

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedules**

Year Ended June 30, 2008

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL
SCHEDULES
YEAR ENDED JUNE 30, 2008**

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**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
ENDED JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Municipal Legislature
Municipality of Aibonito
Aibonito, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Aibonito of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit

We did not audit the Financial Statements of the Las Flores Apartment (component unit). Those statements were audited by other auditors whose report have been furnished to us, and our opinion, in so far as it relates to the amounts included for Las Flores Apartments in base 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that my audit and the report of other auditors provide a reasonable basis for my opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Municipality of Aibonito of the Commonwealth of Puerto Rico, as of June 30, 2008, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

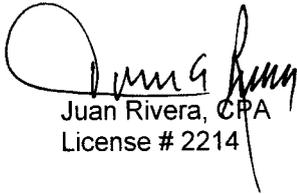
In accordance with Government Audit Standards, we have also issued a report dated December 2, 2008 on our consideration of the Government internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this reporting in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purposes financial statement taken as a whole. The accompanying schedule of expenditure of federal awards is presented for purpose of additional analysis as required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non - Profit Organizations, and is not required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Mailing Address Box 757, Dorado, PR 00646

Also, in our opinion the financial statements of the Governmental Activities referred to in the first paragraph present fairly, in all material respects, the individual financial positions of The Municipality of Aibonito and the component unit Las Flores Apartment (as to which we express no opinion because those statements were audited by other auditors as indicated in the first paragraph), as of June 30, 2008 and the results of their individual operations and their individual cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying Management's Discussion and Analysis and the Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Juan Rivera, CPA
License # 2214

Toa Baja, Puerto Rico



Stamp No. # 2384883 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Municipality of Aibonito (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Municipality's financial statements.

Management of the Municipality of Aibonito (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

The Municipality Governmental Activities net assets increased by \$4,549,106 during the year.

In the governmental fund financial statements, the net assets increased by \$2,236,304.

The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$124,026.

The Joint resolutions Fund, which accounts for PR Government restricted grants for special purposes, decreased by \$1,137,032.

Other Governmental Funds which accounts for all other special purposes funds, reported a net asset decrease of \$123,973.

The Debt Service Fund, which is reserved for the long term debt amortization and related interest payment, increased by \$230,466.

The Trust Fund created to account for the Commonwealth of Puerto Rico Special Communities Program funds held in trust, decreased in \$320,187.

The Capital Project Fund Balance, which is reserved for major capital expenditures, increased by \$3,463,004.

The Municipality's Component Unit (Las Flores Apartments) reported a net asset decrease of \$23,792.

On a budgetary basis, actual revenues exceeded actual expenditures by \$682,561 in the general fund.

Capital expenditures for acquisition of land, vehicles, construction and improvements of recreational facilities, infrastructure, and construction in progress, amounted to \$1,903,334 in the Capital Project Fund, \$1,017,280 in the Joint Resolutions Fund and \$1,605,126 in other funds, for a total of \$4,690,837.

The Municipality received a donation of a land lot appraised in the amount of \$2,650,000.

The Municipality issued bonds and notes payable amounting to \$1,180,000 and \$3,044,616 respectively for a total debt issuance of \$4,224,616.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Municipality obtained the approval of various loans amounting to \$4,391,000 that will require additional annual debt service funds and other sources of repayment. These loans are pending for disbursement.

USING THIS ANNUAL REPORT

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

Reporting the Municipality as a Whole

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net assets and changes in them. You can think of the Municipality's net assets - the difference between assets and liabilities - as one way to measure the Municipality's financial health, or financial position. Over time, increases or decreases in the Municipality's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the Municipality's roads, to assess the overall health of the Municipality.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

Governmental activities - Most of the Municipality's basic services are reported here, including the police, sanitation, public works, sports and recreation, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Proprietary business type activities - The Municipality includes in its report a separate legal entity, as a component unit, - Las Flores Apartments. Although legally separate, this entity is owned by the Municipality. This component unit is important because the Municipality is financially accountable for it.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has two kinds of fund which are the governmental fund and proprietary fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds are used when the Municipality charges customers for the services it provides-whether to outside customers or to other units of the Municipality-these services are generally reported in proprietary funds, Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, but provide more detail and additional information, such as cash flows, for proprietary funds. The Municipality Component Unit – Las Flores Apartments - is reported as a proprietary fund.

Las Flores Apartments is a housing development consisting of land, buildings and improvements providing one hundred (100) dwelling units located at Aibonito, Puerto Rico, owned by the Municipality of Aibonito, Commonwealth of Puerto Rico. The housing project is designed to assist various segments of the general public in obtaining adequate and reasonably priced rental housing. The project operated with financing from Farmers Home Administration, issued under Section 515 (Rural Rental Housing) of the national Housing Act with HUD's Section 8 Housing Assistance Payment Program.

The operations of the project are carried-out by a management agent. The potential rent, including subsidies as approved by HUD is \$487,200 for the year, and is subject to annual revisions as prescribed in the Housing Assistance Payment contract with HUD.

Infrastructure Assets

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

In July 1, 2003, the Municipality commenced the prospective reporting of infrastructure assets, and retroactively report the historical costs of infrastructure assets starting from the fiscal year beginning July 1, 2002. The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial Position. The Municipality's net assets totaled \$34,646,333 as of June 30, 2008, while the Component Unit's net assets totaled \$1,688,671; for a total combined net assets of \$36,335,004.

The largest portion of the Municipality's net assets is the investment in capital assets (\$25,499,223) such as land, buildings, improvements, vehicles, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service (\$1,093,343) and amounts restricted for capital projects (\$6,882,461), represents another portion of the net assets. These are resources subject to external restrictions for the purposes explained above.

One of the largest portion of the Component Unit's net assets is the amounts restricted for improvements and replacements (\$657,033). Under the terms of the Regulatory Agreement, the Project is required to set amounts for the replacement of property and other project expenditures as approved by HUD and FmHA. The regulations require monthly transfers of \$2,102. Disbursements from the Restricted Deposits and Funded Reserve must be made with the written consent of FmHA and HUD. Restricted funds, are held in separate accounts and generally are not available for operating purposes. The amounts of investment in capital assets (\$956,188) such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, represents another significant portion of the Component Unit's net assets.

Changes in Net Assets

The Municipality's Governmental Activities net assets increased by \$4,549,106. Approximately 40 percent of the Municipality's total revenue came from taxes, while 54 percent resulted from grants and contributions, including federal aid. Charges for Services and other sources provided 6 percent of the total revenues. Revenues exceeded expenditures by \$4,549,106 or 38.4 percent; this amount includes a non recurrent revenue of \$2,650,000 for a donated land lot. The Municipality's expenses cover a range of services. The largest expenses were for general government administration, health and welfare, public works, and depreciation.

The Component Unit's net assets decreased by \$23,792. Approximately 96 percent of the Component Unit's total revenue came from rent, while 4 percent resulted from interest and other miscellaneous sources. Expenses exceeded the total revenues by \$23,792 or 4.7 percent. The largest expenses were for depreciation, interest, administration and maintenance.

