

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

**MUNICIPIO DE AGUAS BUENAS
AUDITORÍA 2013-2014
30 DE JUNIO DE 2014**

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DIVISION REGLAMENTACION
E INTERVENCION

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2014**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Aguas Buenas, Puerto Rico** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **Municipality of Aguas Buenas, Puerto Rico's** basic financial statements as listed in the table of contents. We did not audit the financial statements of Espiritu Santo Project, which represent 100% percent of the total assets, net position and revenue of the business type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Espiritu Santo Project. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Espiritu Santo Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

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

Opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Municipality of Aguas Buenas, Puerto Rico** as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 to 12 and 43-45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Aguas Buenas, Puerto Rico's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015, on our consideration of the **Municipality of Aguas Buenas, Puerto Rico's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Aguas Buenas, Puerto Rico's** internal control over financial reporting and compliance.

March 9, 2015
Aguas Buenas, Puerto Rico



Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

The stamp No. **E107089** 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
YEAR ENDED JUNE 30, 2014**

This discussion and analysis of the Municipality of Aguas Buenas (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2013. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2014 deserve special mention:

1. Total assets of the Municipality amounted to \$34,961,807 which represents a increase of 6% compared to prior fiscal year.
2. At the end of fiscal year 2014, total liabilities amounted to \$11,555,943. Out of said amount, \$9,575,552 corresponded to long-term liabilities of which \$7,837,761 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$22,850,652 which represents an increase of 21% if compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$17,327,702 derived from the following sources: \$415,432 charges for services; \$1,953,803 from operating grants and contributions; \$2,141,559 from capital grants and contributions obtained from other sources, and \$12,816,908 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$13,347,130.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL HIGHLIGHTS (CONTINUED)

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$3,980,572.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$4,727,241.
8. As the end of the current fiscal year, the Municipality's deficit amounted to \$844,509 compared to the deficit of \$1,806,120 in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in an favorable balance of \$194,269.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2014. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of the Municipality of Aguas Buenas constituents.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the Statements of Activities of the Municipality at June 30, 2014, shows total expenses incurred to afford the cost of all functions and programs amounted to \$13,347,130. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$4,510,794 was derived from the following sources: \$415,432 charges for services; \$1,953,803 from operating grants and contributions; and \$2,141,559 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$12,816,908. When such figure is added to the \$4,510,794 previously mentioned, total revenues available for the financing of activities amounted to \$17,327,702. There was an excess of revenues over expenses in the amount of \$3,980,572 which contributed with an increase to the figure of net assets attained at the end of the fiscal year.

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Aguas Buenas, primary government assets exceeded total liabilities by \$22,850,652 at the end of 2014, compared to \$18,870,080, at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Net Assets (Continued)

Condensed Statement of Net Assets	2014	2013	Change	%
Current and other assets	9,481,365	9,233,168	248,197	3%
Capital Assets	25,480,442	23,713,246	1,767,196	7%
Total Assets	34,961,807	32,946,414	2,015,393	6%
Current and other liabilities	1,980,391	3,803,616	(1,823,225)	-48%
Long-term liabilities	9,575,552	10,272,718	(697,166)	-7%
Total liabilities	11,555,943	14,076,334	(2,520,391)	-18%
Deferred inflows of resources	555,212	-	(2,520,391)	-
Invested in capital assets, net of related debt	19,080,636	16,883,483	2,197,153	13%
Restricted	6,080,698	6,451,171	(370,473)	-6%
Unrestricted deficit	(2,310,682)	(4,464,574)	2,153,892	48%
Total net assets	\$ 22,850,652	\$ 18,870,080	\$ 3,980,572	21%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

