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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2008

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
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FOR THE YEAR ENDED JUNE 30, 2008**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico**

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Aguas Buenas** as of and for the year ended June 30, 2008 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the business-type activities. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for Espiritu Santo Project, is based solely on the report of the other auditors.

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

In my 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 Municipality of Aguas Buenas as of June 30, 2008, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

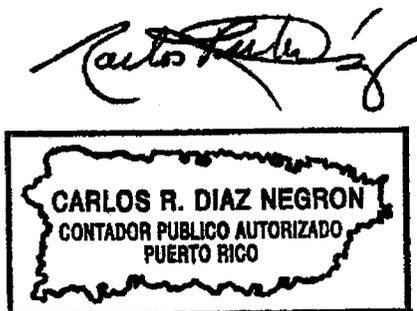
In accordance with Government Auditing Standards, I have also issued my report date December 22, 2008 on my consideration of **Municipality of Aguas Buenas'** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 41 through 44 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Aguas Buenas basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relations to the basic financial statements taken as a whole.

December 22, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010



The stamp No. 2373629 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Management of the Municipality of Aguas Buenas of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2008. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights-Governmental Activities

- ***Assets*** – The Municipality has reported assets amounting to \$26.4 million for the governmental activities in the accompanying statement of net assets, of which the most significant are capital assets, cash and cash equivalents, and tax receivables amounting to \$18.6 millions, \$5.3 millions, and \$2.5 millions, respectively.
- ***Liabilities*** – The Municipality has reported liabilities amounting to \$10.9 million in the accompanying statement of net assets, of which the most significant are long-term, debt unearned revenues and, accounts payable amounting to \$8.1 millions, \$1.5 millions, \$1.0 millions, respectively.
- ***Net assets*** – The assets of the Municipality exceeded its liabilities by \$15.5 millions at June 30, 2008, which is presented as “net assets” in the accompanying statement of net assets. Restricted net assets and unrestricted deficit amounted to \$3.3 millions and \$3.2 millions, respectively. Net assets invested in capital assets amounted to \$15.4 millions.
- ***Net change in net assets*** – The Municipality's net assets increased by \$1.0 millions during fiscal year ended June 30, 2008. Net assets at June 30, 2008 amounted to \$15.5 millions. The increase in net assets represents a positive result of operations in the Municipality's overall financial position in comparison with the prior fiscal year.
- ***Revenues*** – The Municipality has reported total revenues amounting to \$17.2 millions in the accompanying statement of activities, of which the most significant are intergovernmental grants and contributions, and taxes amounting to \$11.2 millions and \$4.5 millions, respectively.
- ***Expenses*** – The Municipality has reported total expenses amounting to \$16.2 millions in the accompanying statement of activities.

Governmental Funds' Highlights:

- ***Assets*** – The Municipality's governmental funds have reported combined assets amounting to \$8.3 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash, taxes receivable, and grants and due from agencies amounting to \$5.3 millions, \$1.1 millions, and \$1.8 millions respectively.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

- **Liabilities** – The Municipality's governmental funds have reported combined liabilities amounting to \$4.6 millions in the accompanying balance sheet – governmental funds, of which the most significant are deferred revenues, and accounts payable and accrued liabilities amounting to \$3.0 millions, and \$.9 millions respectively.
- **Governmental fund balances** – The Municipality's governmental funds reported combined fund balance amounting to \$3.7 millions, that represents unreserved fund balances.
- **Net change in governmental fund balances** – The Municipality's governmental fund balances decreased by \$1.9 millions during fiscal year ended June 30, 2008. Governmental fund balances at June 30, 2008 amounted to \$3.7 millions. The decrease in fund balance represents the excess of expenditures and other financing uses over revenues and other financing sources.
- **Revenues** – The Municipality's governmental funds have reported combined revenues amounting to \$16.8 millions in the accompanying statement of revenues, expenditures and changes in fund balances governmental funds, of which the most significant are intergovernmental grants and contributions, property taxes, municipal license taxes, and sales taxes amounting to \$11.2 millions, \$2.1 millions, \$0.6 millions, and 1.3 millions respectively.
- **Expenditures** – The Municipality's governmental funds have reported combined expenditures amounting to \$19.2 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as public works, general government and health sanitation and welfare amounting to \$10.7 millions, \$3.7 millions, \$2.1 millions, respectively.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from the previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) in addition to the basic financial statements themselves. These components are described below:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2008 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the Statements of Net Assets and (2) the Statement of Activities. The Statement of Net Assets and the Statement of Activities are commonly divided into two kinds of activities:

- Governmental activities – Apply for governmental funds
- Business-type activities-Apply for property funds

Statement of Net Assets

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

Fund Financial Statements (Cont.)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (June 30, 2008). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: (1) the general fund, (2) debt service fund, (3) HUD Block Grant Fund and (4) section 8 fund.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2003, the Municipality retroactively recorded the historical costs of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net assets (excess of assets over liabilities) amounted to \$15.5 millions at June 30, 2008, compared to \$14.5 millions at the end of the previous year.

The largest portion of the Municipality's net assets is invested in capital assets net of their related debt (\$15.4 millions). The Municipality's net assets is also composed of net assets amounting to \$0.8 and 2.5 millions that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's net assets are reported as unrestricted deficit of \$3.2 millions.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total				
	2008	2007	Change	2008	2007	Change			
ASSETS									
Current and other assets	\$ 7,826,501	\$ 9,585,005	\$(1,758,504)	\$268,583	\$240,967	\$ 27,616	\$8,095,084	\$9,825,972	\$(1,730,888)
Capital assets, net	18,601,038	15,856,419	2,744,619	606,322	640,690	(34,368)	19,207,360	16,497,109	2,710,251
<i>Total assets</i>	26,427,539	25,441,424	\$ 986,115	874,905	881,657	(6,752)	27,302,444	26,323,081	979,363
LIABILITIES AND NET ASSETS									
Current and other liabilities	3,805,838	3,459,421	346,417	57,377	59,928	(2,551)	3,863,215	3,519,349	343,866
Long-term debt liabilities	7,057,716	7,462,358	(404,642)	565,494	603,749	(38,255)	7,623,210	8,066,107	(442,897)
<i>Total liabilities</i>	10,863,554	10,921,779	(58,225)	622,871	663,677	(40,806)	11,486,425	11,585,456	(99,031)
Net assets									
Invested in capital assets, net of related debt	15,407,045	14,184,639	1,222,406		1,617	(1,617)	15,407,045	14,186,256	1,220,789
Restricted	3,337,074	591,453	2,745,621	172,785	169,317	3,468	3,509,859	760,770	2,749,089
Unrestricted	(3,180,134)	(256,547)	(2,923,587)	79,249	47,046	32,203	(3,100,885)	(209,501)	(2,891,384)
TOTAL NET ASSETS	\$15,563,985	\$14,519,545	\$ 1,044,440	\$252,034	\$217,980	\$ 34,054	15,816,019	14,737,525	\$1,078,494

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

Changes in Net Assets

The Municipality's net assets increased by \$1.0 millions. Approximately 26 percent of the Municipality's total revenues came from taxes, while 65 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. The Municipality's expenses cover a range of services. The largest expenses were for general government (26 percent), public works and sanitation (48 percent) and public housing and welfare (11 percent). An increase of public works and sanitation are noted due to the permanent improvement expenses.

