ 325,693	195,807	\$ 1,449,141
Matured bonds and notes payable	-	-	-	844,000	-	-	844,000
Matured interest payable	-	-	-	350,763	-	-	350,763
Due to:							
Commonwealth Government	389,449	-	-	-	-	-	389,449
Other funds	-	114,191	-	-	-	273,942	388,133
Unearned revenues:							
Municipal license taxes	1,094,307	-	-	-	-	-	1,094,307
<b>Total liabilities</b>	<b>2,031,843</b>	<b>244,873</b>	<b>248,872</b>	<b>1,194,763</b>	<b>325,693</b>	<b>469,749</b>	<b>4,515,793</b>
<b>Deferred Inflow of Resources</b>							
Unavailable revenues - Commonwealth Government Funds	1,322,708	-	-	-	-	110,561	1,433,269
Unavailable revenues - Federal grants	-	121,700	-	-	-	72,431	194,131
Unavailable revenues - Others	187,601	-	-	-	-	-	187,601
<b>Total deferred inflow of resources</b>	<b>1,510,309</b>	<b>121,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>182,992</b>	<b>1,815,001</b>
<b>Fund Balances (deficit):</b>							
Restricted	-	-	1,798,552	3,426,975	4,683,358	1,156,581	11,065,466
Committed	701,280	-	-	-	-	-	701,280
Assigned	734,463	-	-	-	-	-	734,463
Unassigned	990,903	(121,700)	-	-	-	(241,466)	627,737
<b>Total fund balances (deficit)</b>	<b>2,426,646</b>	<b>(121,700)</b>	<b>1,798,552</b>	<b>3,426,975</b>	<b>4,683,358</b>	<b>915,115</b>	<b>13,128,946</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficit)</b>	<b>\$ 5,968,798</b>	<b>\$ 244,873</b>	<b>\$ 2,047,424</b>	<b>\$ 4,621,738</b>	<b>\$ 5,009,051</b>	<b>\$ 1,567,856</b>	<b>\$ 19,459,740</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FISCAL YEAR ENDED JUNE 30, 2013**

<b>Total governmental fund balances:</b>		<b>\$ 13,128,946</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet		40,679,264
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Receivables:		
Municipal License Taxes	\$ 177,853	
Rent	9,748	
Due from Commonwealth entities:		
Puerto Rico Electric Power Authority (PREPA)	975,956	
Office for the Improvement of Public Schools ("OMEP")	45,587	
Puerto Rico Department of Transportation	64,973	
CRIM-current year property tax advances liquidation	236,593	
Puerto Rico Department of Treasury-Christmas bonus reimbursement	110,159	
Due from Federal Government:		
Federal grants - CDBG	121,700	
Federal Grants - Hazard Mitigation	18,750	
Federal grants - Emergency Shelter Grant	46,570	
Federal grants - P.R. Office of the Ombudsman for the Elderly - Title III-E	7,111	1,815,000
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds		(13,590)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(13,986,000)	
Compensated absences	(2,557,994)	
Judgement and claims	(500,000)	
Doubtfull accounts debt payable to CRIM	(166,660)	
Christmas bonus	(237,173)	
PREPA debt	(975,957)	
EPA debt	(11,250)	(18,435,034)
<b>Net position of governmental activities:</b>		<b>\$37,174,586</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)**  
**FISCAL YEAR ENDED JUNE 30, 2013**

	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Bonds and Notes Insurance	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
<b>Taxes:</b>							
Property taxes	\$ 2,411,934	\$ -	\$ -	\$ 1,093,903	\$ -	\$ -	\$ 3,505,837
Municipal license taxes	1,441,921	-	-	-	-	-	1,441,921
Sales and use taxes	1,298,579	-	-	786,863	-	-	2,085,442
<b>Intergovernmental</b>							
Commonwealth government	5,864,625	-	100,000	-	-	680,581	6,645,206
Federal government	-	981,584	-	-	-	1,013,298	1,994,882
Fees, fines and charges for services	4,969,745	-	-	-	-	-	4,969,745
Interest	17,410	-	-	3,807	334,296	541	356,054
Other	162,272	-	-	-	-	69,347	231,619
<b>Total revenues</b>	<b>16,166,486</b>	<b>981,584</b>	<b>100,000</b>	<b>1,884,573</b>	<b>334,296</b>	<b>1,763,767</b>	<b>21,230,706</b>
<b>Expenditures</b>							
<b>Current:</b>							
General government	6,561,684	126,257	-	-	-	342,663	7,030,604
Public works and sanitation	5,209,072	-	44,404	-	-	181,185	5,434,661
Public safety	819,096	-	-	-	-	18,831	837,927
Culture and recreation	1,351,579	-	-	-	-	32	1,351,611
Health	492,975	-	-	-	-	-	492,975
Housing, welfare and community development	398,289	196,455	223	-	-	1,049,620	1,644,587
Education	29,650	-	-	-	-	-	29,650
Capital outlays	458,869	414,115	756,671	-	1,230,049	424,792	3,284,496
<b>Debt service</b>							
Principal	-	-	-	892,000	-	-	892,000
Interest	-	-	-	713,610	-	-	713,610
Bond issuance costs	-	-	-	-	16,411	-	16,411
<b>Total expenditures</b>	<b>15,321,214</b>	<b>736,827</b>	<b>801,298</b>	<b>1,605,610</b>	<b>1,246,460</b>	<b>2,017,123</b>	<b>21,728,532</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>845,272</b>	<b>244,757</b>	<b>(701,298)</b>	<b>278,963</b>	<b>(912,164)</b>	<b>(253,356)</b>	<b>(497,826)</b>
<b>Other financing sources (uses)</b>							
Payment of PREPA debt	(857,672)	-	-	-	-	-	(857,672)
General obligation bonds	-	-	-	-	1,765,000	-	1,765,000
Transfers in	336,178	-	-	-	-	-	336,178
Transfers out	-	-	-	(1,881)	(334,297)	-	(336,178)
<b>Total other financing sources (uses)</b>	<b>(521,494)</b>	<b>-</b>	<b>-</b>	<b>(1,881)</b>	<b>1,430,703</b>	<b>-</b>	<b>907,328</b>
<b>Net change in fund balance</b>	<b>323,778</b>	<b>244,757</b>	<b>(701,298)</b>	<b>277,082</b>	<b>518,539</b>	<b>(253,356)</b>	<b>409,502</b>
<b>Fund balance at beginning of year, as restated</b>	<b>2,102,868</b>	<b>(366,457)</b>	<b>2,499,850</b>	<b>3,149,893</b>	<b>4,164,819</b>	<b>1,168,471</b>	<b>12,719,444</b>
<b>Fund balance at end of year</b>	<b>\$ 2,426,646</b>	<b>\$ (121,700)</b>	<b>\$ 1,798,552</b>	<b>\$ 3,426,975</b>	<b>\$ 4,683,358</b>	<b>\$ 915,115</b>	<b>\$ 13,128,946</b>

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 04/01/2014

The accompanying notes are an integral part of this statement.

**GT GONZALEZ TORRES & Co., PSC**  
 Certified Public Accountants and Consultants  
 Members of AICPA, CPA Society of Puerto Rico and Association of Certified Fraud Examiners

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013**

**Net change in fund balances-total governmental funds:** **\$ 409,502**

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

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 3,284,496	
Less: current year depreciation	<u>(1,367,131)</u>	1,917,365

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset: (10,582)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Municipal License Taxes	177,853	
Rent	9,748	
Office for the Improvement of Public Schools ("OMEP")	45,587	
Puerto Rico Department of Transportation	64,973	
CRIM- current year property tax settlement	236,593	
Christmas Bonus reimbursement	110,159	
Donated capital assets	319.00	
Federal grants - CDBG	121,700	
Federal Grants - Hazard Mitigation	18,750	
Federal grants - Emergency Shelter Grant	46,570	
Federal grants - P.R. Office of the Ombudsman for the Elderly - Title III-E	<u>7,111</u>	839,363

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

CRIM-prior year property tax settlement	(251,815)	
Christmas Bonus Reimbursement	(174,024)	
Puerto Rico Department of Labor - prior year	(160,461)	
Federal grants - CDBG	(363,597)	
Federal grants - P.R. Office of the Ombudsman for the Elderly - Titles III-E-prior year	(11,742)	
Federal grants - P.R. Office of the Ombudsman for the Elderly - Titles III-B-prior year	(12,367)	
Federal grants - Child Care - Prior year	<u>(53,886)</u>	(1,027,892)

Proceeds from general obligation bonds are other financing sources in the governmental funds but an increase of long-term liabilities in the Statement Net Position: (1,765,000)

Expenditures reported in funds which are not reported as expenses in the Statement of Activities:

Matured bonds principal payments-Debt Service Fund (net change)		(39,000)
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Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	931,000	
Other long term liabilities	<u>1,500,329</u>	2,431,329

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Judgment and claims	(500,000)	
Christmas Bonus	(237,173)	
Puerto Rico Electric Power Authority (PREPA)	(857,672)	
Net accrual, interest payable	<u>(13,590)</u>	(1,608,435)