A summary of government-wide data is presented in next pages.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Condensed Statement of Net Assets
As of June 30, 2008**

	Governmental Activities	Component Unit
<u>ASSETS</u>		
Current assets	\$ 7,601,249	\$ 66,397
Capital assets- net	33,545,839	2,034,711
Other assets	<u>6,004,854</u>	<u>703,559</u>
Total Assets	<u>47,151,942</u>	<u>2,804,667</u>
<u>LIABILITIES</u>		
Current liabilities	4,034,042	87,909
Noncurrent liabilities	<u>8,471,567</u>	<u>1,028,087</u>
Total Liabilities	<u>12,505,609</u>	<u>1,115,996</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	25,499,223	956,188
Unrestricted	(662,855)	63,160
Restricted	<u>9,809,965</u>	<u>669,323</u>
Total Net Assets	<u>\$ 34,646,333</u>	<u>\$ 1,688,671</u>

**Condensed Statement of Activities
For the year ended June 30, 2008**

	Governmental Activities	Component Unit
Program revenues:		
Charges for services	\$ 487,258	\$ 47,794
Operating grants and contributions	1,738,325	438,161
Capital grants and contributions	1,359,160	
General revenues:		
Property taxes	2,541,685	
Municipal license tax	1,706,408	
Sale and use tax	1,000,235	
Grants and contributions not restricted	4,087,310	
Donated property - land	2,650,000	
Other	<u>296,032</u>	<u>19,588</u>
Total revenues	<u>15,866,413</u>	<u>505,543</u>
Expenses:		
General Administration	4,336,695	
Public safety	35,356	
Sanitation	269,812	
Public works	3,432,975	
Housing	779,022	
Health and welfare	881,461	
Operating and maintenance		284,311
Interest on long-term debt	434,982	83,950
Depreciation	<u>1,147,004</u>	<u>161,074</u>
Total expenses	<u>11,317,307</u>	<u>529,335</u>
Change in net assets	<u>\$ 4,549,106</u>	<u>\$ (23,792)</u>

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of, the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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 \$10,291,422, an increase of \$2,236,304 in comparison with the prior year. There are reservations of fund balance amounting to \$9,809,965. This is the fund balance that it is not available for new spending because it has already been committed (1) to pay debt service \$1,093,343, (2) to pay for capital projects \$6,882,461, (3) reserved for encumbrances \$159,208, (4) held in trust \$162,931, and (5) for other purposes \$1,512,022. The unreserved fund balance reports a balance in the governmental funds of \$481,457.

The **General Fund**, which is the chief operating fund of the Municipality, is included within the governmental funds. As of June 30, 2008, the general fund has a balance of \$640,665. The fund balance of the general fund increased by \$124,026. Key factors in the increase of the fund balance are as follows:

Excess revenues over expenditures	\$ 2,004,364
Net transfers	(\$ 1,880,338)

Also the following significant variances were noted in the general fund:

Increase in total revenues	\$ 1,213,090
Increase in expenditures	\$ 1,666,364

The increase in total revenues was due to the following reasons:

Increase of \$171,367 in Government of Puerto Rico Contributions.
Increase of \$170,644 in Volume of Business taxes
Collection of \$694,378 in Sale and use taxes
Net increase of \$176,701 in all other revenue items.

The increase in expenditures was due to the following reasons:

\$ 625,994 increase in general administration expenditures.
\$ 820,352 increase in public works expenditures.
\$ 71,894 increase in debt and interest expenditures.
\$ 148,124 net increase in all other expenditure items.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The **Capital Project Fund** Balance, which is reserved for major capital expenditures, reflected an increase of \$3,463,004 mainly for proceeds of bonds and notes payable in the amount of \$4,224,616, and excess expenditures over revenues of \$1,053,248. Capital expenditures for construction, improvements, recreational facilities and infrastructure, amounted to \$1,903,334 in this fund.

The **Joint Resolutions Fund**, which accounts for PR Government restricted grants for special purposes, decreased by \$1,137,032, mainly for excess expenditures over revenues.

The **Debt Service Fund**, which is reserved for the long term debt amortization and related interest payment, increased by \$230,466, mainly for excess revenues over expenditures.

The **Trust Fund** which accounts for the Commonwealth of Puerto Rico Special Communities Program funds held in trust, decreased by \$320,187 due to excess expenditures over revenues.

Other Governmental Funds which accounts for all other special purposes funds, reported a net asset decreased \$123,973 due to excess expenditures over revenues of \$1,650,509 and total funds transfers in the amount of \$1,526,536.

Component Unit

Revenues of the Municipality's component unit reported \$505,543 for an increase of \$7,848 (1.6%). Expenses amounted to \$529,335, including \$161,074 charge for depreciation, for a decrease of \$11,303 (2.1%). Net assets of the component unit decreased by \$23,792 due to excess expenditures over revenues.

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 (decreases) in budgeted expenditures were also made since the law mandates a balanced budget.

In summary the general fund actual revenues were over budget by \$553,346, while actual expenditures were under budgeted amounts by \$1,710,361, for a net favorable variance of \$2,263,707. The most significant variance between budget and actual results were as follows:

- Volume of business tax revenue were (\$116,166) under budgeted amount.
- Government of PR Contributions were (\$35,394) under budgeted amount.
- Sale and use taxes were \$194,378 over budgeted amount.
- Construction fee and rental revenues were \$340,764 over budgeted amount.
- Other miscellaneous revenues were \$169,764 over budgeted amount.

- Public work expenditures were \$159,245 less than budgeted amount.
- AIB Project transfers for construction were \$1,382,591 less than budgeted amount
- General Administration expenditures were \$162,251 less than budgeted amount.
- Total other net expenditures were \$6,274 less than budgeted amount.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's and its Component Unit investment in capital assets as of June 30, 2008, amounts to \$42,576,614 and \$4,748,969 respectively, with accumulated depreciation of \$9,030,775 and \$2,714,798, leaving a net book value of \$33,545,839 for the Municipality and \$2,034,171 for its component unit.

This investment in capital assets includes land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Infrastructure assets are items that are normally irremovable and of value only to the state, such as roads, bridges, streets and sidewalks, and similar items.

Actual expenditures to purchase or construct capital assets for governmental activities were \$4,690,837 for the year. Also the Municipality received a donation of a land lot appraised in the amount of \$2,650,000.

Depreciation charges for the year totaled \$1,146,999 for governmental activities and \$161,074 for the component unit.

The Municipality finances a significant portion of its construction activities through bond issuances and from Capital Grants. The proceeds from bond issuances and Capital Grants designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2008 the Municipality has \$4,867,593 of unexpended proceeds from bond and notes issuances and \$974,906 of unexpended Joint Resolutions Capital Grants, that are committed to future construction activities. In addition \$1,039,962 of the Municipality operational funds are reserved for improvement and infrastructure projects.

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. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations.

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.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

During the year ended June 30, 2008 the Municipality issued bonds and notes payable amounting to \$4,224,616. As of June 30, 2008 the Municipality Long Term Debt is composed of \$5,002,000 in bonds payable and \$3,044,616 in notes payable. Other obligations include accrued vacation pay, sick leave for \$913,168 and advances from CRIM (Law 146) of \$231,144, for a total long term debt of \$9,190,928.

As of June 30, 2008 the Municipality Component Unit has a mortgage loan payable in the amount of \$1,077,983. This loan is guarantee with component unit real properties and secured by Federal Housing Administration.

Subsequent Loans – The Municipality obtained the approval of various loans amounting to \$4,391,000 that will require additional annual debt service funds and other sources of repayment. This loans are pending for disbursement.

<u>Loan Amount</u>	<u>Loan Purpose</u>	<u>Source of repayment</u>	<u>Term</u>
\$1,110,000	Social property construction	Sale of properties and other	15 months
\$316,000	Trolley acquisition	Debt Service Fund – Property Taxes CAE	7 years
\$2,965,000	Recreational facilities	Debt Service Fund – Property Taxes CAE	25 years

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as contributions and grants to carry out the governmental activities. Historically, property taxes, municipal taxes and PR Government contributions have been predictable. Federal 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 2008-2009 fiscal year of \$9,373,259, which reflected a decrease in expenditures of \$1,326,654 (12.4%).