The following is a comparative condensed presentation of the Municipality's results of operations as reported in the Governmental Activities:

CONDENSED STATEMENT OF ACTIVITIES

	2008	2007	Change	%
Program Revenues				
Operating grants and contributions	\$ 2,345,681	\$ 2,235,573	\$ 110,108	5%
Capital grants and contributions	3,837,515	4,128,983	(291,468)	-7%
Charge for services	45,783		45,783	
General Revenues				
Taxes				
Property taxes	2,534,333	1,853,426	680,907	37%
Municipal taxes	635,931	695,569	(59,638)	-9%
Sales taxes	1,309,917	336,285	973,632	290%
Grants entitlements	4,993,140	6,381,911	(1,388,771)	-22%
Other	1,521,710	1,371,986	149,724	11%
Total revenues	<u>17,224,010</u>	<u>17,003,733</u>	<u>220,277</u>	<u>1%</u>
Expenses				
General administration	4,162,477	3,824,031	338,446	9%
Public safety	596,527	466,100	130,427	28%
Education, culture and recreational	1,439,332	422,534	1,016,798	241%
Public works and sanitation	7,840,081	8,054,285	(214,204)	-3%
Health and welfare	1,832,247	1,793,885	38,362	2%
Interest	309,006	360,305	(51,299)	-14%
Total general activities	<u>16,179,670</u>	<u>14,921,140</u>	<u>1,258,530</u>	<u>8%</u>
Change in net assets	1,044,340	2,082,593	(1,038,253)	-52%
Net assets at beginning	<u>14,519,646</u>	<u>12,437,052</u>	<u>2,082,593</u>	<u>17%</u>
Net assets at end	<u>\$15,518,203</u>	<u>\$14,519,645</u>	<u>\$ 1,044,340</u>	<u>7%</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Municipality's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet of governmental funds:

**Condensed Balance Sheet-Governmental Funds
June 30, 2008 and 2007**

	2008	2007	Change	%
Total Assets	\$8,282,272	\$9,814,256	\$(1,531,984)	(16%)
Total Liabilities	4,579,055	4,182,134	396,921	9%
Fund Equity And Other Credits	3,703,217	5,632,122	(1,928,905)	(34%)
	<u>\$8,282,272</u>	<u>\$9,814,256</u>	<u>\$(1,531,984)</u>	<u>(16%)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The following is a condensed presentation of the Municipality's statement of revenues, expenditures and changes in fund balance of governmental funds:

**Condensed Statement of Revenues, Expenditures and Changes
in Fund Balances-Governmental Funds
June 30 2008 and 2007**

	2008	2007	Change	%
Total Revenues	\$16,580,915	\$17,155,743	\$ (574,828)	-3%
Total Expenditures	<u>19,240,327</u>	<u>16,515,322</u>	<u>2,725,005</u>	<u>16%</u>
Excess of revenues over expenditures	(2,659,412)	640,421	(3,299,833)	-515%
Total Other financing sources(uses), net	<u>255,000</u>	<u>255,000</u>	<u>0</u>	<u>0%</u>
Excess of revenues and other financing Sources over expenditures and other Financing sources	(2,404,412)	895,421	(3,299,833)	-369%
Fund balance, at beginning of fiscal year	<u>5,632,122</u>	<u>4,736,701</u>	<u>895,421</u>	<u>19%</u>
Fund balance, at end of fiscal year	<u><u>\$ 3,227,710</u></u>	<u><u>\$ 5,632,122</u></u>	<u><u>\$(2,404,412)</u></u>	<u><u>-43%</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to \$29.3 millions at June 30, 2008. The related accumulated depreciation and amortization of capital assets amounted to \$10.7 millions at June 30, 2008. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$3.6 millions, net of retirements, for the year ended June 30, 2008. Depreciation and amortization charges for the year totaled \$895 thousands, net of retirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The Municipality finances a significant portion of its construction activities through bond issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entire for such purposes and cannot be used for any other purposes.

Comparison of Capital Assets for governmental activities is as follows:

	2008	2007	Change	%
CAPITAL ASSETS				
Nondepreciable asset:				
Land	\$1,971,577	\$1,971,577	\$ -	-
Depreciable assets:				
Infrastructure	1,317,685	921,743	395,942	43%
Buildings, parks and courts	22,387,466	19,314,213	3,073,253	16%
Machinery and equipment	1,754,564	1,687,959	66,605	4%
Automobiles	1,906,923	1,802,510	104,413	6%
Total capital assets	<u>29,338,215</u>	<u>25,698,002</u>	<u>\$3,640,213</u>	<u>14%</u>
Less accumulated depreciation:				
Infrastructure	92,174	57,090	35,084	61%
Buildings, parks and courts	7,937,775	7,368,603	569,172	8%
Machinery and equipment	1,133,539	1,002,097	131,442	13%
Automobiles	1,573,589	1,413,793	159,896	11%
	<u>10,737,177</u>	<u>9,841,583</u>	<u>895,594</u>	<u>9%</u>
Net capital assets	<u>\$18,601,038</u>	<u>\$15,856,419</u>	<u>\$2,744,619</u>	<u>17%</u>

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The Municipality is required under applicable laws and regulations to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax Levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

At year-end the Municipality had \$5,408,000 in general and special bonds and notes, a decrease of 4% with respect to prior year. Total long-term liability for the year ended June 30, 2008 is as follows:

General and special obligation bonds and notes	\$5,408,000
Compensated absences	1,106,891
Landfill closure costs	1,360,000
Other	<u>819,508</u>
Total	<u>\$8,694,399</u>

ECONOMIC FACTORS AND BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2007-2008 fiscal year. There were no significant changes between the budget for fiscal year 2006-2007 and the one for fiscal year 2007-2008. Actual revenues were more than budget by approximately 2% that is considered reasonable.