**Change in net assets of governmental activities:** **\$ 1,146,650**

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Jardines de Aguada Project</b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 122,333
Accounts Receivable	25,076
Prepaid Insurance	1,019
<b>Total Current Assets</b>	<b>148,428</b>
Non-current Assets:	
Restricted deposits:	
Insurance Escrow	6,718
Tenants Security Deposit	9,329
Reserve for Replacement	72,216
<b>Total restricted deposits</b>	<b>88,263</b>
Property and equipment:	
Land	93,700
Land improvements	513,685
Buildings	2,028,847
Buildings improvements	734,515
Building equipment - portable	130,710
Furniture	26,294
Maintenance equipment	8,167
<b>Total fixed assets</b>	<b>3,535,918</b>
Less: Accumulated Depreciation	2,488,250
<b>Total property and equipment</b>	<b>1,047,668</b>
 <b>Total assets</b>	 <b>1,284,359</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

**Business-type  
Activities -  
Enterprise  
Fund  
Jardines de  
Aguada Project**

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Current liabilities:

Mortgage Payable	41,070
Accounts payable trade	9,144
Accrued liabilities:	
Management Agent	1,515
Interest	14,617
Payroll Taxes and withholdings	1,733
Wages	7,477
Tenant security deposits, including interest earned	9,329
<b>Total current liabilities</b>	<u>84,885</u>

Non current liabilities:

Mortgage Payable	<u>2,042,758</u>
<b>Total liabilities</b>	<u>2,127,643</u>

**NET POSITION**

Net investment in capital assets	(1,036,161)
Restricted for housing and welfare	88,263
Unrestricted (deficit)	104,614
<b>Total net position</b>	<u>\$ (843,284)</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
PROPRIETARY FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-type Activities - Enterprise Fund Jardines de Aguada Project</b>
<b>OPERATING REVENUES</b>	
Rent	\$ 437,618
Other revenues	393
<b>Total operating revenues</b>	<b>438,011</b>
 <b>OPERATING EXPENSES</b>	
Administrative	123,535
Utilities	9,612
Operating and maintenance	94,516
Taxes and insurance	32,107
Depreciation	89,158
<b>Total operating expenses</b>	<b>348,928</b>
 <b>Operating Income</b>	 <b>89,083</b>
 <b>NON OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	8
Overage on rental payment	(13,006)
Interest on mortgage and other charges	(42,135)
<b>Total non operating revenues (expenses)</b>	<b>(55,133)</b>
 <b>CHANGE IN NET POSITION</b>	 <b>33,950</b>
 <b>NET POSITION AT BEGINNING OF YEAR</b>	 <b>(877,234)</b>
 <b>NET POSITION AT END OF YEAR</b>	 <b>\$ (843,284)</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF CASH FLOWS- PROPRIETARY FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-type Activities - Enterprise Fund Jardines de Aguada Project</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Cash received from tenants and HUD	\$ 442,369
Other cash received	393
	442,762
Administrative	(29,176)
Management fees	(32,402)
Salaries and wages	(113,398)
Utilities	(9,612)
Operating and maintenance	(43,698)
Miscellaneous taxes and insurance	(17,061)
	197,415
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:</b>	
Adquisition of capital assets	(117,228)
Mortgage principal payments	(37,659)
Interest on mortgage	(42,660)
Overage on rental payment	(13,006)
Net cash used in capital and related financial activities	(210,553)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Interest on investments	8
Deposits to and interest earned and retained reserve for replacements	(21,835)
Withdrawals from reserve for replacements	68,944
Net cash provided by investing activities	47,117
<b>Net increase in cash</b>	33,979
<b>Cash at beginning of year</b>	88,354
<b>Cash at end of year</b>	\$ 122,333

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
STATEMENT OF CASH FLOWS- PROPRIETARY FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-type Activities - Enterprise Fund Jardines de Aguada Project</b>
Operating Income	\$ 89,083
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	89,157
Increase (decrease) in:	
Accounts receivable tenants	4,477
Tenant securities deposit	102
Insurance escrow	14,767
Increase (decrease) in:	
Accounts payable trade	(2,078)
Accrued liabilities:	
Payroll taxes and withholdings	279
Wages	1,456
Tenant securities deposit	172
	108,332
<b>Total Adjustments</b>	<b>108,332</b>
<b>Net cash provided by operating activities</b>	<b>\$ 197,415</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Aguada was founded in 1510. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen (16) members of the Municipal Legislature. The Municipality engages in comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

**1. Financial reporting entity**

The financial reporting entity included in this report consists of the financial statements of the Municipality of Aguada (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

- a. The primary government appoints a voting majority of the entity's governing body, and either:
  - The primary government can impose its will on the entity, or
  - A financial benefit/ burden exist between the primary government and the entity
- b. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
- c. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "*Special criteria*" apply when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

- c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above *special criteria* should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as *blended* if meets any of the following criteria:

- a. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
- A financial benefit/ burden exist between the primary government and the entity or
  - Management of the primary government has operational responsibility for the primary government.
- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
- c. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the *special criteria* should be included as *discretely component units*.

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

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

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

**Management's Discussion and Analysis**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
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**JUNE 30, 2013**

**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basic financial statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external users for goods and services.

**Government-wide statements**

The government-wide statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from *Jardines de Aguada Project*, a Municipality's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

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

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Fund Statements**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for, by providing a separate set of self-balancing accounts. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Funds are classified and summarized as governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in the fund financial statements and in separate columns in the financial section of the basic financial statements. All remaining governmental and enterprise funds are aggregated and reported as non major funds.

Governmental Funds account for the general governmental activities of the Municipality. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official criteria if the fund is particularly important to financial statement users (for Community Development Block Grant Program (CDBG) Fund) The Municipality reports the following major governmental funds:

**General Fund:** This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

**Community Development Block Grant Program (CDBG):** CDBG fund is used to account for and report revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. CDBG funds are received through the Office of Commissioner of Municipal Affairs ("OCAM"), a Commonwealth's governmental agency.

**Commonwealth Legislature Resolutions Fund:** This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature for specific purposes which include, among others, acquisition, development and improvements of capital assets, public works, welfare and other community development projects.

**Debt Service Fund:** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. This fund accounts for the resources of two individual funds including the "CAE Fund" (sinking fund which accounts for the 2% of property taxes collected by the CRIM), "and the "Municipal Redemption Fund" (.2% of the .5% from sales and use taxes are deposited in GDB to finance loans to Municipalities).

**Bonds and Notes Issuance Fund:** the Bonds and Notes Issuance Fund is used to account for and report financial resources from bond proceeds and notes issuance which are restricted for acquisition or construction of capital assets. This fund reports transactions of individual funds of Bonds and Notes issued through GDB.

**COMMONWEALTH OF PUERTO RICO**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting, as the business-type activities in the government-wide financial statements. Under this method of accounting, revenues are recorded when earned, independently when are collected, and expenses are recorded when incurred, independently when are paid. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund statements include a Statement of Net Position, a Statement of Revenues, Expenditures and Changes in Net Position (with one for each major enterprise fund and one column combining all non-major enterprise funds) and a Statement of Cash Flows.

The Municipality's proprietary funds consist of an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services be financed or recovered primarily through user charges. Major Enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses. The Municipality reports the following major enterprise fund:

**Jardines de Aguada Project Fund:** This fund is used to account for the activities of *Jardines de Aguada Project* ("the Project"), which is a 70-unit dwelling unit's project located in Aguada, Puerto Rico and operating property management concerns similar to companies in the private sector. The Project operates under Section 515 of USDA-Rural Development (USDA-RD) and is 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 finances its operating costs from rental income from qualified tenants and a Section 8 Housing Assistance Payments agreement with HUD. Under this agreement, HUD pays to the Project the difference between the contract rent and the portion of rent payable from the qualified tenants. The Project is not legally separated from the Municipality, which holds legal title to the Project's assets and is responsible for its obligations. Its day-to-day activities are carried-out by a management agent unrelated to the Municipality.

**Notes to Financial Statements**

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

**Required Supplementary Information**

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

**COMMONWEALTH OF PUERTO RICO**  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Deposits and investments**

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

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB").

**4. Restricted assets**

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

**6. Interfund receivables and payables**

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances among funds are reported as "due from/to other funds".