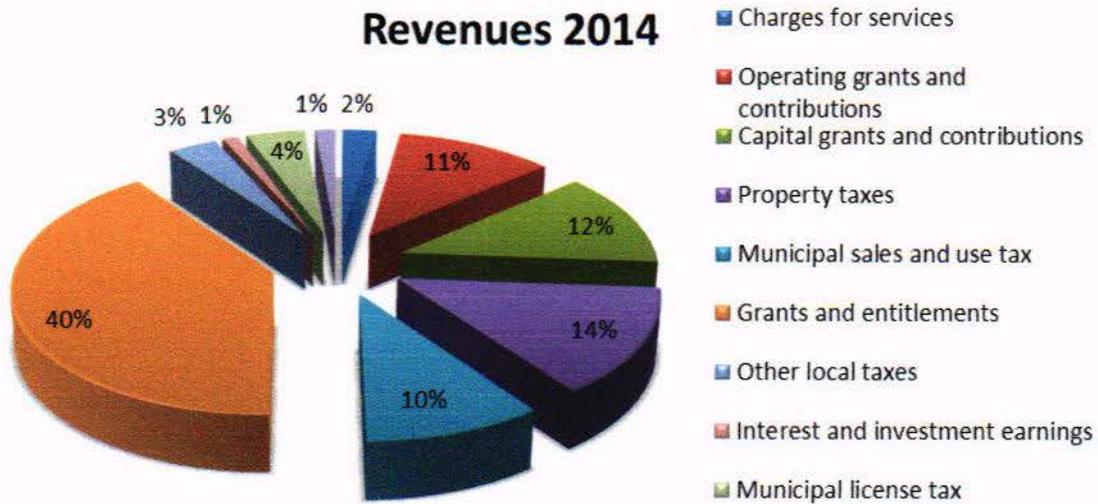
Approximately 28 percent of the Municipality's total revenue came from taxes, while 63 percent resulted from grants and contributions, including federal aid. Charges for Services provide 2 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general administration (27%), public and work sanitation (26%), and health and welfare (12%). As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statement of Activities	2014	2013	Change	%
Program revenues:				
Charges for services	\$ 415,432	\$ 370,448	\$ 44,984	12%
Operating grants and contributions	1,953,803	2,535,025	(581,222)	(23%)
Capital grants and contributions	2,141,559	1,256,782	884,777	70%
General revenues:				
Property taxes	2,413,169	2,529,380	(116,211)	(5%)
Municipal license tax	727,667	756,076	(28,409)	(4%)
Municipal sales and use tax	1,695,616	1,365,582	330,034	24%
Grants and entitlements	6,943,776	6,508,476	435,300	7%
Other local taxes	105,969	114,160	(8,191)	(7%)
Interest and investment earnings	186,809	225,835	(39,026)	(17%)
Other	743,902	424,427	319,475	75%
Total revenues	17,327,702	16,086,191	1,241,511	8%
Expenses:				
General administration	3,734,177	3,677,365	56,812	2%
Public safety	602,103	521,400	80,703	15%
Public works and sanitation	3,590,856	5,954,958	(2,364,102)	(40%)
Health and welfare	1,653,589	1,626,771	26,818	2%
Culture and tourist development	578,961	209,984	368,977	176%
Economic development	112,390	270,698	(158,308)	(58%)
Family and social development	934,807	849,183	85,624	10%
Planning	119,279		119,279	100%
Education, culture and recreational	1,309,570	1,440,236	(130,666)	(9%)
Housing and Urban Development	311,003	498,198	(187,195)	(38%)
Interest	400,395	436,871	(36,476)	(8%)
Total expenses	13,347,130	15,485,664	(2,138,534)	(14%)
Change in net assets	3,980,572	600,527	3,380,045	28%
Net assets	18,870,080	18,269,553	600,527	3%
Net assets, end of year	\$ 22,850,652	\$ 18,870,080	\$ 3,980,572	21%

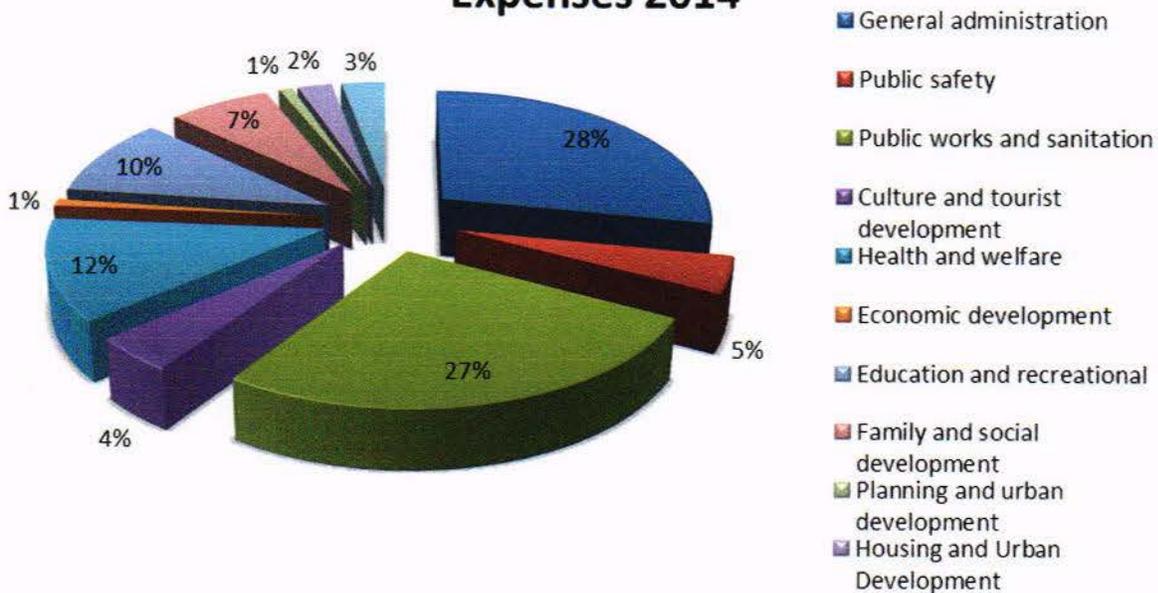
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2014