Expenditures were less than budgeted amount. See Budgetary Comparison Schedule on page 42.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Mr. Jose Emilio Carrasquillo, at (787) 732-2811.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

PRIMARY GOVERNMENT

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS – TYPE ACTIVITIES	<u>TOTAL</u>
Cash and cash equivalents	\$ 3,208,239	\$ 54,192	\$ 3,262,431
Cash with fiscal agent	2,077,201		2,077,201
Account receivable	1,127,404		1,127,404
Accounts receivable other agencies	1,386,985		1,386,985
Other assets	26,672	41,606	68,278
Restricted cash		172,785	172,785
Capital assets, net	<u>18,601,038</u>	<u>606,322</u>	<u>19,207,360</u>
Total Assets	<u>\$26,427,539</u>	<u>\$874,905</u>	<u>\$27,302,444</u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	\$ 989,816	\$ 19,122	\$ 1,008,938
Deferred revenue	1,537,875		1,537,875
Due to other agencies	245,223		245,223
Long-term debt:			
Due within one year	1,032,924	38,255	1,071,179
Due in more than one year	<u>7,057,716</u>	<u>565,494</u>	<u>7,623,210</u>
Total liabilities	<u>10,863,554</u>	<u>622,871</u>	<u>11,486,425</u>
 Net Assets:			
Invested in capital assets, net of related debt	15,407,045		15,407,045
Restricted for:			
Debt service	839,804		839,804
Replacements and others		172,785	172,785
Capital project	2,497,270		2,497,270
Unrestricted	<u>(3,180,134)</u>	<u>79,249</u>	<u>(3,100,885)</u>
Total Net Assets	<u>\$15,563,985</u>	<u>\$252,034</u>	<u>\$15,816,019</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

<u>FUNCTIONS AND PROGRAMS</u>	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE)/ REVENUE</u>
<u>EXPENSES</u>	<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>		
Governmental activities:					
General administration	\$ (3,891,255)		\$ 268,861		\$(3,622,394)
Public safety	(596,527)		163,060		(433,467)
Education, culture and recreational	(1,439,332)	\$ 45,783	582,014		(811,535)
Public relations	(271,222)			\$3,837,515	(271,222)
Public works and sanitation	(7,840,081)				(4,002,566)
Health and welfare	(1,832,247)		1,331,746		(500,501)
Interest	(309,006)				(309,006)
Total governmental activities	(16,179,670)	45,783	2,345,681	3,837,515	(9,950,691)
Business type-activities:					
Housing	(264,917)	295,642			30,725
Total	\$(16,444,587)	\$341,425	\$2,345,681	\$3,837,515	\$(9,919,966)

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	\$ (9,950,691)	\$ 30,725	\$ (9,919,966)
General revenue:			
Taxes:			
Property taxes	2,534,333		2,534,333
Municipal tax	635,931		635,931
Sales tax	1,309,917		1,309,917
Grants and entitlements	4,993,140		4,993,140
Rent	85,261		85,261
Licenses and permit	930,093		930,093
Interest	206,336		206,336
Other	<u>300,020</u>	<u>3,329</u>	<u>303,349</u>
Total general revenues	<u>10,995,031</u>	<u>3,329</u>	<u>10,998,360</u>
Changes in net assets	1,044,340	34,054	1,078,394
Net assets at beginning	<u>14,519,645</u>	<u>217,980</u>	<u>14,737,625</u>
Net assets at end	<u>\$ 15,563,985</u>	<u>\$252,034</u>	<u>\$ 15,816,019</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE</u>	<u>HUD BLOCK GRANT FUND</u>	<u>SECTION 8 FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash:						
Cash in bank	\$ 1,291,667		\$ 18,496	\$ 415,168	\$ 1,482,908	\$ 3,208,239
Cash with fiscal agent	14,057	\$ 833,024			1,230,120	2,077,201
Receivables:						
Governmental agencies	401,585				985,400	1,386,985
Property taxes	897,483	229,921				1,127,404
Other funds	455,771					455,771
Other	<u>26,672</u>					<u>26,672</u>
Total assets	<u>\$ 3,087,235</u>	<u>\$ 1,062,945</u>	<u>\$ 18,496</u>	<u>\$ 415,168</u>	<u>\$ 3,698,428</u>	<u>\$ 8,282,272</u>
Liabilities:						
Accounts payable and accrued expenses	642,187				230,057	872,244
Deferred income	1,729,091	223,141	18,496	415,168	619,921	3,005,817
Due to other fund					455,771	455,771
Due to other agencies	<u>245,223</u>					<u>245,223</u>
Total liabilities	<u>2,616,501</u>	<u>223,141</u>	<u>18,496</u>	<u>415,168</u>	<u>1,305,749</u>	<u>4,579,055</u>
Fund balance						
Unreserved	470,734	839,804				1,310,538
Unreserved reported in non major					<u>2,392,679</u>	<u>2,392,679</u>
Total fund balance	<u>470,734</u>	<u>839,804</u>			<u>2,392,679</u>	<u>3,703,217</u>
Total liabilities and fund balance	<u>\$ 3,087,235</u>	<u>\$ 1,062,945</u>	<u>\$ 18,496</u>	<u>\$ 415,168</u>	<u>\$ 3,698,428</u>	<u>\$ 8,282,272</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

Fund balances in governmental funds	\$ 3,703,217
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,601,038
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Deferred property tax revenue in governmental funds financial statements whereas recorded as revenue in the governmental activities	1,467,942
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Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds and notes payable	(5,408,000)
Compensated absences	(1,106,891)
Estimated liability for landfill post-closure costs	(1,360,000)
Accrued interest	(117,572)
Other long term debt	<u>(215,749)</u>

<i>Net assets of governmental activities</i>	<u>\$15,563,985</u>
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE</u>	<u>HUD BLOCK GRANT FUND</u>	<u>SECTION 8 FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:						
Taxes:						
Property taxes	\$1,658,641	\$428,104				\$ 2,086,745
Municipal taxes	635,931					635,931
Sale tax		257,526			\$ 1,052,391	1,309,917
Licenses and permits	930,093					930,093
Interest	189,096	17,240				206,336
Rent	85,261					85,261
Grants and entitlements	5,173,874		\$1,239,357	\$1,233,968	3,529,137	11,176,336
Other	<u>345,803</u>					<u>345,803</u>
Total Revenues	<u>9,018,699</u>	<u>702,870</u>	<u>1,239,357</u>	<u>1,233,968</u>	<u>4,581,528</u>	<u>16,776,422</u>
Expenditures:						
General administration	3,162,607				551,136	3,713,743
Public safety	538,875				44,832	583,707
Education and recreational	635,361				575,559	1,210,920
Public works	3,631,427		1,239,357		5,854,396	10,725,180
Public relations	271,222				271,222	271,222
Health sanitation and welfare	786,469			1,233,968	79,687	2,100,124
Debt service:						
Principal		\$318,000				318,000
Interest		<u>317,431</u>				<u>317,431</u>
Total expenditures	<u>9,025,961</u>	<u>635,431</u>	<u>1,239,357</u>	<u>1,233,968</u>	<u>7,105,610</u>	<u>19,240,327</u>
Excess of revenue over expenditures	<u>\$ (7,262)</u>	<u>\$ 67,439</u>	<u>\$</u>	<u>\$</u>	<u>\$(2,524,082)</u>	<u>\$ (2,463,905)</u>