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued**

**7. Inventories**

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

**8. Capital assets**

Capital assets reported in the governmental activities in the Statements of Net Position include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$100 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

**9. Deferred outflows/inflows of resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report *unavailable revenue* from two sources: unavailable intergovernmental revenues and other general revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**10. Long-term obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental and business-type activities columns in the Statement of Net Position, consist of general and special obligation bonds, mortgages, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever arise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**11. Compensated absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

**12. Claims and judgments**

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they mature (generally, when payment is due). The accompanying government-wide statements include an amount estimated as a contingent liability or liabilities as incurred.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**13. Net position**

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

**Net investment in capital assets:** Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

**Restricted net position:** The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

**Unrestricted net position:** Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

**14. Net position flow assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**15. Fund balances**

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**16. Fund balance flow assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**17. Interfund transactions**

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

**18. Risk financing**

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

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

**19. Use of estimates**

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

**20. Reclassifications**

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**21. Future adoption of accounting pronouncements**

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

- a. **GASB Statement No. 66** *“Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62”*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year ended June 30, 2014).
- b. **GASB Statement No. 67** *“Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25”*. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013 (fiscal year ended June 30, 2014).
- c. **GASB Statement No. 68** *“Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27”*. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
- d. **GASB Statement No. 69** *“Government Combinations and Disposals of Government Operations”*. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
- e. **GASB Statement No. 70** *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”*. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).
- f. **GASB Statement No. 71** *“Pension Transition for Contributions Made Subsequent to the Measurement Date”*. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

**NOTE B- DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Municipality maintains cash deposits in commercial, governmental banks and a credit union located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks and credit unions must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC) or the “Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico” (“COSSEC”), respectively. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality’s name.

At year-end the Municipality’s bank balance of deposits in commercial banks amounting to \$4,705,719 and deposits in a credit union amounting to \$2,281,879 were covered by the FDIC, COSSEC or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality’s name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality’s bank balance in governmental banks amounts to \$10,180,681.

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**NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES**

1. *Amounts due from governmental entities as of June 30, 2013 follows:*

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund – General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 975,955	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(general fund)	236,593	-
P.R. Department of Education	-	-
P.R. Department of Treasury – Christmas bonus reimbursement	110,159	-
Other	178	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	17,444	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	84,145	-
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs – CDBG	-	244,844
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52	145,500	-
P.R. Department of Transportation	64,973	-
P.R. Department of Family – Child Care Program	-	51,190
P.R. Department of Family – Child and Adult Care Food Program	-	4,032
P.R. Department of Family – Emergency Solutions Grant Program	-	46,569
U.S. Department of Housing and Urban Development – Section 8 Housing Voucher Program	-	2,060
P.R. Office of Ombudsman Administration (OAP)	-	7,111
P.R. Emergency Management Agency – Hazard Mitigation	-	18,750
P.R. Department of Education – Schools Improvements	45,587	-
	<u>\$ 1,680,534</u>	<u>\$ 374,556</u>

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**NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued**

Certain amounts are recorded as deferred inflow of resources in the governmental funds statements since they are not available as required by current standards. See related note H.

*2. Amounts due to governmental entities as of June 30, 2013 follows:*

	<b>Commonwealth Government</b>
<b><u>Major fund – General fund:</u></b>	
P.R. Water and Sewer Authority	\$ 388,923
P.R. General Services Administration	526
	<b>\$ 389,449</b>

**NOTE D- INTERFUND TRANSACTIONS**

*1. Due from/to other funds*

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

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	<b><u>Major Funds:</u></b>	
	CDBG	\$ 114,191
	<b><u>Other Governmental Funds:</u></b>	
	Child Care and Development Block Grant	42,621
	P.R. Department of Transportation – State Roads Improvements	12,920
	P.R. Department of Family – Emergency Solutions Grant Program	51,578
	P.R. Department of Labor – Law No. 52	142,040
	P.R. Office of Ombudsman Administration (OAP)	24,783
Total:		<b>\$ 388,133</b>

*2. Transfers in (out)*

Transfers among individual funds were made for operational purposes. Transfers include interest earned in the debt service and bonds and notes issuance funds transferred to the general fund.

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**NOTE E- FUND BALANCE**

*1. Fund balance classifications*

The governmental fund balance classifications and amounts at June 30, 2013 are shown in the following table:

	<u>General Fund</u>	<u>Community Development Block Grant Program</u>	<u>Commonwealth Legislative Resolutions</u>	<u>Debt Service</u>	<u>Bonds and Notes Issuance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted:</b>							
General public works and sanitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,770	\$ 16,770
Sports, culture and recreation	-	-	-	-	-	486	486
Housing, welfare and community development	-	-	-	-	-	294,693	294,693
Debt service	-	-	-	3,426,975	-	-	3,426,975
Capital outlays	-	-	1,798,552	-	4,679,247	474,757	6,952,556
General government and other purposes	-	-	-	-	4,111	369,875	373,986
	<u>-</u>	<u>-</u>	<u>1,798,552</u>	<u>3,426,975</u>	<u>4,683,358</u>	<u>1,156,581</u>	<u>11,065,466</u>
<b>Committed:</b>							
General government and other purposes	701,280	-	-	-	-	-	701,280
	<u>701,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>701,280</u>
<b>Assigned:</b>							
General public works and sanitation	100,123	-	-	-	-	-	100,123
Public safety	3,551	-	-	-	-	-	3,551
Sports, culture and recreation	39,185	-	-	-	-	-	39,185
Housing, welfare and community development	34,073	-	-	-	-	-	34,073
Education	3,850	-	-	-	-	-	3,850
Capital outlays	516,901	-	-	-	-	-	516,901
General government and other purposes	36,780	-	-	-	-	-	36,780
	<u>734,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>734,463</u>
<b>Unassigned</b>	990,903	(121,700)	-	-	-	(241,466)	627,737
	<u>\$ 2,426,646</u>	<u>\$ (121,700)</u>	<u>\$ 1,798,552</u>	<u>\$ 3,426,975</u>	<u>\$ 4,683,358</u>	<u>\$ 915,115</u>	<u>\$ 13,128,946</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE E- FUND BALANCE – Continued**

**2. Fund balance deficits**

Certain special funds included in the fund statements disclosed fund balance deficits as follows:

<u>Funds</u>	<u>Fund balance – unassigned amount</u>
<b>Major Funds:</b>	
Community Development Block Grant Program	\$ 121,700
<b>Other Governmental Funds:</b>	
P.R. Office of Ombudsman Administration (OAP)	24,972
Public Schools Improvements	24,200
Hazard Mitigation Plan	18,750
Emergency Solutions Grant Program	50,909
Roads Improvements	122,603
Other	32
	<u>\$ 241,466</u>

The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**NOTE F- CAPITAL ASSETS**

**1. Capital assets and depreciation activity of the governmental activities follows:**

	<u>Balance July 1, 2012, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 4,261,866	\$ 65,319	\$ -	\$ 4,327,185
Construction in progress	3,680,839	1,773,479	3,682,991	1,771,327
<b>Total capital assets not being depreciated:</b>	<u>7,942,705</u>	<u>1,838,798</u>	<u>3,682,991</u>	<u>6,098,512</u>
<b>Capital assets, being depreciated:</b>				
Buildings and building improvements	36,364,671	2,414,433	-	38,779,104
Infrastructure	10,546,559	2,550,311	-	13,096,870
Vehicles, machinery and equipment	10,979,200	180,664	778,157	10,381,707
<b>Total capital assets being depreciated</b>	<u>57,890,430</u>	<u>5,145,408</u>	<u>778,157</u>	<u>62,257,681</u>
<b>Less accumulated depreciation for:</b>				
Buildings and building improvements	13,048,930	716,861	-	13,765,791
Infrastructure	4,360,304	236,732	-	4,597,036
Vehicles, machinery and equipment	9,668,139	413,538	767,575	9,314,102
<b>Total accumulated depreciation</b>	<u>27,077,373</u>	<u>1,367,131</u>	<u>767,575</u>	<u>27,676,929</u>
<b>Total capital assets being depreciated, net</b>	<u>30,813,057</u>	<u>3,778,277</u>	<u>10,582</u>	<u>34,580,752</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 38,755,762</u>	<u>\$ 5,617,075</u>	<u>\$ 3,693,573</u>	<u>\$ 40,679,264</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE F- CAPITAL ASSETS – Continued**

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

General government	\$	80,075
Public works and sanitation		377,965
Public safety		146,238
Culture and recreation		669,672
Welfare and community development		<u>93,181</u>
<b>Total depreciation expense, governmental activities</b>	<b>\$</b>	<b><u>1,367,131</u></b>

2. Capital assets and depreciation activity of the business-type activities follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Balance June 30, 2013</u>
<b>Capital assets, not being depreciated:</b>			
Land	\$ 93,700	\$ -	\$ 93,700
<b>Capital assets, being depreciated:</b>			
Land improvements	513,685	-	513,685
Buildings and building improvements	2,661,759	101,603	2,763,362
Machinery and equipment	149,543	15,627	165,170
<b>Total capital assets being depreciated</b>	<u>3,324,987</u>	<u>117,230</u>	<u>3,442,217</u>
<b>Less accumulated depreciation for:</b>			
Land improvements	388,280	12,842	401,122
Buildings and building improvements	1,877,073	70,559	1,947,632
Vehicles, machinery and equipment	133,739	5,756	139,495
<b>Total accumulated depreciation</b>	<u>2,399,092</u>	<u>89,157</u>	<u>2,488,249</u>
<b>Total capital assets being depreciated, net</b>	<u>925,895</u>	<u>28,073</u>	<u>953,968</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 1,019,595</u>	<u>\$ 28,073</u>	<u>\$ 1,047,668</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE G- LONG-TERM DEBT**