Expenses 2014



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances 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 the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$4,727,241, a increase of \$170,720 in comparison with the prior year.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2014, the Municipality's deficit amounted to \$844,509 a decrease of \$961,611.00.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in an favorable balance of \$194,269 caused mainly due to unexpected variances in revenue and expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounts to \$44,287,145 with an accumulated depreciation of \$18,806,703 (including net depreciation charges for the year totaled \$1,090,614), leaving a net book value of \$25,480,442. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2014, the Municipality has \$1,860,345 of unexpended proceeds mainly from bonds and notes issuances that are committed to future construction activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

The Puerto Rico Legislature has 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 law also requires 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 GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable. Federal State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

As part of this plan, the Municipality of Aguas Buenas will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's.

General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Assets as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

	PRIMARY GOVERNMENT		
ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS – TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 2,664,907	\$267,808	\$ 2,932,715
Cash with fiscal agent	3,466,675		3,466,675
Account receivable:			
Governmental agencies	286,175		286,175
Property tax	2,536,492		2,536,492
Sale tax	216,906		216,906
Municipal tax	2,682		2,682
Other assets		39,720	39,720
Capital assets, net	<u>25,098,841</u>	<u>381,601</u>	<u>25,480,442</u>
Total Assets	<u>34,272,678</u>	<u>689,129</u>	<u>34,961,807</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Accounts payable and accrued expenses	1,656,192	27,678	1,683,870
Advances from other government	56,021		56,021
Due to other government	240,500		240,500
Long-term debt:			
Due within one year	1,676,067	61,724	1,737,791
Due in more than one year	<u>7,578,503</u>	<u>259,258</u>	<u>7,837,761</u>
Total liabilities	<u>11,207,283</u>	<u>348,660</u>	<u>11,555,943</u>
 Deferred inflows of resources:			
Deferred municipal patents	<u>555,212</u>	<u> </u>	<u>555,212</u>
 Net Position:			
Invested in capital assets, net of related debt	19,081,741	(1,105)	19,080,636
Restricted for:			
Debt service	2,377,562		2,377,562
Replacements and others			
Capital project and others	3,703,136		3,703,136
Unrestricted	<u>(2,652,256)</u>	<u>341,574</u>	<u>(2,310,682)</u>
Total Net Position	<u>\$22,510,183</u>	<u>\$340,469</u>	<u>\$22,850,652</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$ (3,734,177)	\$ 34,164	\$ 106,729		\$(3,593,284)
Public safety	(602,103)		35,149		(566,954)
Education and recreational	(1,309,570)	42,562	495,187		(771,821)
Public works and sanitation	(3,590,856)			\$2,141,559	(1,449,297)
Health and welfare	(1,653,589)		1,316,738		(336,851)
Culture and tourist development	(578,961)				(578,961)
Economic development	(112,390)				(112,390)
Family and social development	(934,807)				(934,807)
Planning and urban development	(119,279)				(119,279)
Interest	<u>(380,950)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(380,950)</u>
Total governmental activities	<u>(13,016,682)</u>	<u>76,726</u>	<u>1,953,803</u>	<u>2,141,559</u>	<u>(8,844,594)</u>
Business type-activities:					
Housing	(311,003)	338,706			27,703
Interest	<u>(19,445)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(19,445)</u>
Business type - activities	<u>(330,448)</u>	<u>338,706</u>	<u> </u>	<u> </u>	<u>8,258</u>
Total	<u>\$ (13,347,130)</u>	<u>\$415,432</u>	<u>\$1,953,803</u>	<u>\$2,141,559</u>	<u>\$ (8,836,336)</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
Net (expense)/revenue	<u>\$ (8,844,594)</u>	<u>\$ 8,258</u>	<u>\$ (8,836,336)</u>
General revenue:			
Taxes:			
Property taxes	2,413,169		2,413,169
Municipal tax	727,667		727,667
Sale tax	1,695,616		1,695,616
Construction excise tax	105,969		105,969
Grants and entitlements	6,943,776		6,943,776
Rent	145,773		145,773
Interest	186,483	326	186,809
Other	<u>598,129</u>	<u> </u>	<u>598,129</u>
Total general revenues	<u>12,816,582</u>	<u>326</u>	<u>12,816,908</u>
Changes in net position	3,971,988	8,584	3,980,572
Net position at beginning	<u>18,538,195</u>	<u>331,885</u>	<u>18,870,080</u>
Net position at end	<u>\$22,510,183</u>	<u>\$340,469</u>	<u>\$22,850,652</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
BALANCE SHEET
GOVERNMENTAL FUNDS
As Of JUNE 30, 2014