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	GENERAL FUND	DEBT SERVICE FUND	HUD BLOCK GRANT FUND	SECTION 8	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of revenues over expenditures	\$ (7,262)	\$ 67,439	_____	_____	\$(2,524,082)	\$(2,463,905)
Other financing sources (uses):						
Operating transfer in	20,933	201,845				222,778
Operating transfer out	(201,845)	(20,933)				(222,778)
Proceed from loan	_____	_____			535,000	535,000
Total other financing sources	<u>(180,912)</u>	<u>180,912</u>			<u>535,000</u>	<u>535,000</u>
Excess of revenues and other financing source over expenditures and other financing sources	(188,174)	248,351			(1,989,082)	(1,928,905)
Fund balance at beginning of year	<u>658,908</u>	<u>591,453</u>			<u>4,381,761</u>	<u>5,632,122</u>
Fund balance at end of year	<u>\$ 470,734</u>	<u>\$ 839,804</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 2,392,679</u>	<u>\$ 3,703,217</u>

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

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

Net change in fund balances – total governmental funds \$(1,928,905)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 3,646,046

Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net assets. 318,000

Governmental fund report proceed from long-term debt as other financial sources, whereas the proceed is recorded as a liability in the statement of net assets. (535,000)

Change in accrued expenses which does not require the use of current financial resources:

Accrued interest	8,425
Compensating absences	(225,436)
Other long-term debts	215,049
Deferred propriety tax	447,588

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (901,427)

Changes in Net Assets of Governmental Activities **\$1,044,340**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

	Business type activities Espiritu Santo Project
Cash flow from operating activities:	
Cash received from rentals	\$297,975
Interest received	<u>3,329</u>
	<u>301,304</u>
Administrative	52,477
Utilities	16,828
Salaries and wages	56,235
Operating and maintenance	12,172
Property and liability insurance	17,925
Interest on mortgage	43,464
Management fees	<u>21,000</u>
	<u>220,101</u>
Net cash provided by operating activities	<u>81,203</u>
Cash flow from investing activities:	
Purchase of equipment	(21,430)
Additions to reserve for replacements and interest	(3,951)
Net cash used by investing activities	<u>(25,381)</u>
Cash flows from financing activities:	
Mortgage principal payments	<u>(35,324)</u>
Net cash used by financing activities	<u>(35,324)</u>
Net decrease in cash	20,498
Cash at beginning of the year	<u>33,694</u>
Cash at ending of the year	<u>\$ 54,192</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of change in net assets to net cash provided by operating activities:

	Business type activities Espiritu Santo Project
Cash flow from operating activities:	
Change in net assets	<u>\$26,744</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	55,799
Increase (decrease) in:	
Tenants account receivable (net)	2,333
Miscellaneous prepaid expenses	1,327
Accounts payable	(537)
Accrued vacations and bonus	(4,228)
Interest on mortgage	<u>(235)</u>
Total adjustments	<u>54,459</u>
Net cash provided by operating activities	<u>\$81,203</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. ORGANIZATION

The Municipality of Aguas Buenas (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has fourteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Aguas Buenas, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

Basic financial statements include both governments-wide and fund financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

The government-wide financial statements (consists of the statement of net assets and the statement of activities) these statements report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund financial statements

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

The Municipality reports the following major governmental funds:

A) General Fund

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

B) Debit service fund

The fund accounts for resources accumulated and payments made for principal and interest on long term general obligation debt of governmental funds.

C) HUD Block Grant Fund

This fund accounts for resources accumulated and payment made under the Community Block Grant Program of the US Department of Housing and Urban Development.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Section 8 Funds

This fund accounts for the resources received and payments made under the Section 8 – Housing Choices Voucher Program of the US Department of Housing and Urban Development.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

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

Proprietary fund financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund nets, and statements of cash flows for the proprietary fund which include a low income housing project know as Espiritu Santo Project.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net assets present increases (revenues) and decrease (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net assets.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Infrastructure	50 years
Building	40 years
Improvement to land	25 years
Vehicles	7 years
Machinery and equipment	10 years
Computer and printer	3 years
Furniture	15 years

Reservation of fund balance

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

A) Debt/ service

Represents net assets available to finance future debt service payments.

B) State and federal programs

Represent the reservations of amounts available for specific use under state and federal grant programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2008 amounted to approximately \$144,328. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$136,257 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

Post employment benefits

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of it's retirees employees. Substantially all of the employees may become eligible for these benefits of they reach normal retirement to while working for the Municipality. For the fiscal year ended June 30, 2008, post employment benefits retirees amounted to \$50,000. These benefits are recorded as expenditures when paid in the general fund.

Use of estimates

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exception from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2008 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. . The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is imposed to the taxpayer.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

3. PROPERTY TAX (CONTINUED)

Prior to 1994, the Department of the Treasury was the agency responsible for the assessment of real property and for the administration and collection of the related taxes. Amounts advanced by the Secretary of the Treasury to the Municipality of Aguas Buenas that had not been amortized through the collections of property taxes amounted to \$19,606 as of June 30, 2008.

On January 26, 2000, Public Law, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. As of June 30, 2008, the amount due to CRIM amounting to \$90,347 is presented as other long-term debt (see Note 9).

Total property tax receivable, net of an allowance for uncollectible accounts of \$1,627,818, amounted to \$1,127,404 at June 30, 2008. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2008:

	<u>General Fund</u>	<u>Debt service fund</u>	<u>Total</u>
Gross property taxes receivable	\$ 2,191,794	\$ 563,427	\$ 2,755,221
Less:			
Allowance for uncollectible accounts	<u>(1,294,311)</u>	<u>(333,506)</u>	<u>(1,627,817)</u>
Net property taxes receivable	<u>\$ 897,483</u>	<u>\$ 229,921</u>	<u>\$ 1,127,404</u>
Deffered (unavailable property) tax revenues in GFFS	<u>\$ 873,216</u>	<u>\$ 223,141</u>	<u>\$ 1,096,357</u>

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2008, \$454,290 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

5. SALE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved the Ordinance 6, Series 2006-2007 to established a city tax contribution, effective November 1, 2006, to 1.5% over all transactions of sales of goods and services made on Aguas Buenas's boundaries. According to the Ordinance, these new resources will be principally used in the following activities: repairs and improvements of Municipal roads, infrastructure and sport facilities, construction of curbs and sidewalk, purchases of heavy equipment.