**1. Summary of long-term debt activity of governmental and business-type activities:**

**Governmental activities:**

	<u>Balance at July 1, 2012, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due within one year</u>
General, Special Obligation Bonds and Notes	\$ 13,996,000	\$ 1,765,000	\$ 931,000	\$ 14,830,000	\$ 884,000
Note payable to CRIM- financing of delinquent accounts	175,432	-	8,772	166,660	8,772
Compensated absences	2,873,279	-	315,285	2,557,994	290,905
Christmas Bonus	244,945	237,173	244,945	237,173	237,173
Payable to CRIM- property tax advances current	56,387	-	56,387	-	-
Judgments and claims	6,000	500,000	6,000	500,000	500,000
Payable to EPA	22,500	-	7,500	15,000	15,000
Payable to PREPA	928,395	905,234	857,672	975,957	674,212
	<u>\$ 18,302,938</u>	<u>\$ 3,407,407</u>	<u>\$ 2,427,561</u>	<u>\$ 19,282,784</u>	<u>\$ 2,610,062</u>

**Business-type activities:**

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due within one year</u>
Note Payable, USDA Rural No.1	\$ 1,406,098	\$ -	\$ 30,534	\$ 1,375,564	\$ 33,233
Note Payable, USDA Rural No.2	310,091	-	5,169	304,922	5,752
Note Payable, USDA Rural No.3	405,298	-	1,956	403,342	2,085
	<u>\$ 2,121,487</u>	<u>\$ -</u>	<u>\$ 37,659</u>	<u>\$ 2,083,828</u>	<u>\$ 41,070</u>

**2. Governmental Activities - General and special obligation bonds and notes**

The Municipality's outstanding general and special obligation bonds and notes of its governmental activities at June 30, 2013 amount to \$14,830,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect a percent of property taxes to be deposited in a sinking fund ("CAE Sinking Fund") for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a Municipal Redemption Fund to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued.

Principal and interest payments of outstanding general and special obligation bonds are paid through the CAE Sinking Fund except for principal and interest payments of special obligation bonds and notes of \$746,000, \$820,000, \$958,000, \$61,000, \$470,000, \$600,000, \$1,490,000 and \$200,000 which are made through the Municipal Redemption Fund.

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**NOTE G- LONG-TERM DEBT- Continued**

A detail of the governmental activities - general and special obligation bonds and notes as of June 30, 2013 follows:

	<b>Outstanding Amount</b>
1994 public improvement bonds of \$2,030,000 due in annual installments of \$30,000 to \$185,000 through July 1, 2018; bearing interest at rates ranging from 6.11% to 8.21% (7.71% at June 30, 2013)	\$ 895,000
1995 public improvement bonds of \$350,000 due in annual installments of \$8,000 to \$26,000 through January 1, 2018; bearing interest at rates of 4.50%	114,000
1997 general obligation bonds of \$2,040,000 due in annual installments of \$30,000 to \$185,000 through July 1, 2021; bearing interest at rates ranging from 4.87% to 6.71% (6.11% at June 30, 2013)	1,215,000
1998 general obligation bonds of \$910,000 due in annual installments of \$15,000 to \$85,000 through July 1, 2020; bearing interest at rates ranging from 4.87% to 6.71% (6.11% at June 30, 2013)	505,000
2003 general obligation bonds of \$845,000 due in annual installments of \$15,000 to \$70,000 through July 1, 2027; ; bearing interest at rates ranging from 4.17% to 5.31% (4.36% at June 30, 2013)	655,000
2004 general obligation notes of \$635,000 due in annual installments of \$10,000 to \$50,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.31% (4.36% at June 30, 2013)	505,000
2006 general obligation bonds of \$600,000 due in annual installments of \$15,000 to \$40,000 through January 1, 2031; bearing interest at rates of 4.50%	490,000
2006 general obligation bonds of \$445,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2030; bearing interest at rates ranging from 1.53% to 6.62% (1.53% at June 30, 2013)	380,000
2007 general obligation bonds of \$1,245,000 due in annual installments of \$20,000 to \$105,000 through July 1, 2031; bearing interest at rates ranging from 1.53% to 7.00% (1.53% at June 30, 2013)	1,100,000
2008 general obligation notes of \$790,000 due in annual installments of \$90,000 to \$140,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.00% (1.43% at June 30, 2013)	270,000
2010 general obligation bonds of \$370,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	355,000

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**NOTE G- LONG-TERM DEBT – Continued**

	<u>Outstanding Amount</u>
2011 general obligation bonds of \$345,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	340,000
2011 general obligation bonds of \$980,000 due in annual installments of \$25,000 to \$90,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	955,000
2011 general obligation bonds of \$245,000 due in annual installments of \$5,000 to \$20,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	240,000
2011 general obligation bonds of \$830,000 due in annual installments of \$10,000 to \$70,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	820,000
2012 general obligation bonds of \$255,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	250,000
2012 general obligation bonds of \$345,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	340,000
2012 general obligation bonds of \$700,000 due in annual installments of \$15,000 to \$65,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	685,000
2012 general obligation bonds of \$75,000 due in annual installments of \$5,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	75,000
2008 special obligation notes of \$746,000 due in annual installments of \$29,000 to \$79,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	618,000
2008 special obligation notes of \$820,000 due in annual installments of \$10,000 to \$75,000 through July 1, 2029; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	750,000
2008 special obligation notes of \$958,000 due in annual installments of \$91,000 to \$152,000 through July 1, 2016; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	548,000

**COMMONWEALTH OF PUERTO RICO  
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**NOTE G- LONG-TERM DEBT – Continued**

	<u>Outstanding Amount</u>
2008 special obligation notes of \$61,000 due in annual installments of \$7,000 to \$11,000 through July 1, 2011; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	30,000
2011 special obligation notes of \$470,000 due in annual installments of \$55,000 to \$90,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	415,000
2011 special obligation bonds of \$600,000 due in annual installments of \$10,000 to \$50,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	590,000
2012 special obligation bonds of \$1,490,000 due in annual installments of \$20,000 to \$130,000 through July 1, 2037; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	1,490,000
2012 special obligation bonds of \$200,000 due in annual installments of \$5,000 to \$20,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	200,000
	<u><b>\$ 14,830,000</b></u>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2013 follows:

June 30,	Principal	Interest
2014	\$ 884,000	\$ 850,391
2015	964,000	912,584
2016	884,000	850,445
2017	944,000	784,109
2018	852,000	724,626
2019-2023	3,538,000	2,817,685
2024-2028	2,959,000	1,814,233
2029-2033	2,540,000	790,824
2034-2038	1,265,000	169,875
Totals	<b>\$ 14,830,000</b>	<b>\$ 9,714,772</b>

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**NOTE G- LONG-TERM DEBT – Continued**

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

	<u>Outstanding Amount</u>
<p><b>Note payable to CRIM (Financing of delinquent accounts)–</b> On March 19, 2002 the Municipality entered into a \$468,783 financing agreement with the Municipal Revenue Collection Center (“CRIM”) to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement was in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period, on July 1, 2007 the loan outstanding balance was restructured through a 2.504% note payable of \$219,315 due on July 1, 2032. Debt service requirements in future years are as follows:</p>	166,660

June 30,	Principal	Interest
2014	\$ 8,772	\$ 4,118
2015	8,772	3,899
2016	8,772	3,679
2017	8,772	3,459
2018	8,772	3,240
2019-2023	43,858	12,794
2024-2028	43,858	7,413
2029-2032	35,084	1,976
Totals	<u>\$ 166,660</u>	<u>\$ 40,578</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE G- LONG-TERM DEBT – Continued**

	<b>Outstanding Amount</b>
<b>Compensated absences</b> – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality’s commitment to fund such costs from future operations. The amount is paid with unrestricted funds	2,557,994
<b>Christmas Bonus</b> – represents the accrued portion corresponding to fiscal year 2013 of the Christmas bonus to be paid in December 2013.	237,173
<b>Judgment and claims</b> – represent the final settlement of a legal case paid subsequent to June 30, 2013. The awarded amount will be paid through the issuance of special obligation note approved by the GDB. The special obligation bond will be repaid through the Municipal Redemption Fund. See related Note S.	500,000
<b>Payable to EPA</b> – represents the remaining amount of a \$30,000 civil penalty imposed on September 23, 2011 by the U.S. Environmental Protection Agency (“EPA”) for the discharge of pollutants consisting of fill material into United States waters without authorization. It is due on May 2014.	15,000
<b>Payable to PREPA</b> – As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2011-2012 the Municipality’s annual energy charges amounts to \$2,337,272 but the CELI obligation amounted to \$1,432,038. The excess amount of \$905,234 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2013 the outstanding amount of \$975,957 includes the unamortized balances of \$603,489 and \$372,468 from fiscal years 2012 and 2011 respectively and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	975,957