ASSETS:	GENERAL FUND	DEBT SERVICE FUNDS	LOAN \$4,145,000 FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank	\$ 979,727			\$1,685,180	\$ 2,664,907
Cash with fiscal agent	12,306	\$1,606,330	\$1,537,648	310,391	3,466,675
Receivables:					
Property taxes	2,024,086	512,406			2,536,492
Sale tax	102,449	114,457			216,906
Due from other governments		44,369		241,806	286,175
Due from other funds	238,824			246,000	484,824
Other	<u>2,682</u>				<u>2,682</u>
Total assets	<u>\$3,360,074</u>	<u>\$2,277,562</u>	<u>\$1,537,648</u>	<u>\$2,483,377</u>	<u>\$9,658,661</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued expenses	\$1,444,690			\$ 23,044	\$ 1,467,734
Advances from other governments				56,021	56,021
Due to other fund	246,000			238,824	484,824
Due to other governments	<u>240,500</u>				<u>240,500</u>
Total liabilities	<u>1,931,190</u>			<u>317,889</u>	<u>2,249,079</u>
Deferred inflows of resources:					
Deferred property tax	1,718,181	\$ 408,948			2,127,129
Deferred municipal tax	<u>555,212</u>				<u>555,212</u>
	<u>2,273,393</u>	<u>408,948</u>			<u>2,682,341</u>
Fund balances:					
Restricted for:					
Debt service		1,868,614			1,868,614
Capital project			\$1,537,648	1,511,266	3,048,914
Other purpose				654,222	654,222
Unassigned	<u>(844,509)</u>				<u>(844,509)</u>
Total fund balances	<u>(844,509)</u>	<u>1,868,614</u>	<u>1,537,648</u>	<u>2,165,488</u>	<u>4,727,241</u>
Total liabilities, deferred of resources and fund balance	<u>\$3,360,074</u>	<u>\$2,277,562</u>	<u>\$1,537,648</u>	<u>\$2,483,377</u>	<u>\$ 9,658,661</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

Fund balances in governmental funds	\$ 4,727,241
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	25,098,841
--	------------

Deferred property tax revenue in governmental funds financial statements whereas recorded as revenue in the governmental activities	2,127,129
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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	(7,864,000)
Compensated absences	(1,234,115)
Accrued interest	(188,458)
Amount due to CRIM	<u>(156,455)</u>

<i>Net position of governmental activities</i>	<u>\$22,510,183</u>
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The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>LOAN \$4,145,000 FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:					
Taxes:					
Property taxes	\$ 1,575,889	\$ 795,936			\$ 2,371,825
Municipal taxes	727,667				727,667
Sale tax	1,207,369	488,247			1,695,616
Construction excise taxes	105,969				105,969
Grants and entitlements	6,860,248			\$4,172,089	11,032,337
Rental income	131,773			14,000	145,773
Interest	158,571	682	<u>\$ 27,230</u>		186,483
Other	<u>674,855</u>				<u>674,855</u>
Total Revenues	<u>11,442,341</u>	<u>1,284,865</u>	<u>27,230</u>	<u>4,186,089</u>	<u>16,940,525</u>
Expenditures:					
General administration	3,260,706			304,790	3,565,496
Public safety	549,295				549,295
Education and recreational	764,143			540,049	1,304,192
Public works and sanitation	4,654,668		698,326	1,922,570	7,275,564
Health and welfare	332,016			1,302,250	1,634,266
Culture and tourist development	408,206				408,206
Economic development	110,200				110,200
Family and social development	698,420			119,148	817,568
Planning and urban development	119,279				119,279
Debt service:					
Principal		594,000			594,000
Interest		<u>391,739</u>			<u>391,739</u>
Total expenditures	<u>10,896,933</u>	<u>985,739</u>	<u>698,326</u>	<u>4,188,807</u>	<u>16,769,805</u>
Excess (deficiency) of revenue over expenditures	<u>545,408</u>	<u>299,126</u>	<u>(671,096)</u>	<u>(2,718)</u>	<u>170,720</u>
Other financing sources (uses):					
Operating transfer in	617,425	201,222			818,647
Operating transfer out	<u>(201,222)</u>	<u>(617,425)</u>			<u>(818,647)</u>
Total other financing sources	<u>416,203</u>	<u>(416,203)</u>			
Excess of revenues and other financing source over (under) expenditures and other financing sources	961,611	(117,077)	(671,096)	(2,718)	170,720
Fund balance at beginning of year	(1,806,120)	1,985,691	2,208,744	2,168,206	4,556,521
Fund balance at end of year	<u>\$ (844,509)</u>	<u>\$1,868,614</u>	<u>\$1,537,648</u>	<u>\$2,165,488</u>	<u>\$ 4,727,241</u>