Municipality of Aguas Buenas contracted a service organization to manage the imposition and collection of the sales tax.

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, for all the municipalities in Puerto Rico, of which 1% will be collected by the municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

6. GRANTS AND ENTITLEMENTS REVENUE

Grants and entitlements revenue consists of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in other governmental funds.

7. DEFERRED REVENUE

Deferred revenue consists of the followings:

Municipal license tax collected in the fiscal year 2007-2008 corresponding to the following fiscal year	\$ 454,290
Portion of grants received for which qualifying expenditures have not been incurred.	<u>1,053,585</u>
	1,507,875
Property tax deferred for governmental fund financial statement and recurred as income in the governmental wide financial statements.	1,096,357
Others	<u>401,585</u>
	<u>\$3,005,817</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

8. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Tenant security deposits	\$ 8,643
Reserve for replacement	<u>164,142</u>
	<u>\$ 172,785</u>

Under the regulatory agreement, Project is required to set aside amounts for the replacement of property and other Project expenditures approved by HUD. HUD – Restricted Deposits are held in separate accounts and generally are not available for operating purposes.

Tenant's Security Deposit and its accumulated interest are held in a separate bank savings account in the name of the Project, in compliance with USDA-RD and HUD requirements. Any amounts not returned to the tenant due to lease violations are transferred to the Project's general operating account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

9. CAPITAL ASSETS

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

Primary Government	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,971,577	_____	_____	\$ 1,971,577
Capital assets being depreciated:				
Infrastructure	921,743	\$ 395,942		1,317,685
Buildings, park and courts	19,314,213	3,073,253		22,387,466
Machinery and equipment	1,687,959	72,438	\$5,833	1,754,564
Automobiles	<u>1,802,510</u>	<u>104,413</u>	_____	<u>1,906,923</u>
Total capital assets being depreciated	<u>23,726,425</u>	<u>3,646,046</u>	<u>5,833</u>	<u>27,366,638</u>
Less accumulated depreciation for:				
Infrastructure	57,090	35,084		92,174
Buildings, parks and courts	7,368,603	569,172		7,937,775
Machinery and equipment	1,002,097	137,275	5,833	1,133,539
Vehicles	<u>1,413,793</u>	<u>159,896</u>	_____	<u>1,573,689</u>
Total	<u>9,841,583</u>	<u>901,427</u>	<u>5,833</u>	<u>10,737,177</u>
Total depreciable capital assets, net	<u>13,884,842</u>	<u>2,744,619</u>	_____	<u>16,629,461</u>
Governmental activities capital assets net	<u>\$15,856,419</u>	<u>\$2,744,619</u>	<u>\$_____</u>	<u>\$18,601,038</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	\$ 50,700			\$ 50,700
Capital assets being depreciated:				
Building and improvements	1,957,060			1,957,060
Equipment	<u>114,165</u>	\$ 21,430		<u>135,595</u>
	<u>2,071,225</u>	<u>21,430</u>	_____	<u>2,092,655</u>
Less accumulated depreciation:				
Building and improvements and equipment	<u>1,481,235</u>	<u>55,798</u>	_____	<u>(1,537,033)</u>
Total depreciable capital assets, net	<u>589,990</u>	<u>(34,368)</u>	_____	<u>555,622</u>
Business activities capital assets, net	<u>\$ 640,690</u>	<u>\$(34,368)</u>	<u>\$_____</u>	<u>\$ 606,322</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

9. CAPITAL ASSETS (CONTINUED)

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General administration	\$117,484	
Public safety	34,047	
Public works	529,503	
Education, culture and recreation	209,413	
Health, sanitation and welfare	10,980	
Housing	<u> </u>	<u>\$55,799</u>
Total depreciation expense	<u>\$901,427</u>	<u>\$55,799</u>

10. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2008 was as follows:

Primary Government Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Bonds and notes	\$5,191,000	\$ 535,000	\$318,000	\$5,408,000	\$ 260,000
Other long-term debt:					
Compensated absences	881,455	225,436		1,106,891	750,000
Amount due to CRIM	128,373	110,204	22,828	215,749	22,924
Landfill	1,360,000			1,360,000	
Puerto Rico Health Insurance	<u>302,425</u>	<u> </u>	<u>302,425</u>	<u> </u>	<u> </u>
Total	7,863,253	870,640	643,253	8,090,640	1,032,924
Business-type activities:					
Mortgage payable	<u>639,073</u>	<u> </u>	<u>35,324</u>	<u>603,749</u>	<u>38,255</u>
Total	<u>\$8,502,326</u>	<u>\$ 870,640</u>	<u>\$678,577</u>	<u>\$8,694,389</u>	<u>\$1,071,179</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

\$920,000 Public Improvement Serial Bonds of 1995 payable in annual installments of \$30,000 to \$85,000 through July 1, 2020 plus interest at 6.12%.	\$690,000
\$600,000 Public Improvement Serial Bonds of 1993 payable in annual installments ranging from \$33,000 to \$48,000 through January 1, 2015, plus interest at 6%.	278,000
\$400,000 Public Improvement Bonds, Serial of 1997 Payable in annual installments ranging from \$22,000 to \$34,000 through January 1, 2016, plus interest at 5.62%.	221,000
\$2,285,000 General Obligation Bonds, Serial 1998-99 payable in annual installments ranging from \$45,000 to \$175,000, through July 1, 2030, plus interest at 6.5%.	2,215,000
\$255,000 General Obligation Bonds due in annual installments ranging from \$5,000 to \$20,000 through July 1, 2031, plus interest at 6.50%.	210,000
\$430,000 General Obligation Note Serial 2003-04 payable in annual installments ranging from \$65,000 to \$75,000 through July 1, 2010, plus interest based ON LIBOR at 90 days plus 1.25%	250,000
\$1,510,000 General Obligation Notes Serial 2003-04 payable in annual installments ranging from \$144,000 to \$195,000 through July 1, 2014 plus interest based ON LIBOR at 90 days plus 1.25%.	1,009,000
\$535,000 general obligation bond serial 2007-2008 payable in annual installments ranging from \$60,000 to \$10,000 through July 1, 2014 plus interest based on LIBOR at 90 days plus 1.25%.	<u>535,000</u>
	<u>\$5,408,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2008 are as follows:

Governmental –type Activities:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 260,000	\$ 305,869
2010	423,000	439,904
2011	447,000	422,853
2012	405,000	413,109
2013	425,000	393,717
2014-2018	1,413,000	1,195,856
2019-2023	755,000	528,432
2024-2028	715,000	305,347
2029-2032	<u>565,000</u>	<u>59,313</u>
	<u>\$5,408,000</u>	<u>\$4,064,400</u>

Business-type activities:

Mortgage note is payable in monthly installments of \$6,566 through 2019.