<b>June 30</b>	<b>Principal</b>
2014	\$ 674,212
2015	301,745
<b>Totals</b>	<b>\$ 975,957</b>

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**NOTE G- LONG-TERM DEBT – Continued**

**4. Business-type Activities – Mortgages Payable**

Mortgages payable of the business-type activities consists of permanent residences loans provided by USDA-Rural Development. The land and buildings of *Jardines de Aguada Project* secure the mortgages notes, described as follows:

	<b>Outstanding Amount</b>
Note payable to USDA – Rural (1): consists of a 8.50% mortgage note, payable in monthly installments of \$12,407 of which \$7,594 is subsidized by USDA-RD, including interest until 2031, collateralized with land and building.	\$ 1,375,564
Note payable to USDA – Rural (2): consists of a 10.75% mortgage note, payable in monthly installments of \$3,188, of which \$2,178 is subsidized by USDA-RD, including interest until 2031, collateralized with land and building.	304,922
Note payable to USDA – Rural (3): consists of a 6.375% mortgage note, payable in monthly installments of \$2,311, of which \$1,415 is subsidized by USDA-RD, including interest until 2055, collateralized with land and building.	403,342
	<b>\$ 2,083,828</b>

Debt service requirements in future years are as follows:

June 30,	Principal	Interest
2014	\$ 41,070	\$ 173,802
2015	44,794	170,078
2016	48,860	166,011
2017	53,300	161,572
2018	58,148	156,722
2019-2023	380,657	693,694
2024-2028	589,975	484,364
2029-2033	545,190	186,059
2034-2038	42,389	96,299
2039-2043	58,253	80,434
2044-2048	80,054	58,633
2049-2053	110,014	28,673
2054	31,124	1,257
Totals	<b>\$ 2,083,828</b>	<b>\$ 2,457,598</b>

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**NOTE H- DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Commonwealth Government Funds</u>	<u>Federal Grants</u>	<u>Others</u>
<b><u>Major fund – General fund:</u></b>			
P.R. Electric Power Authority (PREPA)	\$ 975,956	\$ -	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(general fund)	236,593	-	-
P.R. Department of Treasury – Christmas bonus reimbursement	110,159	-	-
Unavailable Municipal facilities rent and license taxes receivable	-	-	187,601
<b><u>Major fund – CDBG fund:</u></b>			
Office of Commissioner of Municipal Affairs – CDBG	-	121,700	-
<b><u>Other governmental funds:</u></b>			
P.R. Department of Education – Public Schools Maintenance	45,587	-	-
P.R. Department of Transportation – Public Roads Maintenance	64,974	-	-
P.R. Governor's Office (GAR) – Hazard Mitigation	-	18,750	-
P.R. Department of Family – Emergency Solutions Grant Program	-	46,570	-
P.R. Office of Ombudsman Administration (OAP)	-	7,111	-
	<u>\$ 1,433,269</u>	<u>\$ 194,131</u>	<u>\$ 187,601</u>

**NOTE I – PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2013 are 6.83% for personal property and 8.83% for real property. The distribution of these rates follows:

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**NOTE I – PROPERTY TAXES - Continued**

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable of \$236,593 from the preliminary settlement of fiscal 2012-2013 was recorded as deferred revenue since is not available are required by current standards.

**NOTE J – MUNICIPAL LICENSE TAXES**

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

During the fiscal year ended June 30, 2013, the tax rates were as follows:

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,094,307 is recorded as unearned revenues.

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**NOTE K – SALES AND USE TAXES**

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax. The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which amends Act No. 117 of July 4, 2006 to impose 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% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is 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 be distributed among all the municipalities in accordance with a formula created by the Act,
- b. .2% of the .5% will be deposited in a “Municipal Redemption Fund” to finance loans to Municipalities 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

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (“2011 PR Code”). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds deposited in the Municipal Development Fund to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$1,298,579 in the general fund that corresponds to the 1% imposition and \$786,863 in the debt service fund corresponding to the Municipal Redemption Fund and Municipal Development Fund that was fully transferred to the Municipal Redemption Fund to increase their credit margin. A total \$104,795 sales and use tax receivable represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 10; \$84,145 represents the amount of the Municipal Redemption Fund collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

On June 30, 2013 the Commonwealth approved Act No. 40 which among other things, reduces the municipal sales and use tax from 1.5% to 1% and increasing the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014. In addition, subsequent to June 30, 2013 the Commonwealth approved Act No. 18 and 19 of January 24, 2014 for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. See related Note S.

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**NOTE L – INTERGOVERNMENTAL AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND**

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

	<b>Amount</b>
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 5,669,592
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	195,033
	<b>\$ 5,864,625</b>

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	<b>Amount</b>
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 3,275,821
P.R. Department of Education – transportation services to students	1,054,086
Construction excise tax	450,198
Rental income	136,233
Fines	23,741
Recycling	18,744
Licenses and permits	4,625
Others	6,297
	<b>\$ 4,969,745</b>

**NOTE M – RETIREMENT PLAN**

1. *Plan description*

As of June 30, 2013 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non-occupational disabilities. Benefits vest after ten years of plan participation.

The system operate under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

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**NOTE M – RETIREMENT PLAN – continued**

*Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.*

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions have not been granted under the new program. The employer contributions (11.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**2. Funding policy**

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

As of June 30, 2012, the ERS has an unfunded actuarial accrued liability of approximately \$26.4 billion. In the opinion of management if measures are not implemented to deal with this situation, the ERS's net assets will be exhausted by the fiscal year 2015. In order to address this issue, among other measures, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act is to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits.

The Municipality is required to contribute 11.275% of gross salary for fiscal year 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

The Municipality's actual contribution for the current fiscal year, which is equal to the required contribution, is \$317,693 for Law No. 447 and \$264,136 for System 2000.

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**NOTE N – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note O, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2013, costs related to these post-employment benefits amounted to \$139,499. These benefits are recorded as expenditures in the general fund.

**NOTE O – COMMITMENTS**

**1. Operating leases**

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$52,732. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

**2. Construction**

As of June 30, 2013 the Municipality has commitments of \$3,032,711 for design, construction, improvements or renovation of certain municipal facilities.

**3. Encumbrances**

The Municipality has encumbrances outstanding which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2013 in the general fund represent unassigned amounts that are encumbered and are classified by management as assigned fund balance. Purpose classification follows:

Purpose	General Fund- assigned fund balance
General public works and sanitation	\$ 63,005
Public safety	3,551
Sports, culture and recreation	39,185
Housing and welfare	2,414
Education	3,850
General government and other purposes	34,766
	\$ 146,771

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

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**NOTE P – RESTATEMENT OF FUND BALANCE AND NET POSITION**

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Balance						Net Position
	General Fund	Community Development Block Grant Program	Commonwealth Legislative Resolutions Fund	Debt Service Fund	Loans And Bonds	Other Governmental Funds	Government Wide Statements
Fund balance / net position, at beginning of year, as previously reported	\$ 2,209,807	\$ (199,824)	\$ 2,251,119	\$ 3,047,880	\$ 4,245,396	\$ 2,572,482	\$ 35,203,305
<b>Correction of errors:</b>							
Net (understatement) overstatement of liabilities	(351,803)	9,513	(14,161)	-	(84,689)	(340,635)	(781,775)
Understatement of deferred inflows	(251,815)	-	-	-	-	(249,996)	-
Overstatement of due from other funds	(32,484)	-	-	-	-	-	-
Errors in classification of certificates of deposits	100,000	-	263,384	-	-	(363,384)	-
(Overstatement) understatement of cash Special funds of general fund erroneously classified as capital projects or special revenue funds at other governmental funds	(39,486)	-	(492)	-	4,112	(6,628)	(42,494)
Net overstatement of due to other funds	468,649	-	-	-	-	(468,649)	-
Overstatement of unearned revenues	-	7,203	-	-	-	25,281	-
Overstatement of due from federal government	-	264,133	-	-	-	-	264,133
Understatement of property tax, and sales and use taxes receivables	-	(447,482)	-	-	-	-	(447,482)
Understatement of CDBG revenues	-	-	-	102,013	-	-	102,013
Net overstatement of other long term liabilities	-	-	-	-	-	-	363,597
Overstatement of accrued interest payable	-	-	-	-	-	-	535,600
Net understatement of capital assets	-	-	-	-	-	-	695,899
Overstatement of INSEC revenues	-	-	-	-	-	-	146,680
<b>Fund balance / net position, at end of year, as restated</b>	<b>\$ 2,102,868</b>	<b>\$ (366,457)</b>	<b>\$ 2,499,850</b>	<b>\$ 3,149,893</b>	<b>\$ 4,164,819</b>	<b>\$ 1,168,471</b>	<b>\$ 36,027,936</b>

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**NOTE Q – CONTINGENCIES**

**1. Federal and Commonwealth Grants**

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

**2. Litigations**

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

**NOTE R- GENERAL FUND - FUND BALANCE COMPOSITION**

The general fund is composed of Fund 01, which is the Municipality's operational fund, and other special funds, which represent fund balance of the general fund committed or assigned for specific purposes recorded in the Municipality's accounting system as special funds. The following discloses the distribution of the net change in fund balance of the general fund as reported in the governmental funds statement of revenues, expenditures and changes in fund balances:

	<u>Fund 01</u>	<u>Special Funds in General Fund</u>	<u>Total General Fund</u>
Fund balance at beginning of year, as restated	\$ 1,548,351	\$ 554,517	\$ 2,102,868
Net change in fund balance	(410,677)	734,455	323,778
<b>Fund balance at end of year</b>	<b>\$ 1,137,674</b>	<b>\$ 1,288,972</b>	<b>\$ 2,426,646</b>

**NOTE S – SUBSEQUENT EVENTS**

***Pension System and Sales and Use Tax Reforms***

The Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economy recession since 2006. As a result of these matters, credit ratings agencies have been consistently downgrading the Commonwealth's and certain public corporation's general obligation bonds ratings. In order to address these matters the Commonwealth began to make legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico ("GDB"), its fiscal agent, and strength sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, along others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens:

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**NOTE S – SUBSEQUENT EVENTS - Continued**

***1. Pension System Reform***

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- a. Moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new hybrid plan (“New Plan”).
- b. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- c. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual’s life expectancy and a rate of return.
- d. New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees’ contributions plus a return on investment)
- e. Eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.
- f. Increases employee contributions from 8.275% to a minimum of 10.000%.
- g. After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System’s assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- h. Retirement age will be modified as follows:
  - 1) Act 447 regular employees: from age 58 to 61,
  - 2) Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - 3) Act 305 (System 2000) regular employees: from age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees will remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

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**NOTE S – SUBSEQUENT EVENTS - Continued**

i. Modifies Special Law benefits as follows:

- 1) Reduction in Christmas bonus from \$600 to \$200 (current retirees),
- 2) Elimination of summer bonus of \$100 (current retirees),
- 3) No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees),
- 4) Eliminates Special Law benefits to future retirees.

Employers will contribute \$2,000 per retiree and future retiree (originally under Act 447 and Act 1); the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

- j. Given these changes to Special Laws, the minimum monthly pension for current retirees was increased from \$400 to \$500.
- k. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- l. Survivor benefits will be modified.

In addition to the previously scheduled measures, the ERS reform plan also assumes an estimated \$140 million incremental contribution from the general fund (1.4% of general fund expenses for fiscal year 2014) to be included in the Commonwealth's proposed budget for the fiscal year 2014 and thereafter. The Commonwealth projects that the combined impact of these measures will allow the retirement system to increase the liquidity and solvency and meet the revised future obligations.

**2. Sales and use taxes – Act No. 18 and 19 of 2014**

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Act's provides for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

**a. Act No. 18 of January 24, 2014**

The purpose of this Act is to create a special fund called "Municipal Administration Fund" ("FAM") under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation ("COFINA"), a Commonwealth fund administered by GDB and the Puerto Rico Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

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**NOTE 8 – SUBSEQUENT EVENTS - Continued**

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% 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.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Aguada signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions),
- .1% 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.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long term debt through any financial institution ( each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% 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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**NOTE 5 – SUBSEQUENT EVENTS - Continued**

**b. Act No. 19 of January 24, 2014**

The purpose of this Act is to create the “Municipal Finance Corporation” (“COFIN”) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (“GDB”) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

After July 1, 2014 the 1% corresponding to the municipalities’ sales and use tax will be deposited in COFIN. From these funds COFIN will deposit to the COFIN’s sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (“RFA”). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIN’s sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIN will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIN’s sinking fund.

If at any moment the required deposits to the COFIN’s sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth’s general fund budget.

As stated above the purpose of Act 18 and 19 of 2014 is to provide a financial structure to guarantee and pay long term debt to the municipalities while maintaining adequate cash flows for its operations, as well as provide liquidity to the GDB.

Notwithstanding the above corrective actions, on February 4, 2014 Standard & Poor’s Ratings Services (“S&P”) lowered its rating on the Commonwealth of Puerto Rico’s general obligation (GO) debt to BB+ from BBB- and the Commonwealth’s appropriation secured debt and Employee Retirement System (ERS) debt to BB. In addition, S&P downgraded the GDB to BB, and the rating remains on CreditWatch with negative implications. S&P have not taken a rating action on sales tax-secured debt of COFINA, but have retained their negative outlook on their COFINA ratings reflecting S&P’s view of the economic outlook and that COFINA sales tax is not subject to the prior diversion of revenue for general obligation debt service payments. The downgrades follow S&P’s evaluation of liquidity for the Commonwealth, including what they believe is a reduced capacity to access liquidity from GDB. S&P also believe that the Commonwealth’s access to liquidity and to the market either through GDB or other means will remain constrained in the medium term. As S&P, the rating is not lower due to the progress the current administration has made in reducing operating deficits and recent success with reform of the public employee and teacher pension systems. They view those reforms as significant which could contribute to a sustainable path to fiscal stability.

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**NOTE S – SUBSEQUENT EVENTS - Continued**

In addition, on February 7, 2014 Moody's Investors Service ("Moody's") has downgraded the general obligation (GO) rating of the Commonwealth of Puerto Rico, the Pension funding bonds and GDB senior notes to Ba2 from Baa3. Other ratings that are capped by or linked to the Commonwealth's GO rating were also downgraded two notches, with the exception of the Puerto Rico Aqueduct and Sewer Authority (PRASA) Revenue Bonds, which were downgraded to Ba2 from Ba1. At the same time, Moody's downgraded the Puerto Rico Sales Tax Financing Corporation's (COFINA's) senior-lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3. The outlooks for ratings on the GO and the related bonds, as well as the COFINA bonds, are negative. Downgrade is based among other Commonwealth's problems in years of deficit financing, pension underfunding, budgetary imbalance and seven years of economic recession. As a result, Commonwealth's debt load and fixed costs are high, its liquidity is narrow, and its market access has become constrained. Moody's recognizes major actions taken to stabilize Commonwealth finances, including significant reform to main pension system, and tax increases to reduce budget deficit.

Furthermore, on February 11, 2014 Fitch Ratings Fitch Ratings has downgraded the ratings, among other instrumentalities, for the Commonwealth general obligation (GO) bonds and ERS pension funding bonds from BB from BBB-. The current action does not affect the ratings that Fitch assigns to bonds issued by COFINA, since those bonds are secured by the Commonwealth's sales and use tax and insulated from the Commonwealth's general credit strain. Fitch reported that recent downgrades have triggered new liquidity requirements and lowered expectations for the market available for the Commonwealth's debt going forward, though there have been no significant negative developments regarding the Commonwealth's finances or economy since November 2013. In addition, the report recognizes that the Commonwealth's management has responded quickly and decisively to challenges that have arisen in recent years and the current administration has made significant progress in addressing longstanding credit issues.

These downgrades may have a significant impact in the economic environment of Puerto Rico and the Commonwealth Government, its instrumentalities and the municipalities in critical areas such as access to markets and liquidity for the current fiscal year and thereafter. It is the opinion of the Commonwealth's and Municipality of Aguada's management that the corrective actions taken and to be taken in current and fiscal periods thereafter will lower the impact of this decision and cause a positive turnaround on the Commonwealth's and the Municipality's finances.

***Fiscal Reorganization Process***

The Municipal Legislature approved Ordinance No. 53 Series 2012-2013 as amended by Ordinance No. 4 Series 2013-2014 to establish, effective on July 1, 2013 a fiscal and administrative reorganization process to review the Municipality's organizational structure, administrative operations and processes to identify ways to improve efficiency and productivity. The process was implemented in order to address the general economic conditions, the fiscal condition of the Municipality and the reduction of funds and awards from the federal government.

As part of this process, Ordinance 53 as amended implemented expense reduction measures on payroll expenses, which is the most significant component of the Municipality's expense base. A salary reduction plan was implemented in order to prevent a fund balance deficit and achieve budgetary balance in the general fund as follows:

- a. Reduction of \$600 of the monthly salary of the Mayor,
- b. Reduction of \$150 of the monthly salary of the Mayor's Executive Assistant and the Federal Programs and Housing Department Directors,

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**NOTE 5 – SUBSEQUENT EVENTS - Continued**

- c. Reduction of \$100 of the monthly salary of other administrative department directors and trusted employees of the executive and legislative branches and,
- d. Reduction of one day on a by-weekly period or a half day on a weekly period to the remaining employees paid through general fund resources. Employees whose salaries are paid through federal awards as well as police, emergency management personnel, school bus drivers and the homeless services coordinator are not covered by the salary reduction plan.

The Ordinance stated that the salary reduction plan is temporary until the Finance Director certifies that the plan has generated sufficient recurrent resources to cover the projected general fund's budgetary shortfall.

***Debt issuance***

On July 3, 2013 the Governmental Development Bank of P.R. ("GDB") approved for the issuance of a \$505,000 special obligation note for the payment of a legal claim, due 7 years after loan disbursement date. The note will bear interest at 1.50% over prime rate (with a minimum of 6%) payable semiannually in January 1 and July 1 of each year. Principal and interest will be repaid from sales tax revenues deposited in the Municipal Redemption Fund. As of June 30, 2013 the \$500,000 was recorded as a judgment and claims liability in the statement of net position – governmental activities.

***REQUIRED SUPPLEMENTARY INFORMATION***

**COMMONWEALTH OF PUERTO RICO**  
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**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**JUNE 30, 2013**

	Budgeted amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 3,197,151	\$ 3,197,151	\$ 3,197,151	\$ -
Municipal license taxes	1,531,593	1,531,593	1,453,446	(78,147)
Intergovernmental	7,016,047	4,925,606	5,079,407	153,801
Fees, fines and charges for services	2,096,059	4,387,952	4,198,582	(189,370)
Interest	233,000	233,000	346,870	113,870
Other	190,826	190,826	162,274	(28,552)
Total revenues	<u>14,264,676</u>	<u>14,466,128</u>	<u>14,437,730</u>	<u>(28,398)</u>
<b>Expenditures</b>				
General government	6,424,413	6,630,099	6,478,833	151,266
Public works and sanitation	4,526,445	4,615,665	4,479,867	135,798
Public safety	938,573	838,052	814,766	23,286
Culture and recreation	1,432,560	1,446,087	1,373,114	72,973
Health	498,648	492,975	492,975	-
Welfare and community development	416,037	411,350	392,426	18,924
Education	28,000	31,900	31,900	-
Total expenditures	<u>14,264,676</u>	<u>14,466,128</u>	<u>14,063,881</u>	<u>402,247</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>373,849</u>	<u>373,849</u>
<b>Other financing sources (uses)</b>				
Transfers out	-	(463,495)	(463,495)	-
Total other financing sources (uses)	<u>-</u>	<u>(463,495)</u>	<u>(463,495)</u>	<u>-</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>(463,495)</u>	<u>(89,646)</u>	<u>373,849</u>
Readjustment from prior year fund balance	-	463,495	463,495	(463,495)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 373,849</u>	<u>\$ (89,646)</u>

**COMMONWEALTH OF PUERTO RICO**  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**JUNE 30, 2013**

**NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING**

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

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

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

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

**NOTE B - BUDGET READJUSTMENT**

The budgetary comparison schedule - general fund present a fund balance readjustment of \$463,495. This represents a readjustment of current year budget with prior year's budgetary surpluses.

**NOTE C - BUDGET TO GAAP RECONCILIATION**

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

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
JUNE 30, 2013**

**NOTE B - BUDGET TO GAAP RECONCILIATION - Continued**

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):</b>	<b>\$ 373,849</b>
Budget to GAAP differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	1,324,420
Non budgeted funds recorded as expenditures for financial reporting:	(1,054,298)
Non budgeted transfers in:	464,333
Revenues recorded for financial reporting purposes but not in budgetary basis:	892,413
Revenues recorded in budgetary basis purposes but not in financial reporting:	(152,737)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	23,641
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,018,566)
Readjustment from prior year fund balance recorded for budgetary basis purposes but not in financial reporting:	(463,495)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	251,928
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(317,710)
<b>Net change in fund balance (GAAP basis):</b>	<b><u>\$ 323,778</u></b>

***SUPPLEMENTARY INFORMATION***

**COMMONWEALTH OF PUERTO RICO  
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SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES  
INFORMATION  
JUNE 30, 2013**

Line Item No.	Description	14,871 Housing Choice Vouchers
<b>Balance Sheet</b>		
111	Cash - unrestricted	\$ 94,219
113	Cash - other restricted	\$ 6,705
100	<b>Total cash</b>	<b>\$ 100,924</b>
122	Accounts receivable - HUD other projects	\$ 2,060
120	<b>Total receivables, net of allowance for doubtful accounts</b>	<b>\$ 2,060</b>
150	<b>Total Current Assets</b>	<b>\$ 102,984</b>
164	Furniture, equipment and machinery - administration	\$ 40,608
166	Accumulated depreciation	\$ (21,188)
160	<b>Total capital assets, net of accumulated depreciation</b>	<b>\$ 19,420</b>
180	<b>Total Non-current Assets</b>	<b>\$ 19,420</b>
190	<b>Total Assets</b>	<b>\$ 122,404</b>
290	<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 122,404</b>
322	Accrued compensated absences - current portion	\$ 10,500
332	Accounts Payable - PHA Projects	\$ 11,350
310	<b>Total Current Liabilities</b>	<b>\$ 21,850</b>
353	Non-current liabilities - other	\$ 2,585
354	Accrued compensated absences - non current	\$ 20,254
350	<b>Total Non-current Liabilities</b>	<b>\$ 22,839</b>
300	<b>Total Liabilities</b>	<b>\$ 44,689</b>
508.4	Net Investment in Capital Assets	\$ 19,420
512.4	Unrestricted Net Position	\$ 58,295
513	<b>Total Equity/Net Position</b>	<b>\$ 77,715</b>
600	<b>Total Liabilities, Deferred Inflow of Resources and Equity/Net Position</b>	<b>\$ 122,404</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES**  
**INFORMATION**  
**JUNE 30, 2013**

Line Item No.	Description	14,871
		Housing Choice Vouchers
Income Statement		
70600-010	Housing assistance payments	\$ 488,127
70600-020	Ongoing administrative fees earned	\$ 78,480
70600	<b>HUD PHA operating grants</b>	<b>\$ 566,607</b>
71100	Investment income - unrestricted	\$ 525
71500	Other revenue	\$ 69,347
72000	Investment income - restricted	\$ 15
700	<b>Total Revenue</b>	<b>\$ 636,494</b>
91100	Administrative salaries	\$ 64,413
91200	Auditing fees	\$ 1,600
91500	Employee benefit contributions- administrative	\$ 13,606
91600	Office expenses	\$ 10,040
91000	<b>Total Operating - Administrative</b>	<b>\$ 89,659</b>
96200	Other general expenses	\$ 508
96210	Compensated absences	\$ 4,966
96000	<b>Total Other General Expenses</b>	<b>\$ 5,474</b>
96900	<b>Total Operating Expenses</b>	<b>\$ 95,133</b>
97000	<b>Excess Revenue Over Operating Expenses</b>	<b>\$ 541,361</b>
97300-050	All Other	\$ 551,337
97300	<b>Housing assistance payments</b>	<b>\$ 551,337</b>
97350	HAP Portability-in	\$ 47,777
97400	Depreciation expense	\$ 6,116
900	<b>Total Expenses</b>	<b>\$ 700,363</b>
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	<b>\$ (63,869)</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES  
INFORMATION  
JUNE 30, 2013**

Line Item No.	Description	14,871 Housing Choice Vouchers
<b>Income Statement</b>		
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$ (63,869)
11030	Beginning equity	\$ 169,331
11040-010	Prior period adjustments, equity transfers, and correction of errors	\$ (27,748.00)
11040	<b>Prior period adjustments, equity transfers, and correction of errors</b>	\$ (27,748.00)
11170-001	Administrative Fee Equity - Beginning Balance	\$ 114,618
11170-010	Administrative Fee Revenue	\$ 78,480
11170-040	Investment Income	\$ 525
11170-050	Other Revenue	\$ 59,779
11170-051	Comment For Other Revenue	Other revenue composition is as follows: PMI Adm Fee \$6,303 PMI HAP \$47,777 Miscellaneous \$5,699
11170-060	Total Admin Fee Revenues	\$ 138,784
11170-080	Total Operating Expenses	\$ 95,132
11170-090	Depreciation	\$ 6,116
11170-095	Housing Assistance Portability In	\$ 47,777
11170-100	Other Expenses	\$ 26,662
11170-101	Comment For Other Expense	Effect of prior period adjustment recorded in line 11040-010.
11170-110	Total Expenses	\$ 175,687
11170-002	Net Administrative Fee	\$ (36,903)
11170-003	Administrative Fee Equity - Ending Balance	\$ 77,715
11170-006	Post-2003 Administrative Fee Reserves	\$ 77,715
11170	<b>Administrative Fee Equity</b>	\$ 77,715

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES  
INFORMATION  
JUNE 30, 2013**

Line Item No.	Description	14,871
	<b>Income Statement</b>	<b>Housing Choice Vouchers</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 54,713
11180-010	Housing Assistance Payments Revenues	\$ 490,187
11180-020	Other Revenue	\$ 7,508
11180-021	Comment For Other Revenue	Other revenue composition is as follows: FSS Forfeitures \$7,508
11180-025	Investment Income	\$ 15
11180-030	Total HAP Revenues	\$ 497,710
11180-080	Housing Assistance Payments	\$ 551,337
11180-090	Other Expenses	\$ 1,086
11180-091	Comment For Other Expense	Effect of prior period adjustment recorded in line 11040-010.
11180-100	Total Housing Assistance Payments Expenses	\$ 552,423
11180-002	Net Housing Assistance Payments	\$ (54,713)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ -
11180	<b>Housing Assistance Payments Equity</b>	<b>\$ -</b>
11190-210	Total ACC HCV Units	1,452
11190	<b>Unit Months Available</b>	<b>1,452</b>
11210	<b>Unit Months Leased</b>	<b>1,451</b>
11640	<b>Furniture an Equipment - Administrative Purchases</b>	<b>\$ 2,358</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF AGUADA**  
**NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**JUNE 30, 2013**

**NOTE A – BASIS OF PRESENTATION**

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It is prepared using the accrual basis of accounting, as required by REAC regulations.