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

Handwritten signature and date:
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 2/20/15

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
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, 2014**

Net change in fund balances – total governmental funds \$ 170,720

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 position, 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.	2,856,474
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.	(1,060,306)
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 position .	594,000
Change in accrued expenses which does not require the use of current financial resources:	
Estimated liabilities for landfill closures and post-closure costs	1,360,000
Accrued interest	10,789
Compensating absences	(7,834)
Amount due to CRIM	6,801
Deferred property tax	<u>41,344</u>
Changes in net position of governmental activities	<u>\$ 3,971,988</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF FINANCIAL POSITION – PROPRIETARY FUND
JUNE 30, 2014**

ASSETS

	PROPRIETARY FUND <u>ESPIRITU SANTO PROJECT</u>
Current Assets:	
Cash	\$ 72,206
Other current assets	<u>11,639</u>
	83,845
Property and Equipment	381,601
Restricted deposits	195,602
Other Assets	<u>28,081</u>
	<u><u>\$689,129</u></u>

LIABILITIES AND NET POSITION

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	\$ 61,724
Accounts payable and accrued expenses	<u>27,678</u>
	89,402
Long term-debt, net of current maturities	<u>259,258</u>
	348,660
Net position	<u>340,469</u>
Total liabilities and net position	<u><u>\$689,129</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF ACTIVITIES - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

	PROPRIETARY FUND ESPIRITU SANTO PROJECT
Revenues:	
Rent	\$338,706
Financial	<u>326</u>
Total revenues	<u>339,032</u>
Expenses:	
Administrative	123,943
Utilities	8,563
Operating Maintenance	79,168
Taxes and insurance	42,090
Depreciation	57,239
Interest	<u>19,445</u>
Total Expenses	<u>330,448</u>
Change in net position	8,584
Project net position, beginning of year	<u>331,885</u>
Net position, end of year	<u>\$340,469</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	PROPRIETARY FUND ESPIRITU SANTO PROJECT
Cash flow from operating activities:	
Cash received from rentals	\$ 336,659
Interest received	<u>326</u>
	<u>336,985</u>
Cash used	
Administrative	32,599
Utilities	15,166
Salaries and wages	132,582
Operating and maintenance	35,439
Property and liability insurance	5,453
Interest on mortgage	21,797
Management fees	<u>26,100</u>
	<u>269,136</u>
Net cash provided by operating activities	<u>67,849</u>
Cash flow from investing activities:	
Purchase of equipment	(28,267)
Deductions from reserve for replacements and interest	<u>16,110</u>
Net cash used by investing activities	<u>(12,157)</u>
Cash flows from financing activities:	
Mortgage principal payments	<u>(56,994)</u>
Net cash used by financing activities	<u>(56,994)</u>
Net increase in cash	(1,302)
Cash at beginning of the year	<u>73,508</u>
Cash at ending of the year	<u>\$ 72,206</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014

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

	PROPRIETARY FUND <u>ESPIRITU SANTO PROJECT</u>
Cash flow from operating activities:	
Change in net position	<u>\$ 8,584</u>
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	57,239
Increase in accounts receivable	(2,047)
Increase (decrease) in:	
Accounts payable	7,160
Accrued vacations and bonus	(735)
Interest on mortgage	<u>(2,352)</u>
Total adjustments	<u>59,265</u>
Net cash provided by operating activities	<u><u>\$67,849</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

1. ORGANIZATION AND REPORTING ENTITY

Organization

The Municipality of Aguas Buena's (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.

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, Puerto Rico, 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.

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.

Basic of presentation, Basis of Accounting.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

The government-wide financial statements (consists of the statement of net position 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.

Program-specific capital and operating grant and contributions consist of transactions that are either mandatory or voluntary nonexchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program are reducing the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service funds

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

C) Loan \$4,145,000 fund

This fund accounts for proceed and disbursements from a general obligation for capital projects.

Measurement focus, basis of accounting and financial statement presentation

Governmental wide financial statements

The government-wide Statement of Net Position and the Statement of Activities, both government and business type 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.

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.

Governmental fund financial statements

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 financial position, a statement of activities, and a statements of cash flows. The proprietary fund includes 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 position. The statement of revenues, expenses and change in fund net position present increases (revenues) and decrease (expenses) in total net position. 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 sales tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

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

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 position.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses through a private company. Cost of insurance is deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2014 amounted to \$224,110. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$173,145 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 Position.

Fund Balance

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

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by and official or body to which the governing body delegates authority in conformity with the bylaws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

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.