Mortgage payable consist of permanent residence loans provided by USDA–Rural Development. The land and building of the Project the mortgage note.

Mortgage note payable matures as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 38,255	\$ 43,402
2010	41,430	40,698
2011	44,869	37,789
2012	48,593	34,655
2013	52,626	31,283
2014-2018	336,365	96,102
2019	<u>41,611</u>	<u>5,298</u>
	<u>\$603,749</u>	<u>\$289,227</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

10. LONG-TERM DEBTS (CONTINUED)

Advances from CRIM and PR Treasury Department

These amounts represent the balance owed to CRIM and PR Treasury Department at June 30, 2008 as described in Note 3 and is payable in an aggregate monthly installment of \$24,080 through 2009 and \$7,276 thereafter including interest at 6.2%. The advances from CRIM and PR Treasury Department mature as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 22,925	\$ 12,145
2009	9,028	11,763
2010	6,342	11,374
2011	6,463	10,979
2012	6,592	10,575
2013-2017	35,200	46,525
2018-2022	39,887	34,984
2023-2027	46,244	21,772
2028-2032	<u>43,068</u>	<u>6,408</u>
	<u>\$215,749</u>	<u>\$166,525</u>

Health Reform Insurance Liability

The amount due to Puerto Rico Health Insurance Administration is related with an unpaid balance from year ended at June 30, 1997 accordingly with the implementation of Act No. 72 of September 7, 1993, which establishes contributions for the medical services covered by the Health Reform based on the operational budget of the municipalities. The unpaid balance will be amortized through the proportional participation of the municipalities to the annual increase in electronic lottery income which will be collected and withheld by the Treasury Department of Puerto Rico.

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

11. RETIREMENT SYSTEM

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined, otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among others, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment received a refund of their contributions. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

11. RETIREMENT SYSTEM (CONTINUED)

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2008 amounted to approximately \$169,960 and \$195,830, respectively. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Retirement System.

12. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Municipality is defendant and /or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position .

13. MUNICIPAL LANDFILL

State and federal laws and regulations requires to the Municipality to carry out certain closure work when it stops accepting waste and to perform certain maintenance and monitoring functions at site in the following years. In accordance with GASB No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs" the Municipality must has to perform a study of the closing and post closing costs in order to recognize a provision for those costs.

The Municipality operated a solid waste landfill that was closed during 1994. Total closure costs incurred as of June 30, 2008 were approximately \$1,300,000. The closure costs incurred were mostly provided by federal awards under the State Block Grant Program.

The Municipality is still in process of performing tests in the landfill site in order to assess a final settlement of closure and post-closure costs. A preliminary estimate of these costs as of June 30, 2008 amounted to \$1,360,000. Accordingly, a provision for future closure and post closed costs was recognized in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>AMMENDED BUDGET</u>	<u>ACTUAL</u>	
Revenues:				
Taxes:				
Property taxes	\$1,528,028	\$1,528,028	\$1,658,641	\$ 130,613
Municipal tax	680,000	680,000	635,931	(44,069)
Grants and entitlements	5,562,759	5,562,759	5,173,874	(388,885)
Other	<u>1,291,000</u>	<u>1,445,844</u>	<u>1,571,186</u>	<u>125,342</u>
Total revenues	<u>9,061,787</u>	<u>9,216,631</u>	<u>9,039,632</u>	<u>(176,999)</u>
Expenditures:				
General administration	3,149,132	3,026,162	3,162,607	(136,445)
Public safety	591,674	601,400	538,875	62,525
Education, culture and Recreational	618,639	646,153	635,361	10,792
Public relation	176,211	271,226	271,222	4
Public works and sanitation	3,602,833	3,660,503	3,631,427	29,076
Health and welfare	701,423	789,312	786,469	2,843
Transfer out	<u>221,875</u>	<u>221,875</u>	<u>201,845</u>	<u>20,030</u>
Total expenditures	<u>9,061,787</u>	<u>9,216,631</u>	<u>9,227,806</u>	<u>(11,175)</u>
Excess of revenue over expenditure	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ (188,174)</u>	<u>\$(188,174)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2008

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2008**

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the General Fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>REVENUES</u>	<u>EXPENDITURES</u>
Generally accepted accounting principles (GAAP) basis	\$9,018,699	\$9,025,961
Transfer in included as revenues in budgetary basis	<u>20,933</u>	<u>201,845</u>
Budgetary basis	<u>\$9,039,632</u>	<u>\$9,227,806</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$1,239,356
Direct Program:		
Section 8- Housing Choice Vouchers	14.871	1,233,968
 <u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	29,181
 <u>US Department of Health and Human Services</u>		
Passes through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	391,946
 <u>US Department of Homeland and Security</u>		
Passes through:		
PR Office of Management and Budget (GAR)		
Public Assistance Grant	97.036	81,774
PR Department of Justice		
Homeland Security Grant Program	97.067	<u>100,598</u>
		<u>\$3,076,823</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Aguas Buenas and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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**REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARD**

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico**

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Aguas Buenas, Puerto Rico**, as of and for the year ended June 30, 2008 which collectively comprise the Municipality of Aguas Buenas' basic financial statements and have issued my report there on dated December 22, 2008. Others auditors audited the financial statements of The Espiritu Santo Project, as described in my report on Municipality of Aguas Buenas' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financing Reporting

In planning and performing my audit, I considered Municipality of Aguas Buenas' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Municipality of Aguas Buenas' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality of Aguas Buenas' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a deficiency in internal control over financial reporting that I consider to be significant deficiency.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Aguas Buenas' ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Aguas Buenas' financial statements that is more than inconsequential will not be prevented or detected by Municipality of Aguas Buenas' internal control. I consider the deficiency described in the accompanying schedule of findings and questioned cost to be significant deficiencies in internal control over financial reporting. Finding 01-08.

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

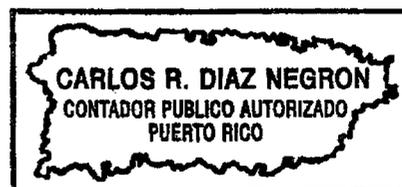
My consideration of internal control over financial reporting was from the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I believe that the significant deficiency described above is not a material weakness.

Compliance and Other Material

A part of obtaining reasonable assurance about whether Municipality of Aguas Buenas' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described as Finding 01-08 in the accompanying schedule of findings and questioned costs as items.