The most significant change between the budget for fiscal year 2008-2009 and the one for fiscal year 2007-2008 are as follows:

1. Public Works for 2008-09 budget were reduced by \$375,265 (11.8%).
2. Capital expenditures and improvement appropriations for 2008-09 budget were reduced by \$1,125,308 (48.2%).

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and 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 at P.O. Box 2004, Aibonito, Puerto Rico 00705.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT</u>	<u>2008 TOTAL</u>	<u>2007 TOTAL</u>
ASSETS				
Current Assets:				
Cash, including time deposits	\$3,398,194	\$ 66,397	\$3,464,591	\$ 4,725,921
Accounts receivable:				
Municipal Subsidy - CRIM	204,467		204,467	-
Property Tax - CRIM	316,072		316,072	205,377
Due from other AEE	923,581		923,581	796,453
Due from other governments	2,758,935	-	2,758,935	3,371,188
Total current assets	<u>7,601,249</u>	<u>66,397</u>	<u>7,667,646</u>	<u>9,098,939</u>
Noncurrent Assets:				
Cash held with fiscal agent	6,004,854		6,004,854	2,044,990
Capital Assets (net of depreciation)	33,545,839	2,034,171	35,580,010	29,528,923
Reserve for replacements		657,033	657,033	646,252
Other	-	47,066	47,066	41,585
Total noncurrent assets	<u>39,550,693</u>	<u>2,738,270</u>	<u>42,288,963</u>	<u>32,261,750</u>
TOTAL ASSETS	<u>47,151,942</u>	<u>2,804,667</u>	<u>49,956,609</u>	<u>41,360,689</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	511,606	19,823	531,429	426,011
Due to other governmental units	950,462		950,462	884,735
Deferred Revenues	1,643,450	86	1,643,536	1,654,881
Current portion of long term debt	719,361	68,000	787,361	756,773
Accrued interest	209,163	-	209,163	106,789
Total current liabilities	<u>4,034,042</u>	<u>87,909</u>	<u>4,121,951</u>	<u>3,829,189</u>
Noncurrent Liabilities:				
Bonds payable - construction	7,846,616		7,846,616	4,174,000
Mortgage payable	-	1,077,983	1,077,983	1,145,542
Accrued compensated absences	913,168		913,168	858,660
Other	431,144	18,104	449,248	300,381
Total noncurrent liabilities	<u>9,190,928</u>	<u>1,096,087</u>	<u>10,287,015</u>	<u>6,478,583</u>
Less: Current portion	<u>(719,361)</u>	<u>(68,000)</u>	<u>(787,361)</u>	<u>(756,773)</u>
	<u>8,471,567</u>	<u>1,028,087</u>	<u>9,499,654</u>	<u>5,721,810</u>
TOTAL LIABILITIES	<u>12,505,609</u>	<u>1,115,996</u>	<u>13,621,605</u>	<u>9,550,999</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	25,499,223	956,188	26,455,411	24,213,196
Restricted for Capital Projects	6,882,461	657,033	7,539,494	5,567,281
Restricted for Community Projects - in Trust	162,931		162,931	483,118
Restricted for Debt Service	1,093,343		1,093,343	862,877
Restricted for Other Purposes	1,512,022	12,290	1,524,312	932,442
Reserved for Encumbrances	159,208		159,208	125,765
Unrestricted	<u>(662,855)</u>	<u>63,160</u>	<u>(599,695)</u>	<u>(374,989)</u>
TOTAL NET ASSETS	<u>\$ 34,646,333</u>	<u>\$ 1,688,671</u>	<u>\$ 36,335,004</u>	<u>\$ 31,809,690</u>

The accompanying notes are integral part of these financial statements.

See auditor's report.

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		PROGRAM REVENUES		OPERATING CAPITAL		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
		CHARGES FOR SERVICES	CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	COMPONENT UNIT	2008 TOTAL	2007 TOTAL
EXPENSES		\$ 4,336,695				\$ (2,882,090)	\$ -	\$ (2,882,090)	\$ (3,189,583)
	General Administration	35,356				(35,356)		(35,356)	(38,834)
	Public Safety								
	Sport and recreation								
	Sanitation	269,812				(269,812)		(269,812)	(280,787)
	Public Work	3,432,975	355,064	1,114,705		(1,963,206)		(1,963,206)	(870,382)
	Housing	779,022	213,878	244,455		(320,689)		(320,689)	410,413
	Health and welfare	881,461	202,036			(679,425)		(679,425)	(13,901)
	Interest Payment	434,982				(434,982)		(434,982)	(254,036)
	Depreciation	1,147,004				(1,147,004)		(1,147,004)	(1,003,364)
	Total governmental activities	11,317,307	1,738,325	1,359,160		(7,732,564)		(7,732,564)	(5,240,474)
COMPONENT UNIT:									
	Las Flores Apartments - general	284,311	438,161				201,644	201,644	201,542
	Las Flores Apartments - depreciation	161,074					(161,074)	(161,074)	(172,727)
	Las Flores Apartments - interest	83,950					(83,950)	(83,950)	(85,653)
	Total component unit	529,335	438,161				(43,380)	(43,380)	(56,838)
	TOTAL ACTIVITIES	\$ 11,846,642	\$ 535,052	\$ 2,176,486	\$ 1,359,160	(7,732,564)	(43,380)	(7,775,944)	(5,297,312)
GENERAL REVENUES:									
	Property taxes, levied for general purposes							2,037,498	2,112,803
	Property taxes, levied for debt services							504,187	516,094
	Volume of business taxes							1,706,408	1,535,764
	Sale and use tax							1,000,235	
	Government of P.R. Contributions							4,087,310	3,915,943
	Donated property - Land							2,650,000	
	Other						1,150	103,671	74,296
	Interest						18,438	211,949	218,376
	TOTAL GENERAL REVENUES						19,588	12,301,258	8,373,276
							(23,792)	4,525,314	3,075,964
CHANGES IN NET ASSETS									
	Net assets - beginning of year							30,097,227	28,733,726
	Net assets - ending of year							\$ 34,646,333	\$ 31,809,690
								\$ 1,688,671	\$ 36,335,004

The accompanying notes are integral part of these financial statements. See auditor's report.

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

	GENERAL FUND	JOINT RESOLUTIONS	TRUST FUND	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS	2007 TOTAL GOVERNMENTAL FUNDS
Cash, including time deposits	\$ 2,107,365	\$ 690,995	\$ 143,751	\$ 45,179	\$ -	\$ 410,904	\$ 3,398,194	\$ 4,686,069
Cash held with fiscal agent				4,686,783	1,293,161	24,910	6,004,854	2,044,990
Accounts receivable:								
Municipal Subsidy - CRIM	204,467				7,112		204,467	-
Property Taxes - CRIM	308,960						316,072	194,337
Due from AEE	923,581						923,581	796,453
Due from other governments	148,427	-		2,367,188		243,320	2,758,935	3,371,188
Due from other funds	2,450,699	826,803	19,180			1,900,733	5,197,415	3,935,332
TOTAL ASSETS	\$ 6,143,499	\$ 1,517,798	\$ 162,931	\$ 7,099,150	\$ 1,300,273	\$ 2,579,867	\$ 18,803,518	\$ 15,028,369

The accompanying notes are integral part of these financial statements. See auditor's report

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

(Continued)