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
SCHEDULE OF EXPENDITURES OF FEDERAL  
JUNE 30, 2013**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Passed through program from:			
P.R. Department of Education:			
Child and Adult Care Food Program	10.558	CCC-79	\$ 16,945
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	566,607
Passed-through programs from:			
<u>Office of Commissioner of Municipal Affairs:</u>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	AF-37, AB-37, FD-37	736,827
<u>P.R. Department of Family - Families and Children Administration</u>			
Emergency Solutions Grants Program	14.231	272-1220000-14F-2013-E-12-DC-72-0001 272-1220000-081-2012-S11-DC720001	69,995
<b>Subtotal U.S. Department of Housing and Urban Development</b>			<u>1,373,429</u>
<b><u>U.S. Department of Justice</u></b>			
Passed-through programs from:			
<u>P.R. Department of Justice:</u>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.592	2009-DJ-ECUMA-01	70,000
<b><u>U.S. Department of Transportation</u></b>			
Passed-through programs from:			
<u>P.R. Department of Transportation:</u>			
Federal Transit Formula Grants	20.507	PR-90-X284-00	37,046
<b><u>Institute of Museum and Library Services</u></b>			
Passed-through program from:			
<u>P.R. Department of Education:</u>			
Grants to States	45.310	LSTA 2011-2012/BP007	10,000
<b><u>U.S. Department of Energy</u></b>			
Passed-through program from:			
<u>P.R. Energy Affairs Administration:</u>			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0001694	58,449
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed-through programs from:			
<u>P. R. Office of Ombudsman Administration (OAP):</u>			
<u>Aging Cluster:</u>			
Special Programs for the Aging_ Title III Part B_ Grants for Supportive Services and Senior Centers	93.044	130378R2	54,066
National Family Caregiver Support, Title III, Part E	90.052	130378R2	17,926
<b>Total Aging Cluster:</b>			<u>71,992</u>
<u>P.R. Department of Family - Families and Children Administration:</u>			
Child Care and Development Block Grant	93.575	2012-2013-062	186,785
<b>Subtotal U.S. Department of Health and Human Services:</b>			<u>258,777</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed-through programs from:			
P.R. Governor's Office - Governor's Authorized Representative (GAR)			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA -4017-DR-PR, PA I.D. 003-99003-00	26,034
Pre- Disaster Mitigation	97.047	PDMC-PL-02-PR-2010-003	18,750
<b>Subtotal U.S. Department of Homeland Security:</b>			<u>44,784</u>
<b>Total federal awards expenditures:</b>			<u>\$ 1,869,430</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2013**

**NOTE A – REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Municipality, except the federal grant activities related to *Jardines de Aguada Project* (the Project). As described in Note A to the Municipality's basic financial statements, the basic financial statements includes the operations of the Project as a business-type activity and an enterprise fund. The Project expended \$2,421,384 in federal awards as follows:

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
US Department of Agriculture: Direct Program: USDA Rural Development Section 515	10.415	\$ 2,083,828
US Department of Housing and Urban Development: Direct Program: Section 8 Housing Assistance Payments	14.195	337,556
		<u>\$ 2,421,384</u>

The Project has obtained a separate A-133 audit, which is not included as part of this audit. A copy of this audit report can be obtained by contacting Project's administrative office at Box 68, Trujillo Alto, Puerto Rico 00978.

**NOTE B – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

**NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2013**

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

<u>Description</u>	<u>Community Development Block Grant Program</u>	<u>Other Governmental Funds</u>
10.558	\$ -	\$ 16,945
14.228	736,827	-
14.871	-	568,667
14.231	-	69,995
ARRA – 15.592	-	70,000
20.507	-	37,046
45.310	-	10,000
ARRA - 81.128	-	58,449
93.044	-	54,066
90.052	-	17,926
93.575	-	186,785
97.036	-	26,034
97.047	-	18,750
Total federal awards expenditures ( not including federal grants activities of Jardines de Aguada Project (see note A):	736,827	1,134,663
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	69,398
Non-federal awards expenditures:	-	813,062
<b>Total expenditures, fund statements:</b>	<b>\$ 736,827</b>	<b>\$ 2,017,123</b>

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

Hon. Jessie Cortés Ramos and  
Members of the Municipal Legislature of the  
Commonwealth of Puerto Rico  
Municipality of Aguada  
Aguada, Puerto Rico

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Commonwealth of Puerto Rico, Municipality of Aguada, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Commonwealth of Puerto Rico, Municipality of Aguada basic financial statements, and have issued our report thereon dated March 19, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Commonwealth of Puerto Rico, Municipality of Aguada's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commonwealth of Puerto Rico, Municipality of Aguada's internal control. Accordingly, we do not express an opinion on the effectiveness of Commonwealth of Puerto Rico, Municipality of Aguada's internal control.

*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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico  
March 19, 2014

*González Torres, CPA, PSC*  
GONZÁLEZ TORRES, CO., CPA, PSC

The stamp number 02698446  
was affixed to the original report.

License 96  
Expires December 1, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Hon. Jessie Cortés Ramos and  
Members of the Municipal Legislature of the  
Commonwealth of Puerto Rico  
Municipality of Aguada  
Aguada, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited Commonwealth of Puerto Rico, Municipality of Aguada's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Commonwealth of Puerto Rico, Municipality of Aguada's major federal programs for the year ended June 30, 2013. Commonwealth of Puerto Rico, 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

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Commonwealth of Puerto Rico, Municipality of Aguada's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Commonwealth of Puerto Rico, Municipality of Aguada's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (Continued)**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Commonwealth of Puerto Rico, Municipality of Aguada's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Commonwealth of Puerto Rico, Municipality of Aguada complied, in all material respects, with the types of 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, 2013.

**Report on Internal Control over Compliance**

Management of Commonwealth of Puerto Rico, Municipality of Aguada is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Commonwealth of Puerto Rico, Municipality of Aguada's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Commonwealth of Puerto Rico, Municipality of Aguada's internal control over compliance.

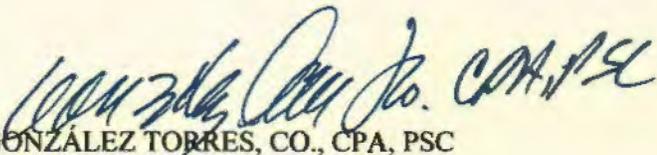
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (Continued)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico  
March 19, 2014

  
GONZÁLEZ TORRES, CO., CPA, PSC  
License 96  
Expires December 1, 2014

The stamp number 02698447  
was affixed to the original report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013

Section I. Summary of Auditors' Results:

Part I Financial Statements

1. Type of audit report:  
 Unqualified opinion                       Qualified opinion  
 Adverse opinion                               Disclaimer of opinion
2. Reportable conditions reported  
 Yes     No
3. Reportable condition reported as a major weakness and/or significant deficiency:  
 Yes     No
4. Material noncompliance disclosed:  
 Yes     No

Part II Federal Awards

1. Type of report: on compliance for major programs:  
 Unqualified opinion                       Qualified opinion  
 Adverse opinion                               Disclaimer of opinion
2. Reportable condition reported as a major weakness and/or significant deficiency:  
 Yes     No
3. Material noncompliance disclosed:  
 Yes     No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2013

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes  No

5. Major Programs:

CFDA Number (s) Federal Program Grantor / Program Name

14.228 US Department of Housing and Urban Development: Community Development  
Block Grants/State Grants

14.871 US Department of Housing and Urban Development: Section 8 Housing Choice  
Vouchers

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

7. Low-risk auditee

Yes  No

8. Waive risk criteria under 520 (i) of Circular A -133

Yes  No

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2013**

**Section II. Financial Statements Findings**

None.

**Section III. Federal Awards Findings and Questioned Costs**

None.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF AGUADA**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

The following schedule contains the finding number, CFDA Number, and title of each of the findings included in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2011. Under the heading Corrective Action Taken there will be the following:

FR – Fully Resolved (indicating the corrective action plan was fully implemented)

PR – Partially Resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2012-2013)

NR – Not Resolved Yet. (Finding repeated in fiscal year 2012-2013)

<b>Original Finding Number</b>	<b>CFDA No.</b>	<b>Finding / Noncompliance</b>	<b>Action</b>
12-01	81.128	Cash Management	FR
12-02	81.128	Reporting	FR