Municipality of Aguas Buenas' response to the findings in my audit is described in the accompanying schedule of findings and questioned cost. We did not audit Municipality of Aguas Buenas' response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Municipal Legislative Body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 22, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2010

The stamp No. 2373630 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

Carlos R. Diaz Negrón

Certified Public Accountant

MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor and
Municipal Legislative Body
Municipality of Aguas Buenas
Aguas Buenas, Puerto Rico**

Compliance

I have audited the compliance of the **Municipality of Aguas Buenas, Puerto Rico**, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Municipality of Aguas Buenas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Aguas Buenas' management. My responsibility is to express an opinion on the Municipality of Aguas Buenas' compliance based on my audit. Municipality of Aguas Buenas' basic financial statements include the operations of the Espiritu Santo Project (business type activities), which expensed \$820,132 in federal awards which is not included in the schedule during the year ended June 30, 2008. My audit described below did not include the operation of the business type activities because those statements were audited by other auditors.

I conducted my 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 State and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Aguas Buenas, Puerto Rico's compliance with those requirements and performing such other procedures as I considered necessary in the circumstance. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Aguas Buenas, Puerto Rico's compliance with those requirements.

In my opinion, the Municipality of Aguas Buenas, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2008. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedules of findings and questioned costs as item 02-08 to 04-08.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

Internal Control Over Compliance

The management of Municipality of Aguas Buenas, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Municipality of Aguas Buenas, Puerto Rico's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Municipality of Aguas Buenas' internal control over compliance.

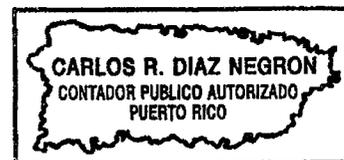
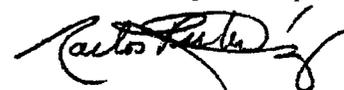
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 02-08 to 04-08 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. I do not consider any of the deficiencies described in the accompanying schedules of findings and questioned costs to be material weaknesses.

Municipality of Aguas Buenas' response to the findings in my audit is described in the accompanying schedule of finding's and questioned cost. I did not audit Municipality of Aguas Buenas' response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management and the Municipal Legislative Body of the Municipality of Aguas Buenas, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 22, 2008
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010

The stamp No. 2373631 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

- Material weakness identified? ___yes X no
- Significant deficiency identified that is not considered to be material weaknesses? X yes ___no

Noncompliance material to financial statement noted? ___yes X no

Federal Awards

Internal control over major programs:

- Material weakness identified? ___yes X no
- Significant deficiency identified that are not considered to be material weakness X yes ___no

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 X yes ___no

Identification of major programs:

<u>CFA Number(s)</u>	<u>Name of Federal Program</u>
14.871	Section 8 – Housing Choice Voucher
93.575	Child Care and Development Block Grants

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

Audit qualified as low-risk audited? ___yes X no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 01-08 - Municipal Solid Waste Landfill GASB 18

The estimated liability and the related disclosure presented in the financial statement related to costs of closure and postclosure of the Municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the June 30, 2006 financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources.

I recommend to perform the engineering studies to determine the factors necessary to calculate the amount to be accrued for cost closure and postclosure care. These costs include the following:

- The cost of equipment expected to be installed and facilities expected to be constructed near or after the date the landfill stops accepting waste and during the postclosure period. Such equipment might include gas monitoring and collection systems, storm water management systems, and groundwater monitoring wells.
- The cost of final cover (i.e., capping) expected to be applied near or after the closure date.
- The cost of monitoring and maintaining the expected usable landfill area during the postclosure period.

The amount to be accrued each period should be determined using a depletion approach and should be based on the percentage of capacity used during the period.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 02-08 – Eligibility Test – Section 8

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Eligibility

Category:

Compliance

Condition:

As part of my audit procedures I select 10 participants file to test the eligibility and special test and provision requirements of the Housing Choice Voucher Program and the following exceptions were noted:

	<u>Exceptions</u>
An annual verification of valuable assets was not required to the participant..	1
No documentation of citizenship.	3

Criteria:

24 CFR Section 982.516 established that PHA must; for both family income examinations, obtain and document in the family file third party verification of: (1) reported family annual income, (2) the value of assets, (3) expenses related to deductions from annual income and (4) others factors that affect the determination of adjusted income or income based rent.

24 CFR Sections 5.230, 5.609, and 982.516 established that as a condition of admission or continued occupancy; require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED

Finding No. 02-08 – Eligibility Test – Section 8 (continued)

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations and provision of contracts grant awards could also questioned.

Questioned costs:

None

Recommendation:

I recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program. The internal control system should include at least that file should be revised the internal audit department.

Management expense:

See accompanying management's response.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 03-08 – FSS escrow account

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Cash Management

Category:

Compliance

Condition:

During my examination, I noted that the Municipality maintains a balance of \$119,699 in the Family Self Sufficient escrow account. However, the Municipality provided to us a list of escrow per participant amounting to \$13,205.

Criteria:

24 CFR section 984.305 (FSS account) establishes that the PHA shall deposit the FSS account funds of all families participating in the PHA's FSS program into a single depository account. The PHA must deposit the FSS account funds in one or more of the HUD-approved investments.

The total of the combined FSS account funds will be supported in the PHA accounting records by a subsidiary ledger showing the balance applicable to each FSS family. During the term of the contract of participation, the PHA shall credit periodically, but not less than annually, to each family's FSS account, the amount of the FSS credit determined in accordance this section.

The investment income for funds in the FSS account will be prorated and credited to each family's FSS account based on the balance in each family's FSS account at the end of the period for which the investment income is credited.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 03-08 – FSS escrow account (continued)

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations, and provisions of contracts grant awards could also questioned.

Questioned costs:

None

Recommendation:

I recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program. The internal control system should include at least that file should be revised the internal audit department.

Management response:

See accompanying management's response.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 04-08 – Reporting-Section 8

Federal program

CFDA No. 14.871 – Housing Choice Voucher

Compliance requirement:

Reporting

Category:

Compliance

Condition:

During my examination, I noted that the Municipality maintains a difference between amount reported on Voucher Management System (VMS) and book register amount as follows:

	<u>VMS</u>	<u>Book Register</u>	<u>Difference</u>
Total HAP	\$8,101.81	\$836,996.00	\$828,894.19
Total Administrative Expense	\$6,570.43	\$192,072.00	\$185,501.57
Total Portabilities	\$8,407.12	\$37,459.00	\$45,866.12

Criteria:

HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169) required that Municipality submit quarterly.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 04-08 – Reporting-Section 8 (continued)

Effect:

The continue occurrence of the condition may result in the disallowance of program cost. In addition, the ability to manage federal awards in compliance with laws, regulations, and provisions of contracts grant awards could also questioned.

Questioned costs:

None

Recommendation:

I recommend that the Municipality establish an adequate internal control system to ascertain compliance with the requirements of the program.