Subsequent Events

Management has evaluated subsequent events through March 9, 2015, the date the financial statements were evaluated to be issued.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

3. PROPERTY TAX (CONTINUED)

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 2014 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, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

3. PROPERTY TAX (CONTINUED)

Total property tax receivable, net of an allowance for uncollectible accounts of \$9,783,607, amounted to \$2,536,492 at June 30, 2014. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2014:

	<u>General Fund</u>	<u>Debt service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$9,830,207	\$2,489,892	\$12,320,099
Less allowance for uncollectible accounts	<u>7,806,121</u>	<u>1,977,486</u>	<u>9,783,607</u>
Net property taxes receivable	<u>\$2,024,086</u>	<u>\$ 512,406</u>	<u>\$ 2,536,492</u>
Deferred (unavailable property) tax revenues in GFFS	<u>\$1,718,181</u>	<u>\$ 408,948</u>	<u>\$ 2,127,129</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, 2014, \$555,212 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.

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 Buena'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, Puerto Rico 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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 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. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Tenant security deposits	\$ 9,825
Reserve for replacement	<u>185,777</u>
	<u>\$195,602</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, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary Government	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,212,367	\$ 201,021		\$ 2,413,388
Construction in progress	<u>3,863,461</u>	<u>2,335,675</u>	<u>\$(459,550)</u>	<u>5,739,586</u>
	<u>6,075,828</u>	<u>2,536,696</u>	<u>(459,550)</u>	<u>8,152,974</u>
Capital assets being depreciated:				
Infrastructure	4,647,254	534,477		5,181,731
Buildings, park and courts	23,150,013	79,261		23,229,274
Machinery and equipment	2,887,099	140,590	(2,429)	3,025,260
Automobiles	<u>2,428,730</u>	<u>25,000</u>	<u>(24,502)</u>	<u>2,429,228</u>
Total capital assets being depreciated	<u>33,113,096</u>	<u>779,328</u>	<u>(26,931)</u>	<u>33,865,493</u>
Less accumulated depreciation for:				
Infrastructure	(545,375)	(191,844)		(737,219)
Buildings, parks and courts	(10,820,910)	(539,032)		(11,359,942)
Machinery and equipment	(2,257,230)	(265,978)	1,204	(2,522,004)
Vehicles	<u>(2,262,736)</u>	<u>(62,227)</u>	<u>24,502</u>	<u>2,300,446</u>
Total	<u>(15,886,251)</u>	<u>(1,059,081)</u>	<u>25,706</u>	<u>(16,919,626)</u>
Total depreciable capital assets, net	<u>17,226,845</u>	<u>(279,753)</u>	<u>(1,225)</u>	<u>16,945,867</u>
Governmental activities capital assets net	<u>23,302,673</u>	<u>2,256,943</u>	<u>(460,775)</u>	<u>25,098,841</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	<u>50,700</u>			<u>50,700</u>
Capital assets being depreciated:				
Building and improvements	1,967,554			1,967,554
Equipment	<u>222,157</u>	<u>28,267</u>		<u>250,424</u>
	<u>2,189,711</u>	<u>28,267</u>		<u>2,217,978</u>
Less accumulated depreciation:				
Building and improvements and equipment	<u>(1,829,838)</u>	<u>(57,239)</u>		<u>(1,887,077)</u>
Total depreciable capital assets, net	<u>359,873</u>	<u>(28,972)</u>		<u>330,901</u>
Business activities capital assets, net	<u>410,573</u>	<u>(28,972)</u>		<u>381,601</u>
	<u>\$ 23,713,246</u>	<u>\$ 2,227,971</u>	<u>\$(460,775)</u>	<u>\$ 25,480,442</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

8. CAPITAL ASSETS (CONTINUED)

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
General administration	\$ 166,886	
Public safety	52,531	
Education and recreation	4,721	
Public works and sanitation	528,102	
Health and welfare	18,500	
Culture and tourist it development	170,549	
Economic development	2,190	
Family and social development	116,827	
Housing	<u> </u>	<u>\$57,239</u>
Total depreciation expense	<u>\$1,060,306</u>	<u>\$57,239</u>

9. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2014 was as follows:

Primary Government	Beginning			Ending	Due within
Governmental activities:	Balance	Additions	Reductions	Balance	one year
Bonds and notes	\$ 8,458,000		\$ (594,000)	\$7,864,000	\$ 435,000
Other long-term debt:					
Compensated absences	1,226,281	\$7,834		1,234,115	1,234,115
Amount due to CRIM	163,256		(6,801)	156,455	6,952
Landfill	<u>1,360,000</u>	<u> </u>	<u>(1,360,000)</u>	<u> </u>	<u> </u>
Total	11,207,537	7,834	(1,960,801)	9,254,570	1,676,067
Business-type activities:					
Mortgage payable	<u>377,976</u>	<u> </u>	<u>(56,994)</u>	<u>320,982</u>	<u>61,724</u>
Total	<u>\$11,585,513</u>	<u>\$7,834</u>	<u>\$(2,017,795)</u>	<u>\$9,575,552</u>	<u>\$1,737,791</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

9. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

\$920,000 Public Improvement Bonds, Serial 1995-96 payable in annual installments of \$50,000 to \$85,000 through July 1, 2020 plus interest at 6.12%.	\$ 460,000
\$600,000 Public Improvement Bonds, Serial 1989-90 payable in one annual installment of \$48,000 through January 1, 2015, plus interest at 6%.	48,000
\$400,000 Public Improvement Bonds, Serial of 1991-92 payable in two annual installments of ranging from \$32,000 and \$34,000 through January 1, 2016, plus interest at 5.62%.	66,000
\$2,285,000 General Obligation Bonds, Serial 2005-2006 payable in annual installments ranging from \$65,000 to \$175,000, through July 1, 2030, plus interest at 6.5%.	1,905,000
\$255,000 General Obligation Bonds, Serial 2007-2008 due in annual installments ranging from \$5,000 to \$20,000 through July 1, 2031, plus interest at 6.50%.	220,000
\$535,000 General Obligation Bond, Serial 2008-2009 payable in one annual installments of \$100,000 through July 1, 2015 plus interest based on LIBOR at 90 days plus 1.25%.	100,000
\$955,000 General Municipal Obligation, Serial 2013-12 payable in annual installments ranging from \$50,000 to \$105,000 through July 1, 2025. Interest at 1.5%	875,000
\$4,145,000 Special Obligation Bond, Serial 2012-11 payable in annual installments ranging from \$80,000 to \$345,000 through July 1, 2035. Interest at 1.5% over prime rate due semiannually.	3,950,000
\$270,000 Special Obligation Bond serial 2013-12 payable in annual installments ranging from \$20,000 to \$30,000 through July 1, 2023. Interest at 1.5% over prime rate due semiannually.	<u>240,000</u>
	<u>\$7,864,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

9. LONG-TERM DEBTS (CONTINUED)

Governmental –type Activities:

The annual debt service requirements to maturity bonds and notes payables of June 30, 2014 are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2015	\$ 435,000	\$ 354,379	\$ 789,379
2016	314,000	335,338	649,338
2017	310,000	320,210	630,210
2018	330,000	305,802	635,802
2019	355,000	290,362	645,362
2020-2024	1,885,000	1,204,660	3,089,660
2025-2029	1,870,000	806,508	2,676,508
2030-2034	1,700,000	413,051	2,113,051
2035-2037	<u>665,000</u>	<u>40,650</u>	<u>705,650</u>
	<u>\$7,864,000</u>	<u>\$4,070,960</u>	<u>\$11,934,960</u>

Advances from CRIM and PR Treasury Department

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, 2014, the amount due to CRIM amounting to \$156,455 is presented as other long-term debt (see Note 9).

This amount represents the balance owed to CRIM as described in Note 3 and is payable in annual installments \$7,276 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>	<u>Aggregate Obligation</u>
2015	\$ 6,952	\$ 9,530	\$ 16,482
2016	7,111	9,097	16,208
2017	7,281	8,653	15,934
2018	7,462	8,198	15,660
2019	7,654	7,732	15,386
2020-2024	41,595	31,219	72,814
2025-2030	56,092	18,324	74,416
2031-2032	<u>22,308</u>	<u>1,882</u>	<u>24,190</u>
	<u>\$156,455</u>	<u>\$94,635</u>	<u>\$251,090</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

9. LONG-TERM DEBTS (CONTINUED)

Business-type activities:

Mortgage Payable consists of permanent residences loans provided by USDA-Rural Development. The land and buildings of the Project secure the mortgage note. The mortgage note bears interest at 8%, including subsidy interest of 7%. Principal and interest are payable in monthly installments of \$6,566 through 2018. The maturates of the mortgage note at June 30, 2014 for the next five (5) years and thereafter are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Obligation</u>
2015	\$ 61,724	\$17,067	\$ 78,791
2016	66,847	11,944	78,791
2017	72,396	6,395	78,791
2018	78,405	986	79,391
2019	<u>41,610</u>	<u> </u>	<u>41,610</u>
	<u>\$320,982</u>	<u>\$36,392</u>	<u>\$357,374</u>

10. RETIREMENT SYSTEM:

Defined Benefit Pension Plan

The Employee's Retirement System of the Government of the Commonwealth Puerto Rico (ERS) is the administrator of a cost-sharing multiple-employer pension plan administered by the Puerto Rico Government Employee and Judiciary Retirement System Administration. The ERS was created by the Act 447, approved on May 15, 1951, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

10. RETIREMENT SYSTEM:

Defined Benefit Pension Plan (Continued)

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. And appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

10. RETIREMENT SYSTEM:

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
12. Survivor benefits were modified.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

10. RETIREMENT SYSTEM:

The employees and employer contribution to the above mentioned plans during the year ended June 30, 2013 amounted to \$18,593 and \$171,850, respectively. This amounts represented the required contribution for the corresponding year.