	GENERAL FUND	JOINT RESOLUTIONS	TRUST FUND	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS	2007 TOTAL GOVERNMENTAL FUNDS
LIABILITIES								
Accounts payable	\$ 319,309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319,309	\$ 118,200
Accounts payable-other	2,085			31,160		63,552	96,797	80,564
Accrued interest payable	2,233				206,930		209,163	106,789
Accrued employee benefits	95,500						95,500	193,000
Due to other governmental units	950,462					256,921	950,462	884,735
Deferred Revenues	1,386,529			2,200,397		250,302	1,643,450	1,654,631
Due to other funds	2,746,716					250,302	5,197,415	3,935,332
TOTAL LIABILITIES	5,502,834	-	-	2,231,557	206,930	570,775	8,512,096	6,973,251
FUND BALANCES								
Reserved for:								
Capital expenditures		974,906		4,867,593		1,039,962	6,882,461	4,921,029
Community Projects in trust			162,931				162,931	483,118
Debt Service					1,093,343		1,093,343	862,877
Other Purposes		542,892				969,130	1,512,022	908,647
Encumbrances	159,208						159,208	125,765
Unreserved - available	481,457	-	-	4,867,593	-	481,457	481,457	753,682
TOTAL FUND BALANCES	640,665	1,517,798	162,931	4,867,593	1,093,343	2,009,092	10,291,422	8,055,118
TOTAL	\$ 6,143,499	\$ 1,517,798	\$ 162,931	\$ 7,099,150	\$ 1,300,273	\$ 2,579,867		
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds							33,545,839	27,358,001
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds							(9,190,928)	(5,315,892)
NET ASSETS OF GOVERNMENTAL ACTIVITIES							\$ 34,646,333	\$ 30,097,227

Amounts reported for governmental activities in the statement of net assets are different because:
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds

NET ASSETS OF GOVERNMENTAL ACTIVITIES

The accompanying notes are integral part of these financial statements. See auditor's report

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL FUND	JOINT RESOLUTIONS	TRUST FUND	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS	2007 TOTAL GOVERNMENTAL FUNDS
REVENUES:								
Property taxes	\$ 2,037,498	\$ -	\$ -	\$ -	\$ 504,187	\$ -	\$ 2,541,685	\$ 2,628,897
Volume of Business Taxes	1,706,408						1,706,408	1,535,764
Government of P.R. Contributions	4,087,310	140,733	244,455	442,711		305,783	5,220,992	7,128,130
Contributions in lieu of taxes	923,581						923,581	796,453
Sales and use tax	694,378				305,857		1,000,235	-
Federal Grants and contributions	487,258			531,261		531,083	1,062,344	1,002,692
Charges for services	51,154	59,202		54,818	28,337		487,258	336,693
Interest	102,521						193,511	207,350
Miscellaneous							102,521	71,427
TOTAL REVENUES	<u>10,090,108</u>	<u>199,935</u>	<u>244,455</u>	<u>1,028,790</u>	<u>838,381</u>	<u>836,866</u>	<u>13,238,535</u>	<u>13,707,406</u>
EXPENDITURES:								
General Administration	4,159,129			1,981		65,888	4,226,998	3,534,900
Public Safety	32,836					2,520	35,356	38,834
Sport and recreation								-
Sanitation	269,812						269,812	280,787
Health and welfare	359,359	320,066				202,036	881,461	359,359
Housing			565,144			213,878	779,022	1,189,587
Public Work	2,858,325			176,723		397,927	3,432,975	2,704,357
Capital expenditures - local funds	165,097	1,017,280		1,069,485		1,605,126	3,856,988	2,279,554
Capital expenditures - federal funds				833,849			833,849	554,269
Principal Retirement	123,404				352,000		475,404	660,851
Interest Payment	117,782				317,200		434,982	254,036
TOTAL EXPENDITURES	<u>8,085,744</u>	<u>1,337,346</u>	<u>565,144</u>	<u>2,082,038</u>	<u>669,200</u>	<u>2,487,375</u>	<u>15,226,847</u>	<u>11,856,534</u>
EXCESS REVENUES OVER EXPENDITURES	<u>2,004,364</u>	<u>(1,137,411)</u>	<u>(320,689)</u>	<u>(1,053,248)</u>	<u>169,181</u>	<u>(1,650,509)</u>	<u>(1,988,312)</u>	<u>1,850,872</u>

The accompanying notes are integral part of these financial statements. See auditor's report

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008
(Continued)

	GENERAL FUND	JOINT RESOLUTIONS	TRUST FUND	CAPITAL PROJECTS	DEBT SERVICES	OTHER GOVERNMENTAL FUNDS	2008 TOTAL GOVERNMENTAL FUNDS	2007 TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):								
Capital - related debt issued	\$ -	\$ -	\$ -	\$ 4,224,616	\$ -	\$ -	\$ 4,224,616	\$ 190,000
Transfers	(1,880,338)	379	502	291,636	61,285	1,526,536	-	-
TOTAL	(1,880,338)	379	502	4,516,252	61,285	1,526,536	4,224,616	190,000
NET CHANGES IN FUND BALANCES	124,026	(1,137,032)	(320,187)	3,463,004	230,466	(123,973)	2,236,304	2,040,872
Reclassification of AIB's Projects Unexpended Balances	(1,815,800)	-	-	-	-	1,815,800	-	-
FUND BALANCES, BEGINNING OF YEAR	2,332,439	2,654,830	483,118	1,404,589	862,877	317,265	8,055,118	6,014,246
FUND BALANCES, END OF YEAR	\$ 640,665	\$ 1,517,798	\$ 162,931	\$ 4,867,593	\$ 1,093,343	\$ 2,009,092	\$ 10,291,422	\$ 8,055,118

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The accompanying notes are integral part of these financial statements. See auditor's report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds	\$2,236,304
Reconciling items:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$4,690,837) exceed depreciation expense (\$1,146,999) in the current period.	3,543,838
Donated property represents a revenue in the governmental activities financial statements while not considered in the governmental funds financial statements	2,650,000
Other reconciling items	(8,420)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$4,224,616) exceeded repayments (\$352,000).	<u>(3,872,616)</u>
Changes in net assets of governmental activities	<u>\$4,549,106</u>

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF NET ASSETS
COMPONENT UNIT**

JUNE 30,

LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-005-660-43-3572

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Petty cash	\$ 200	\$ 200
Cash in Bank	65,231	38,613
Prepaid insurance	966	1,039
	66,397	39,852
Accounts receivable:		
Tenants's	16,036	11,040
Other	-	-
Allowance for bad debts	-	-
	16,036	11,040
Total current assets	82,433	50,892
Tenant security deposits	18,104	17,154
Reserve for replacements	657,033	646,252
Fixed Assets:		
Land	126,150	126,150
Land improvements	226,443	226,443
Buildings	2,656,244	2,656,244
Buildings improvements	1,413,623	1,403,166
Buildings equipment	216,024	209,846
Maintenance equipment	8,836	8,836
Guard Gate	50,232	50,232
Office equipment	37,501	37,501
Other equipment	13,916	6,228
	4,748,969	4,724,646
Accumulated depreciation	(2,714,798)	(2,553,724)
Total fixed assets	2,034,171	2,170,922
Other assets:		
Escrow account	12,290	23,795
Deposits	636	636
Total other assets	12,926	24,431
Total assets	\$ 2,804,667	\$ 2,909,651

The accompanying notes are integral part of these financial statements.
See Independent Auditors' Report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF NET ASSETS
COMPONENT UNIT**

JUNE 30,
(Continued)

LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-005-660-43-3572

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	\$ 5,123	\$ 4,900
Accounts payable - tax fee	3,038	2,685
Accrued expenses payable	11,662	26,662
Current portion of mortgage payable	68,000	50,500
Rent collected in advance	86	250
Total current liabilities	87,909	84,997
Deposits tenants' security	18,104	17,149
Mortgage payable, net of current portion	1,009,983	1,095,042
Total liabilities	1,115,996	1,197,188
Net assets:		
Net investment in fixed assets	956,188	1,029,195
Reserved for replacement	657,033	646,252
Reserved for other purposes	12,290	23,795
Unrestricted	63,160	13,221
Net assets	1,688,671	1,712,463
Total liabilities and net assets	\$ 2,804,667	\$ 2,909,651

The accompanying notes are integral part of these financial statements.
See Independent Auditors' Report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
COMPONENT UNIT**

FOR THE YEAR ENDED JUNE 30,

LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-005-660-43-3572

	<u>2008</u>	<u>2007</u>
REVENUES:		
Rental	\$ 485,955	\$ 483,800
Financial	18,438	11,026
Other income	<u>1,150</u>	<u>2,869</u>
Total revenues	505,543	497,695
EXPENSES:		
Administrative	145,828	170,535
Utilities	9,143	2,981
Operating and maintenance	95,706	76,550
Taxes and insurance	33,634	32,192
Depreciation	161,074	172,727
Interest	<u>83,950</u>	<u>85,653</u>
COST OF OPERATIONS	<u>529,335</u>	<u>540,638</u>
EXCESS COSTS OVER REVENUES	<u>(23,792)</u>	<u>(42,943)</u>
CHANGE IN NET ASSETS	(23,792)	(42,943)
BEGINNING NET ASSETS	<u>1,712,463</u>	<u>1,755,406</u>
ENDING NET ASSETS	<u>\$ 1,688,671</u>	<u>\$ 1,712,463</u>

The accompanying notes are integral part of these financial statements.
See Independent Auditors' Report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF CASH FLOWS
COMPONENT UNIT**

FOR THE YEAR ENDED JUNE 30,

LAS FLORES APARTMENTS
(PROPERTY OF MUNICIPALITY OF AIBONITO)
FmHA and HUD Project No. 63-005-660-43-3572

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (23,792)	\$ (42,943)
Depreciation expenses	161,074	172,727
(Increase) Decrease in accounts receivable - tenants net	(4,996)	(3,464)
(Increase) Decrease in prepaid insurance	73	(1,039)
Increase (Decrease) in deposit held trust	(950)	(680)
Increase (Decrease) in accounts payable - trade	223	629
Increase (Decrease) in payable - tax fee	353	262
Increase (Decrease) in rent collected in advance	(164)	(321)
Increase (Decrease) in accrued expenses	(15,000)	6,662
Increase (Decrease) in deposit tenants security	955	676
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>117,776</u>	<u>132,509</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in reserve for replacements	(10,781)	(21,757)
(Increase) Decrease in escrow account	11,505	(3,459)
(Increase) Decrease in building improvement	(10,457)	(39,869)
(Increase) Decrease in building equipment	(6,178)	(6,983)
(Increase) Decrease in office equipment	-	(1,381)
(Increase) Decrease in other equipment	(7,688)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(23,599)</u>	<u>(73,449)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in mortgage payable	<u>(67,559)</u>	<u>(54,198)</u>
 NET INCREASE (DECREASE) IN CASH	26,618	4,862
 CASH AT BEGINNING OF YEAR	<u>38,813</u>	<u>33,951</u>
 CASH AT END OF YEAR	<u>\$ 65,431</u>	<u>\$ 38,813</u>

The accompanying notes are integral part of these financial statements.
See Independent Auditors' Report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

NOTES TO BASIC FINANCIAL STATEMENTS

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MUNICIPALITY OF AIBONITO COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Aibonito of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1824 with full legislative, fiscal and administrative powers to operate as a government.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature (fourteen members), which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

A. Financial Reporting Model and Component Units

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). This statement established financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below on July 1, 2002. These statements require the reporting of additional financial information and restructure much of the information that governments have reported in the past. Comparability with financial statements issued prior to June 30, 2003 has been affected significantly.

According to the financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the management discussion and analysis (MD&A). Other supplementary information presented in this report for purposes of additional analysis consists of budgetary comparison schedules.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2008, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

Other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are:

- (1) GASB Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions.

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(2) GASB Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments: Omnibus, (3) GASB Statement No. 38 - Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 -Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB No. 34 also requires that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 - Accounting Changes, (2) APB Opinion No. 21 - Interest on Receivables and Payables, (3) FASB Statement No. 5 - Accounting for Contingencies and (4) FASB Statement No. 16 - Prior Period Adjustments. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criteria for including a potential component unit within the reporting entity is if - elected officials of a primary government, are, financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

Las Flores Apartments, is included in the financial statements as a discrete component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office: Las Flores Apartments
c/o G.R. Management Co.
Villa Nevares Professional Center Suite 302
San Juan, Puerto Rico 00927

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

I. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

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2. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Capital Project Fund – is used to account for the financial resources allocated for the acquisition or construction of infrastructure and other major capital facilities.

Joint Resolutions Fund – is used to account for Commonwealth of Puerto Rico appropriations for specific purposes.

Trust Fund - is used to account for Commonwealth of Puerto Rico Special Communities Program funds held in trust.

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

5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.

6. Notes to the budgetary comparison schedule – general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from grants, trust, and other restricted revenue sources. The uses, and limitations of each special revenue fund are specified by Municipality Ordinances such as AIB Projects, federal and state statutes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal interest, and related costs.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Proprietary Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes Las Flores Apartments.

D. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

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. All other revenue items are considered to be measurable and available only when the government receives cash. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

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The Municipality has elected not to follow subsequent private-sector guidance.

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, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Use of estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

F. Assets, liabilities and net assets

1. Cash, cash equivalents, and cash with fiscal agent – The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent (Governmental Development Bank – GDB) in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in the Capital Project fund consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

2. Receivables and payables – Activity 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"

As of June 30, 2008 balance due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

PR Electric Power Authority	\$ 923,581
PR Sewer and Sanitary Authority	7,500
Commonwealth of PR Workmen Compensation (FSE)	17,750
Commonwealth of PR General Services Administration	<u>1,631</u>
	<u>\$ 950,462</u>

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Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes.

3. Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years	Description	Years
Buildings	50	Vehicles	10
Infrastructure	15	Furniture and fixtures	7
Building and site improvements	25	Machinery and equipment	7

4. Long-term obligations – The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long term liabilities, such as vacation, sick leave, litigation.

In the fund financial statements, governmental fund types recognize bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

5. Compensated absences - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

6. Claims and judgments - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

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

- a. Capital Projects - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. Advances and Other Specified Purposes - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.
- d. Debt Service Fund - Represents net assets available to finance future debt service payments.
- e. Improvements - Represents net assets legally segregated for municipal facilities and infrastructure improvements.
- f. Other - Represents net assets legally segregated for other specific future use.

8. Inter-fund and intra-entity transactions - The Municipality has the following types of transactions among funds:

- a. Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

9. Risk financing – The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2008 amounted to \$173,308. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$172,736 for workers compensation insurance covering all municipal employees.

NOTE 2. DEPOSITS AND INVESTMENTS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

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The Municipality's bank balances in commercial banks of \$2,107,365 in the general fund were fully collateralized at June 30, 2008. In the other governmental funds there were deposits with commercial banks of \$690,995, \$143,751, \$45,179 and \$410,904, that were fully collateralized.

The deposits at GDB of \$4,686,783 that are restricted principally for capital projects, the \$24,910 in the other governmental funds, and the \$1,293,161 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3. RECEIVABLES

a. Intergovernmental Receivables - Intergovernmental receivable in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA"). This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes.

Other Intergovernmental receivable represents expenditures incurred not yet reimbursed by the Federal Government and PR governmental agencies. Following is a detail of the other intergovernmental receivable:

<u>Program – Description</u>	<u>General Fund</u>	<u>Capital Project Funds</u>	<u>Other Funds</u>
Community Service Block Grant – (operations)			\$ 92,652
Community Service Block Grant – Ama de Llaves			31,532
US Department of Agriculture – Rural Development		\$ 255,543	
US Department of Agriculture – Rural Development (Mun. Parking)		183,000	
PR Government - State Insurance Fund (FSE)	\$ 100,677		
PR Government – Treasury Department (bonus reimbursement)	47,750		
PR Government - Special Communities Program		1,191,411	
PR Government - PR Water and Sewer Authority		58,580	
PR Government - PR Public Works Authority		62,860	
PR Government - (OASP – Nims – 2007 program)			37,486
PR Governmental Development Bank (Empre 380)		297,000	
PR Governmental Development Bank (Conv. AEE)		29,705	
HUD – Main Street		148,355	
FEMA Mitigation Plan			33,750
Federal Transportation Administration		46,774	
PR Government – Department of Transportation		93,960	47,900
	<u>\$ 148,427</u>	<u>\$2,367,188</u>	<u>\$ 243,320</u>

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b. Municipal License Tax – The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2008, the tax rates were as follows:

Financial business – 1.5% of gross revenues

Other organizations – 0.5% for annual revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2008, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

NOTE 4. INTERFUND TRANSACTIONS

Interfund -receivables and payables at June 30, 2008 are summarized as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General	\$ 2,450,699	\$ 2,746,716
Joint Resolutions	826,803	
Trust Fund	19,180	
Other Governmental	1,900,733	250,302
Capital Project	<u>-0-</u>	<u>2,200,397</u>
Total	<u>\$ 5,197,415</u>	<u>\$ 5,197,415</u>

NOTE 5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2008, including those changes for infrastructure and construction in-progress pursuant to the implementation of GASB Statement No. 34, follows. Land are not subject to depreciation:

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	Balance June 2007	Additions (Retirements)	Balance June 2008
Governmental Activities:			
Capital asset, not being depreciated:			
Land	\$ 11,978,537	\$ 3,379,000	\$ 15,357,537
Construction in progress	<u>2,271,051</u>	<u>1,033,736</u>	<u>3,304,787</u>
Total capital assets not being depreciated	<u>14,249,588</u>	<u>4,412,736</u>	<u>18,662,324</u>
Capital assets, being depreciated:			
Buildings and building improvements	9,050,096	805,747	9,855,843
Infrastructure	8,596,569	1,821,489	10,418,058
Equipment	644,938	18,248	663,186
Vehicles	<u>2,700,586</u>	<u>276,617</u>	<u>2,977,203</u>
Total capital assets being depreciated	<u>20,992,189</u>	<u>2,922,101</u>	<u>23,914,290</u>
Less accumulated depreciation for:			
Buildings and building improvements	2,947,623	271,503	3,219,126
Infrastructure	2,579,028	693,571	3,272,599
Equipment	468,611	42,418	511,029
Vehicles	<u>1,888,514</u>	<u>139,507</u>	<u>2,028,021</u>
Total accumulated depreciation	<u>7,883,776</u>	<u>1,146,999</u>	<u>9,030,775</u>
Total capital assets being depreciated, net	<u>13,108,413</u>	<u>1,775,102</u>	<u>14,883,515</u>
Governmental activities capital assets, net	<u>\$ 27,358,001</u>	<u>\$ 6,187,838</u>	<u>\$ 33,545,839</u>
 Business Type Activity:			
Capital asset, not being depreciated:			
Land	<u>\$ 126,150</u>	<u>\$ -</u>	<u>\$ 126,150</u>
Capital assets, being depreciated:			
Buildings and building improvements	4,285,853	10,457	4,296,310
Equipment	<u>312,643</u>	<u>13,866</u>	<u>326,509</u>
Total capital assets being depreciated	4,598,496	24,323	4,622,819
Less accumulated depreciation	<u>2,553,724</u>	<u>161,074</u>	<u>2,714,798</u>
Total capital assets being depreciated, net	<u>2,044,772</u>	<u>(136,751)</u>	<u>1,908,021</u>
Business Type Activity Capital assets, net	<u>\$ 2,170,922</u>	<u>\$ (136,751)</u>	<u>\$ 2,034,171</u>
 Total Municipality Capital assets, net	 <u>\$ 29,528,923</u>	 <u>\$ 6,051,087</u>	 <u>\$ 35,580,010</u>

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NOTE 6. PROPERTY TAXES

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 CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values 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. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-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 payable 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 exempted 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 the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption 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 tax rate for fiscal year 2007-08 is 8.28% for real property and 6.28% 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, represents the Municipality's basic property tax rate which is appropriated for basics 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 a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the Property tax collected and such amount is accounted for similar to item (a) above.

NOTE 7. SALES TAXES

In accordance to Law 117 of July 2006, as amended, a 1.5% Municipal Sales Tax was implemented in August 2008. The related revenue will be distributed as follows: Municipal Operations 1.0%; Municipal Development Fund 0.2%; Municipal Redemption Fund 0.2%; and Municipal Improvements Fund 0.1%.

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NOTE 8. DEFERRED REVENUES

a. Municipal License Tax - The deferred revenues of \$1,386,529 in the general fund relates to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

b. Federal Government - The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description

HUD Section 8 Housing	\$ 183,231
HUD Housing Preservation	218
FEMA	68,395
Child Care	<u>5,077</u>
Total	<u>\$ 256,921</u>

NOTE 9. LONG-TERM DEBT

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

<u>GOVERNMENTAL FUND</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Bonds payable					
Capital facilities	\$ 4,174,000	\$1,180,000	\$ 352,000	\$5,002,000	\$ 351,000
Operational	-			-	-
Subtotal	<u>4,174,000</u>	<u>1,180,000</u>	<u>352,000</u>	<u>5,002,000</u>	<u>351,000</u>
BGF – Interim construction	-	2,844,616		2,844,616	-
Rural Development	-	200,000		200,000	200,000
CRIM – Law 146	250,846	-	19,702	231,144	38,361
Compensated absences	<u>891,046</u>	<u>22,122</u>		<u>913,168</u>	<u>130,000</u>
Total	<u>\$ 5,315,892</u>	<u>\$4,246,738</u>	<u>\$ 371,702</u>	<u>\$9,190,928</u>	<u>\$ 719,361</u>

<u>COMPONENT UNIT</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Mortgage loan	\$ 1,145,542	\$ -	\$ 67,559	\$1,077,983	\$ 68,000

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

Bonds payable - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities and operational purposes. During the current year, the Municipality issued bonds for \$1,180,000. Bonds payable outstanding at June 30, 2008 are as follows:

	<u>Outstanding Amount</u>
Issued for capital facilities:	
\$572,000; 1991 serial bonds due in annual installments of \$14,000 to \$41,000, through July 1, 2016; with interest at 5.0% (FMHA)	\$ 275,000
\$870,000; 2000 serial bonds due in annual installments of \$40,000 to \$100,000, through July 1, 2011; with interest ranging from 6.0% to 7.5%	360,000
\$1,040,000; 1996 serial bonds due in annual installments of \$15,000 to \$90,000, through July 1, 2020; with interest ranging from 4.7% to 6.5%	780,000
\$350,000; 1999 serial bonds due in annual installments of \$30,000 to \$50,000, through July 1, 2008; with interest ranging from 7.0% to 7.5%	50,000
\$575,000; 2001 serial bonds due in annual installments of \$10,000 to \$50,000, through July 1, 2026; with interest at 6.5%	515,000
\$145,000; general obligations note due in annual installments of \$15,000 to \$25,000, through July 1, 2008; with interest at 8.0%	25,000
\$310,000; 2002 serial bonds due in annual installments of \$5,000 to \$10,000, through July 1, 2027, with interest at 5.0%	285,000
\$332,000; 1996 serial bonds due in annual installments of \$6,000 to \$20,000, through January 1, 2028, with interest at 4.5%	292,000
\$465,000; 2008 serial bonds due in annual installments of \$10,000 to \$35,000, through July 1, 2029, with interest at 5.0%	435,000
\$485,000; Municipal General Obligations Bond series 2005-06 due in annual installments of \$5,000 to \$35,000, through July 1, 2030 with interest ranging from 4.23% to 5.02%	470,000
\$320,000; Municipal General Obligations Note due in annual installments of \$ 39,000 to \$52,000, through January 1, 2011, with interest at 4.5%	150,000
\$800,000; Municipal General Obligations Bond series 2008 due in annual installments of \$25,000 to \$85,000, through July 1, 2022 with interest at 7.5%	800,000

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

	Outstanding <u>Amount</u>
\$380,000 ; Municipal General Obligations Bond series 2007 due in annual installments of \$5,000 to \$35,000, through July 1, 2032 with interest at 7.5%	380,000
\$190,000 ; Municipal General Obligations Bonds series 2006 due in annual installments of \$ 5,000 to \$20,000, through July 1, 2021, with interest at 7.0%	<u>185,000</u>
Total	<u>\$ 5,002,000</u>

The bonds issued for capital facilities are payable from the ad valorem property tax of 1.67% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	Capital facilities bonds	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 351,000	\$ 257,584
2010	305,000	271,102
2011	324,000	254,880
2012	294,000	232,796
2013	201,000	219,109
2014-18	1,180,000	889,588
2019-23	1,278,000	494,597
2024-28	749,000	201,863
2029-33	<u>320,000</u>	<u>40,857</u>
Total	<u>\$5,002,000</u>	<u>\$ 2,862,376</u>

Interim Construction Loan - Ordinance 3 Series 2006-2007 from Commonwealth of Puerto Rico Governmental Development Bank, loan for interim financing of a housing development project at Caonillas Ward, Aibonito, P.R. Total amount of \$2,844,616 is due in July 1, 2009 and requires semi-annual interest payments at 6.5%.

Advances from- CRIM - This amount represents the balance owed to CRIM at June 30, 2008, which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law 146 of 2001. The original debt is amortized in periodic installments, if any, as determined by the CRIM during a 30 years period until July 1, 2032, with variable interest rate (Law 146 of 2001).

Subsequent Loans - After June 30, 2008 the Municipality obtained various loans amounting to \$4,391,000 that will require additional annual debt service funds and other sources of repayment. See subsequent events note for detail and more information.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

Mortgage loan – Las Flores Apartments mortgage loan payable to the federal government bears interest at 7.0% through 2019 and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest in monthly installments of \$11,654 are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of June 30, 2008, are as follows:

Year Ending	Amount
June 30,	
2009	\$ 139,848
2010	139,848
2011	139,848
2012	139,848
2013	139,848
Thereafter	<u>764,078</u>
Total	1,463,318
Less amount representing interest	<u>(385,335)</u>
	<u>\$ 1,077,983</u>

Compensated absences – The government-wide statement of net assets includes accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

NOTE 10. PENSION PLAN

The Employees' Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his /her accumulated contributions.

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

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees) or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

Total employer contributions during the year ended June 30, 2008 amounted to \$167,580.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

NOTE 11. RISK MANAGEMENT

The Finance Department of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

NOTE 12. COMMITMENTS

a. Operating Leases - The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2008, amounted to \$48,380. Management believes that the summary of the future minimum rental commitments under non cancelable real property and equipment lease with terms exceeding one year is not significant.

b. Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received. As of June 30, 2008 the Municipality has a total of \$159,208 in encumbrances, presented in the balance sheet as a reserve from available fund balance.

NOTE 13. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2008, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. At June 30, 2008, the Municipality has not recorded a liability in the government-wide financial statements for possible disallowances costs.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 14. SUBSEQUENT EVENTS

Subsequent Loans – After June 30, 2008 the Municipality obtained various loans amounting to \$4,391,000 that will require additional annual debt service funds and other sources of repayment. As of the date of this report the subsequent loans were approved although not disbursed.

<u>Loan Amount</u>	<u>Loan Purpose</u>	<u>Source of repayment</u>	<u>Term</u>
\$1,110,000	Social property construction	Sale of properties and other	15 months
\$2,965,000	Recreational facilities	Debt Service Fund – Property Taxes CAE	22 years
\$316,000	Trolley acquisition	Debt Service Fund – Property Taxes CAE	7 years

NOTE 15. RECLASSIFICATIONS

Unexpended fund balances of AIB Projects - Municipality Ordinances – which are restricted for construction and for other purposes were reclassified from the General Fund to the Other Governmental Funds. The effect of this reclassification is presented below:

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Beginning Fund Balance previously reported	\$2,332,439	\$ 317,265
Reclassification	(1,815,800)	1,815,800
Beginning Fund Balance after reclassification	<u>\$ 516,639</u>	<u>\$2,133,065</u>

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL- AMOUNTS	VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>		FINAL BUDGET
				<u>Positive(Negative)</u>
RESOURCES (inflows):				
Property Taxes	\$ 1,915,224	\$ 1,915,224	\$ 1,915,224	\$ -
Volume of Business Taxes	1,822,574	1,822,574	1,706,408	(116,166)
Government of P.R. Contributions	3,918,237	3,918,237	3,882,843	(35,394)
Contributions in lieu of taxes	797,500	797,500	797,500	-
Sales and use tax	500,000	500,000	694,378	194,378
Charges for services	146,494	146,494	487,258	340,764
Interest	12,954	12,954	85,981	73,027
Other	<u>5,784</u>	<u>5,784</u>	<u>102,521</u>	<u>96,737</u>
Amounts available for appropriations	<u>9,118,767</u>	<u>9,118,767</u>	<u>9,672,113</u>	<u>553,346</u>
CHARGES TO APPROPRIATIONS (out flows):				
General Administration				
Mayor Office	893,380	1,047,345	1,042,172	5,173
Municipality Assembly	188,517	154,603	152,277	2,326
Finance	2,246,974	2,219,338	2,192,360	26,978
Personnel	415,239	428,157	315,326	112,831
Municipal Secretary	93,812	79,568	77,975	1,593
Citizen Assistance	336,465	588,318	578,300	10,018
Economic Development	27,513	1,529	-	1,529
Internal Auditor	48,609	1,803	-	1,803
Health	359,360	359,360	359,359	1
Public Safety and emergency management	89,369	34,921	32,836	2,085
Sport and recreation	-	-	-	-
Public Works	3,171,831	3,177,775	3,018,530	159,245
Sanitation (public works)	350,000	274,000	269,812	4,188
Capital Expenditures (AIB transfers)	<u>897,698</u>	<u>2,333,196</u>	<u>950,605</u>	<u>1,382,591</u>
Total charges to appropriations	<u>9,118,767</u>	<u>10,699,913</u>	<u>8,989,552</u>	<u>1,710,361</u>
Excess (deficiency) resources over charges	<u>\$ -</u>	<u>\$ (1,581,146)</u>	<u>\$ 682,561</u>	<u>\$ 2,263,707</u>

The accompanying notes are integral part of this financial statement.
See auditor's report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO
RECONCILIATION OF ACTUAL AMOUNTS
BUDGETARY BASIS AND GASB BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

SOURCES/ INFLOW OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 9,672,113
Timing differences in revenue recognition in budgetary basis vs. Actual in Statement of Revenues:	
Municipal Subsidy	204,467
Property Taxes	122,274
Adjustment in account receivable AEE	126,081
Trasfer from other funds are not revenue for financial reporting purposes	<u>(34,827)</u>
Total revenues as reported on the Statement of Revenues Expenditures and Changes in Fund Balances-Governmental Funds	-
	<u>\$ 10,090,108</u>
	-

USES/ OUTFLOWS OF FINANCIAL RESOURCES:

Actual amounts budgetary basis from the budgetary comparison schedule	\$ 8,989,552
Capital expenditures (AIB Trasfers) are not expenditures for financial reporting purposes	(950,605)
Adjustment in account payable AEE	126,081
Other obligations considered expenditures for financial reporting puposes but are not expenditures for bugetary basis	79,924
Encumbrances recorded as current year expenditures for budgetary basis	<u>(159,208)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances-Govermental Funds	<u>\$ 8,085,744</u>

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET Positive(Negative)
	ORIGINAL	FINAL	ACTUAL AMOUNTS	
RESOURCES (inflows):				
Property Taxes	\$ 492,038	\$ 492,038	\$ 504,187	\$ 12,149
Sales and use tax (IVU)	-	-	305,857	305,857
Interest	-	-	28,337	28,337
Other	-	-	-	-
Amounts available for appropriations	<u>492,038</u>	<u>492,038</u>	<u>838,381</u>	<u>346,343</u>
CHARGES TO APPROPRIATIONS (out flows):				
Long term loan amortization		288,453	352,000	(63,547)
Interest on long term debt		203,585	216,520	(12,935)
Other	-	-	34,827	(34,827)
Total charges to appropriations	<u>-</u>	<u>492,038</u>	<u>603,347</u>	<u>(111,309)</u>
Excess (deficiency) resources over charges	<u>\$ 492,038</u>	<u>\$ -</u>	<u>\$ 235,034</u>	<u>\$ 235,034</u>

The accompanying notes are integral part of this financial statement.
See auditor's report.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2008.**

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>FEDERAL GRANTOR / PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>2008 EXPENDITURES</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Section 8 Vouchers and Portability HOPE VI Main Street Grant	14.871 N/A	\$ 178,853 78,019
Indirect Program: Passed through Commonwealth of PR State Block Grant Program (SBGP)	14.228 MP	<u>708,336</u> <u>965,208</u>
US DEPARTMENT OF AGRICULTURE		
Rural Development Grant	10.769	<u>224,569</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)		
Disaster Assistance	83.516	<u>49,281</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 1,239,058</u>

MP = Major Program

**MUNICIPALITY OF AIBONITO
COMMONWEALTH OF PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Aibonito, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund under the accrual basis of accounting. Expenditures in the Schedule of Expenditures of Federal Awards are presented in the cash basis of accounting.

NOTE 3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

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URB LEVITTOWN, 1818 DEL VALLE AVE, TOA BAJA, PR 00949

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Aibonito
Aibonito, Puerto Rico

We have audited the financial statements of the Municipality of Aibonito as of and for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Aibonito financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing and opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs Section II.

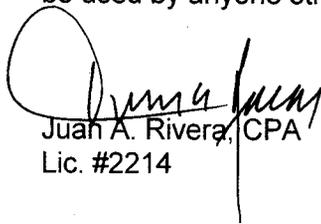
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Aibonito internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Aibonito ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions in federal award are described in the accompanying schedule of findings and questioned costs Section II and also we have reported to the management of Municipality of Aibonito those reportable condition that affect the internal control of the Municipality operations in a separate letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities and not is intended to be and should not be used by anyone other than these specified parties.


Juan A. Rivera, CPA
Lic. #2214

December 2, 2008
Toa Baja, Puerto Rico



Stamp No. 2384884 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

JUAN A. RIVERA, CPA
CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and
the Municipal Assembly
Municipality of Aibonito
Aibonito, Puerto Rico

We have audited the compliance of Municipality of Aibonito with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Municipality of Aibonito major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality of Aibonito management. Our responsibility is to express an opinion on the Municipality of Aibonito compliance based on our audit.

Compliance

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental 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 the Municipality of Aibonito compliance with those requirements and performing such others procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not include a legal determination of the Municipality of Aibonito compliance with those requirements.

As described in Section II items in the accompanying schedule of findings and questioned costs, the Municipality of Aibonito did not comply with requirements regarding administrative requirements that are applicable to its Section 8 Program. Compliance with such requirements are necessary for the Municipality of Aibonito to comply with the federal regulations.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Aibonito complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

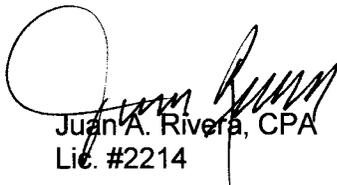
Internal Control Over Compliance

The management of the Municipality of Aibonito is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Aibonito internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality of Aibonito ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs in Section II.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe that none of the reportable conditions described above is a material weakness. This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is not intended to be and should not be used by anyone other than these specified parties.



Juan A. Rivera, CPA
Lic. #2214

December 2, 2008
Toa Baja, Puerto Rico

Stamp No # 2384885 of Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF AIBONITO
Schedules of Findings and Questioned Costs
For the Year Ended June 30, 2008

II. Federal Awards Findings and Questioned Costs

Our examination of compliance with federal requirements of the Municipality of Aibonito, for the year ended June 30, 2008 disclosed that grants funds were administered in a satisfactory manner, except for the following situation:

SBGP
CFDA No. 14.228

Condition 08-1

Davis Bacon Act

The Municipality failed to require the necessary documents to determinate if the contractors are complying with the requirements established in the Davis- Bacon Act.

Criteria

The Code of Federal Regulation 29, Section 5.5 and 5.6 includes the requirements that each contractor or subcontractor should submit to the Municipality, in a weekly basis, a certified payroll report. It is in order to demonstrate that they are accomplishing with the minimum wage law.

Cause

The Municipality is not requiring to the contractors enough documentation to determinate if they are under the law compliances.

Effect

The internal controls over the compliances requirements are not effective.

Recommendations

Establish an internal control procedure to verify that the contractors are in compliance with law.

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF AIBONITO
Schedules of Findings and Questioned Costs
For the Year Ended June 30, 2008

Auditee Response

The Municipality accepted the recommendation of the auditors and established procedures to correct the findings mentioned above.

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF AIBONITO
Schedules of Status of Prior Year
For the Year Ended June 30, 2008

Program	Finding/ Compliance	Status
Section 8 – CFDA No. 14.871	Condition 07-01 - The Section 8 maintained a large bank account balance as of June 30, 2007.	Corrected
Section 8 – CFDA No. 14.871	Condition 07-2 – The Municipality does not follow the procedures established by federal law	Corrected
State block Grant Program FCDA No. 14.228	Condition 07- 3 – The Municipality is uncertain of the materials received by recipient of house rehabilitation.	Corrected



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Aibonito

DEPARTAMENTO DE FINANZAS

P.O. Box 2004
Aibonito, P.R. 00705
(787) 735-8802 Ext. 254 Fax (787) 735-3237

19 de diciembre de 2008

Lcdo. Ángel M. Castillo
Comisionado
Oficina del Comisionado de Asuntos Municipales
San Juan, Puerto Rico 00902-3207

RE: Single Audit Report 07-08

Estimado señor Castillo:

Adjunto le envío copia original del asunto de referencia y el Informe Especial sobre cumplimiento con las recomendaciones del Contralor y las correcciones de las fallas señaladas en el Informe de Auditoria M06-32 y M06-38 del 13 y 24 de marzo del 2006 al 30 de junio de 2008 para su conocimiento y acción pertinente.

Atentamente,


Ramón Colón López
Director de Finanzas