Management response:

See accompanying management's response.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS**

EXHIBIT – I

**CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2008**

**MUNICIPALITY OF AGUAS BUENAS
CORRECTIVE ACTION PLAN
FOR SINGLE AUDIT FY 2008
UPDATED January 15, 2009**

Finding No. 01-08 – Municipal Solid Waste Landfill GASB

The Municipality

Program Deficiency	Objectives	Key Tasks/Action Items	Obstacles	Resources	Lead Staff Name and Position	Completion Target Date	Actual Completion Date	Implementation Progress/Comments
<p>The estimated liability and related disclosure presented in the financial statement related to engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were bases. Management believes that the effect in June 30, 2006 financial statements is not material. How ever as years going by the accrual will be material and the amount must be on reliable sources.</p>	<p>Closing of landfill</p>	<p>The Municipality has quoted the cost of closing the Landfill recently which the estimated cost is \$241,000.00. these funds are CDBG since 2001 and total funds available are \$314,500.00 CDBG to have the land fill post closed</p>	<p>Lack of follow up on funds. None approval of funds.</p>	<p>The Earth Group Link</p>	<p>Jose Ortiz (federal Programs Accountant)</p>	<p>August 26, 2007</p>	<p>August 26, 2007</p>	<p>Proposal submitted August 26, 2007 to Earth Link for final studies (attached doc for all studies need to complete post closing of Aguas Buenas Landfill) also included written statement from Jose A. Ortiz Lopez of all actions taken on his behalf. Also state balance 01-FD-04-002</p>

Finding No. 02-08 – Eligibility Test –Section 8

An annual verification of value assets was not required to the participant 2.no documentation of citizenship

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff Name and Position	Completion Target Date	Actual Completion Date	Implementation Progress/Comments
<p>1. No annual verification of valuable assets is requested.</p> <p>2. No evidence of eligibility for assistance based on citizen or eligible alien status has been found in 3 cases.</p>	<p>1. To request annual verification of assets.</p> <p>2. Verifying and assuring eligibility based on citizenship or alien status assures that HUD funds are utilized in an efficient and legal manner. It also assures that 50058 forms can be processed legitimately and with the appropriate supporting documents.</p>	<p>1. Asset verification is now required. For those participants without assets, an affidavit-like sworn statement has been added to their recertification application. Check list has also been implemented since December 9, 2005 to assure that all documents are present.</p> <p>2. The Municipality has already implemented measures to assure eligibility for assistance based on citizen or eligible alien status.</p>	<p>1. Lack of knowledge on how to carry out asset verification.</p> <p>2. Misinterpretation of CFR</p>	<p>1. HUD documents (Verification Guidance)</p> <p>2. 24 CFR Section 5.508, 24 CFR Section 512, 24 CFR Section 514</p>	<p>1. Elsa Velazquez auxiliary administrator (Quality Control)</p> <p>2. Concepción Rivera, Roberto Ortiz, Madelyn Bahamonde, Coordinators</p>	<p>Already in effect.</p> <p>2. January 29, 2008</p>	<p>1. Assets requested since December 5, 2005.</p> <p>2. January 29, 2008</p>	<p>Asset request is in effect also included in quality controls as of date August 1, 2006. we have made it part of the quality control list to assure all participants comply also follow up if they have not turned in document.</p> <p>2. Verification of Citizenship is carrying out from initial interview using form 214. This form has been implemented in order to provide evidence for citizenship.</p>

Finding No. 03-08 – FSS escrow account Section 8 Housing Choice Voucher

I noted that the Municipality maintains a balance of \$119,699 in the family Self Sufficiency escrow Account however; the Municipality provided to us a list of participant amounting to 13,205.

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff Name and Position	Completion Target Date	Actual Completion Date	Implementation Progress/ Comments
<p>The Municipality maintains a balance of \$113,291 in the Family Self Sufficiency escrow account. However, the Municipality provided to us a list of escrow per participant amounting to \$20,112.</p>	<p>24 CFR section 984.305 (FSS account) establishes that the PHA shall deposit the FSS account funds of all families participating in the PHA's ESS program into a single depository account. The PHA must deposit the FSS account funds in one or more of the HUD-approved investments. The total of the combined FSS account funds will be supported in the PHA accounting records by a subsidiary ledger showing the balance applicable to each FSS family. During the term of the contract of participation, the PHA shall credit periodically, but not less than annually, to each family's FSS account, the amount of the FSS credit determined in accordance this section. The investment income for funds in the FSS account will be prorated and credited to each family's FSS account based on the balance in each family's FSS account at the end of the period for which the investment income is credited.</p>	<p>The Municipality should establish an adequate internal control system to ascertain compliance with the requirements of the program. The internal control system should include at least that file be revised by the internal audit department.</p>	<p>Lack of knowledge</p>	<ol style="list-style-type: none"> 1. 24 CFR section 984.305 2. HUD consultation 	<p>Oscar Colon, Acting Director, Yaitza Mendez, Accountant</p>	<p>August 28, 2008</p>	<p>August 5, 2008</p>	<p>This deficiency is due to the fact that unclaimed escrow amounts remained in the escrow account. These funds had been forfeited by ex-participants who have been canceled or left the program without completing their participation contracts. We have carried out the task of identifying which funds are still active in accordance with 24 CFR 984.305 (a)(2)(ii) (totaling \$14,153.51) and have transferred the in-active funds (totaling \$105,546.48) to a temporary account. These funds will be used in accordance with 24 CFR 904.305 (f)(2).</p>

Finding No. 04-08 – Reporting-Section 8

The Municipality Maintains a difference between amounts reported on voucher management system (VMS) and book register amount.

Program Deficiency	Objectives	Key Tasks/ Action Items	Obstacles	Resources	Lead Staff Name and Position	Completion Target Date	Actual Completion Date	Implementation Progress/Comments
<p>The Municipality Maintains a Difference between amounts reported a Voucher Management System (VMS) and book Register.</p>	<p>This system's primary purpose is to provide a central system to monitor and manage the Public Housing Agency (PHAs) use of vouchers. The VMS collects PHA data that enables HUD to fund, obligate, and disburse funding in a timely manner, based on actual PHA use.</p>	<p>The Municipality should establish an adequate internal control system to ascertain compliance with the requirements of the program.</p>	<p>Lack of knowledge error in submission of totals</p>	<p>24 CFR 5.801</p>	<p>Yaitza Mendez (Housing Program Accountant)</p>	<p>January 16, 2009</p>	<p>January 16, 2009</p>	<p>The finding are errors in data input we have attached a report made by the accountant Yaitza Mendez and have made all correction in relation. Also FSS credits we not contemplated in HAP and expense administrative fees these were in error when reported in VMS</p>