The plan issues a public available financial report that includes financial statements and required supplementary information as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

11. 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 .

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL FUND			
	ORIGINAL BUDGET	AMMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	\$ 1,595,947	\$ 1,595,947	\$1,595,947	
Municipal tax	710,000	710,000	727,667	\$ 17,667
Construction excise taxes	650,000	650,000	105,969	(544,031)
Interest	180,000	180,000	159,253	(20,747)
Rent	120,000	120,000	131,773	11,773
Grants and entitlements	6,647,349	6,647,349	6,636,871	(10,478)
Other	<u>343,000</u>	<u>343,000</u>	<u>462,954</u>	<u>119,954</u>
 Total revenues	 <u>10,246,296</u>	 <u>10,246,296</u>	 <u>9,820,434</u>	 <u>(425,862)</u>
Expenditures:				
General administration	4,204,728	4,215,344	3,798,284	417,060
Public safety	570,178	581,629	549,295	32,334
Education and recreational	831,233	795,827	764,143	31,684
Public works and sanitation	3,193,149	3,218,805	3,178,339	40,466
Cultural and Tourist Development	421,624	419,186	408,206	10,980
Economic Development	142,257	142,257	110,200	32,057
Family and Social Development	738,138	739,258	698,420	40,838
Housing and Urban Development	<u>144,989</u>	<u>133,990</u>	<u>119,278</u>	<u>14,712</u>
 Total expenditures	 <u>10,246,296</u>	 <u>10,246,296</u>	 <u>9,626,165</u>	 <u>620,131</u>
 Excess of expenditures over revenues	 <u>\$ _____</u>	 <u>\$ _____</u>	 <u>\$ 194,269</u>	 <u>\$ 194,269</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2014

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, PUERTO RICO
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2014

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:

Excess of revenue over expenditures, budgetary basis	\$ 194,269
Adjustments to accounts payable accrued expenses and accounts receivable to adjust budgetary basis a modified accrual basis	762,579
Expenses from state sales tax does not budget in the general fund	(1,219,786)
Income from state sale tax does not budget in the general fund	<u>1,207,369</u>
	<u>\$ 944,431</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

	<u>CFDA NUMBER</u>	<u>EXPENDITURES</u>
<u>US Department of Housing and Urban</u>		
<u>Development</u>		
Passed-through program from:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$ 603,648
Direct Programs:		
Section 8- Housing Choice Vouchers	14.871	1,055,799
Supportive Housing Program	14.235	54,649
<u>US Department of Agriculture</u>		
Passed-through program from :		
PR Department of Education:		
Child and Adult Food Program	10.558	62,407
<u>US Department of Health and Human Services</u>		
Passes-through program from :		
PR Department of Family:		
Child Care and Development Block Grant	93.575	432,640
<u>US Department of Homeland Security</u>		
Passes-through program from:		
PR Office of Management and Budget (GAR):		
Disaster Grants-Public Assistance (Presidentially Declared Disaster)	97.036	<u>26,254</u>
Total Expenditures Federal Awards		<u>\$2,235,397</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Aguas Buenas, Puerto Rico 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 AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CARLOS R. DIAZ, CPA, PSC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Municipality of Aguas Buenas, Puerto Rico**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality of Aguas Buenas, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 9, 2015. Others auditors audited the financial statements of Espiritu Santo Project, as described in our report on Municipality of Aguas Buenas, Puerto Rico's 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.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Aguas Buenas, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

March 9, 2015
Aguas Buenas, Puerto Rico


Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

The stamp No. **E107090** 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, CPA, PSC

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

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Aguas Buenas, Puerto Rico's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Aguas Buenas, Puerto Rico's** major federal programs for the year ended June 30, 2014. **Municipality of Aguas Buenas, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Aguas Buenas, Puerto Rico's basic financial statements include the operations of the Espiritu Santo Project, which received \$594,191 in federal awards which is not included in the schedule during the year ended June 30, 2014. Our audit, described below, did not include the operations of Espiritu Santo Project because Municipality of Aguas Buenas, Puerto Rico engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Aguas Buenas, Puerto Rico's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Aguas Buenas, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, **Municipality of Aguas Buenas, Puerto Rico** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of **Municipality of Aguas Buenas, Puerto Rico** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality of Aguas Buenas, Puerto Rico's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Aguas Buenas, Puerto Rico's** internal control over compliance.

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

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

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

March 9, 2015
Aguas Buenas, Puerto Rico


Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

The stamp No. **E107091** 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, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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? ___yes X 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? ___yes X no

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

Unmodified

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

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.871

Section 8 – Housing Choice Voucher

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited? X yes ___no

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUAS BUENAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE