OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE AÑASCO
AUDITORIA 2006-2007

30 DE JUNIO DE 2007

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE
Fiscal Year Ended
June 30, 2007

Honorable
Pablo Crespo Torres
Mayor

Prepared by:
Irene Malavé Ruiz
Director of Finance and Budget

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
JUNE 30, 2007

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AÑASCO

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Carlos R. Díaz Negrón

Certified Public Accountant

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

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the ***Municipality of Añasco*** (the Municipality) as of and for the year ended June 30, 2007 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the ***Municipality of Añasco*** as of June 30, 2007, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Government Auditing Standards, I have also issued my report date December 14, 2007 on my consideration of **Municipality of Añasco'** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 35 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

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

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

December 14, 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010

The stamp No. **2297324** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

Management of the Municipality of Añasco of the Commonwealth of Puerto Rico (the Municipality) provides this *Management's Discussion and Analysis* (MD&A) for the readers of the Municipality's basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2007. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

In this statement the condensed Statements of Activities, Balance Sheet, and Statement of Operations for the fiscal year ended June 30, 2007 are presented in a comparative approach to financial statements of fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

a) Government-Wide Highlights

- ***Assets*** – The Municipality has reported assets amounting to $47.1 millions in the accompanying statement of net assets, of which the most significant are capital assets, cash, and accounts receivables amounting to $36.0 million, $9.6 millions, and $1.3 million, respectively.

- ***Liabilities*** – The Municipality has reported liabilities amounting to $23.3 millions in the accompanying statement of net assets, of which the most significant are bonds and notes payable, estimated liability for municipal solid waste landfill closure and postclosure care costs, unearned revenues and compensated absences amounting to $14.3 millions, $2.4 millions, $3.5 millions and $1.4 millions, respectively.

- ***Net assets*** – The assets of the Municipality exceeded its liabilities by $23.7 millions at June 30, 2007, which is presented as "net assets" in the accompanying statement of net assets. Restricted net assets and unrestricted deficit amounted to $4.3 millions and $6.7 millions, respectively. Net assets invested in capital assets amounted to $26.1 millions.

- ***Net change in net assets*** – The Municipality's net assets increased by $2.7 millions during fiscal year ended June 30, 2007. Net assets at June 30, 2007 amounted to $23.7 millions.

- ***Revenues*** – The Municipality has reported total revenues amounting to $16.4 millions in the accompanying statement of activities, of which the most significant are taxes, and intergovernmental grants and contributions amounting to $5.9 millions and $7.9 millions, respectively.

- ***Expenses*** – The Municipality has reported total expenses amounting to $13.6 millions in the accompanying statement of activities.

b) Governmental Funds Highlights

- ***Assets*** – The Municipality's governmental funds have reported combined assets amounting to $12.3 millions in the accompanying balance sheet – governmental funds, of which the most significant are cash and due from other funds amounting to $8.8 millions, $1.4 millions respectively.

- ***Liabilities*** – The Municipality's governmental funds have reported combined liabilities amounting to $7.0 millions in the accompanying balance sheet – governmental funds, of which the most significant are deferred revenues, and due to other funds amounting to $4.2 millions, and $1.4 millions, respectively.

- ***Governmental fund balances*** – The Municipality's governmental funds reported combined fund balances amounting to $5.2 millions, of which $4.7 millions and $0.5 millions represent reserved and unreserved fund balances, respectively.

- ***Net change in governmental fund balances*** – The Municipality's governmental fund balances increased by $0.9 millions during fiscal year ended June 30, 2007. Governmental fund balances at June 30, 2007 amounted to $5.2 millions.

- ***Revenues*** – The Municipality's governmental funds have reported combined revenues amounting to $16.3 millions in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, of which the most significant are intergovernmental grants and contributions, property taxes and charges for services amounting to $7.9 millions, $3.5 millions and $1.8 millions, respectively.

- ***Expenditures*** – The Municipality's governmental funds have reported combined expenditures amounting to $15.4 millions in the accompanying statement of revemies, expenditures and changes in fund balances – governmental funds, of which the most significant are categorized as general government; capital outlays; health and sanitation; urban and economic development; and culture, recreation and education amounting to $5.1 millions, $2.1 millions, $1.6 millions, 2.1 millions and $1.7 millions respectively.

USING THIS ANNUAL REPORT

This annual report consist of a series of financial statements focused on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

For financial reporting purposes the Municipality has four major funds: (1) the general fund, (2) the state legislative joint resolutions, (3) $3,421,000 Loan fund and (4) the debt service fund.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset

management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net assets (excess of assets over liabilities) amounted to $23.7 millions at June 30, 2007 compared to $21.0 millions at the end of the previous year.

The largest portion of the Municipality's net assets are invested in capital assets net of their related debt ($26.1 millions). The Municipality's net assets is also composed of net assets amounting to $4.3 millions that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's net asset are reported net of an unrestricted liabilities of $6.7 millions.

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

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

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

Comparative Condensed Statement of Net Assets
Governmental Activities
June 30,

	2007	2006
Assets:		
Current assets	$ 10,981,810	$ 8,790,824
Noncurrent assets:		
Capital assets, net	36,053,632	34,744,260
Other noncurrent assets	69,681	74,628
Total assets	$ 47,105,123	$ 43,609,712
Liabilities:		
Current liabilities	4,948,485	3,927,033
Long-term liabilities due within one year	1,458,605	1,328,606
Long-term liabilities due after one year	16,907,829	17,305,676
Total liabilities	23,314,919	22,561,315
Net assets (liabilities):		
Invested in capital assets, net of related debt	$ 26,168,744	$ 24,526,634
Restricted	4,377,439	4,629,937
Unrestricted	(6,755,979)	(8,108,174)
Total net assets	$ 23,790,204	$ 21,048,397

Changes in Net Assets

The Municipality's net assets increased by $2.7 million. Approximately 36 percent of the Municipality's total revenues came from taxes, while 63 percent resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. The Municipality's expenses cover a range of services. The largest expenses were for general government (42 percent), urban and economic development (16 percent) and health and sanitation (14 percent).

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

Statement of Activities
Governmental Activities
Fiscal Years Ended June 30,

	2007	2006
Program revenues:		
Program-specific operating grants and contributions	$ 772,859	$ 1,062,849
Program-specific capital grants and contributions	1,108,831	2,272,939
Charges for services	1,911,076	1,178,901
Total programs revenues	3,792,766	4,514,689
General revenues:		
Property taxes	3,574,297	3,052,082
Municipal license taxes	1,463,583	1,621,257
Construction excise taxes	428,153	860,507
Sales tax	498,034	-
Unrestricted grants and contributions	6,029,515	4,592,476
Other general revenues (various sources)	643,080	774,139
Total general revenues	12,636,662	10,900,461
Total revenues	16,429,428	15,415,150
Program expenses:		
General government	5,811,788	4,666,733
Urban economic development	2,132,105	2,451,037
Public safety	376,111	312,796
Health and sanitation	1,952,645	1,707,630
Culture, recreation and education	1,765,680	523,035
Public housing and welfare	849,175	1,122,762
Interest on long-term obligations	800,117	832,699
Total expenses	13,687,621	11,616,692
Net increase in assets	2,741,807	3,798,458
Net assets, at beginning of fiscal year	21,048,397	17,249,939
Net assets, at end of fiscal year	$ 23,790,204	$ 21,048,397

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

Comparative Condensed Balance Sheet - Governmental Funds
June 30,

	2007	2006
Assets:		
Total assets - major governmental funds	$ 10,584,590	$ 7,837,558
Total assets - other governmental funds	1,763,655	1,871,931
Combined total assets	12,348,245	9,709,489
Liabilities:		
Total liabilities - major governmental funds	6,524,833	4,795,092
Total liabilities - other governmental funds	530,688	574,947
Combined total liabilities	7,055,521	5,370,039
Fund balances:		
Reserved - major governmental funds	3,545,635	3,327,962
Reserved - other governmental funds	1,232,967	1,296,984
Unreserved - major governmental funds	514,122	(285,496)
Combined total fund balances	5,292,724	4,339,450
Total liabilities and fund balances	$ 12,348,245	$ 9,709,489

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

At June 30, 2007, the total assets of governmental funds increased by $2,638,756 (27 percent) in comparison with the prior fiscal year principally for: (1) the increase of $573,934 in restricted cash, (2) the increase in unrestricted cash and cash equivalents of $1,697,220 and (3) and the increase of $462,300 in due from other funds.

Total liabilities of governmental funds increased by $1,685,482 (31.0 percent) in comparison with the prior fiscal year principally for: (1) the increase of $462,300 in due to other funds, (2) the increase in deferred revenue of $1,175,769 and (3) and the increase of $48,942 in intergovernmental payable.

For a detailed explanation of the individual fluctuations of total assets and total liabilities of governmental funds, please refer to the previous financial analysis of the government-wide financial statements included in this management's discussion and analysis, where a detailed discussion of most of these fluctuations has been made.

At the end of the current fiscal year, total unreserved fund balances of the governmental funds amounted to $514,122 while total fund balance reached $5,292,724. The total fund balances increased by $953,274 during the current fiscal year. The most significant fluctuation in total fund balances occurred in the unreserved fund, which increased by $1,449,613.

The following is a detailed financial analysis of the Municipality's governmental funds:

Major Governmental Funds

General fund - The General fund (GF) is the principal operating fund of the Municipality. The GF's total assets amounted to $4,354,519 at June 30, 2007. Such assets consist of: (1) unrestricted and restricted cash and cash equivalents ($3,146,011), (2) property and municipal tax receivables ($496,411), (3) other receivables ($353,240) and (4) due from other funds ($358,857).

The GF's total liabilities amounted to $3,439,234. Such liabilities are composed mainly of: (1) deferred revenues ($2,043,329) and (2) due to other governments ($988,052).

At the end of the current fiscal year, unreserved fund balance of the GF's amounted to $514,122, while total fund balance reached $915,285. As a measure of the GF's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5 percent of the total GF's expenditures, while total fund balance represents 9 percent of that same amount.

State legislative joint resolutions special revenue fund – The State legislative joint resolutions special revenue fund (SLJRSRF) total assets amounted to $2,149,862, which mainly consist of cash in commercial banks ($1,288,496). The SLJRSRF's total liabilities amounted to $2,149,862 which are mainly composed of deferred revenues ($2,000,552).

$3,421,000 loan fund – The $3,421,000 loan fund (LF) total assets amounted to $2,121,991 which consist mainly of restricted cash in fiscal agent ($2,110,791). The LF's total liabilities amounted to $89,777 composed of due to other funds. At the end of the current fiscal year, LF's total and reserved fund balance reached $2,032,214.

Debt service fund - The debt service fund (DSF) total assets amounted to $1,958,218 which consist mainly of restricted cash in fiscal agent ($1,830,132) and restricted property taxes receivable ($112,166). The DSF's total liabilities amounted to $845,960 which are mainly composed of: (1) matured bonds due and payable ($461,250), (2) matured interest due and payable ($256,218) and (3) deferred revenues ($111,864). At the end of the current fiscal year, DSF's total and reserved fund balance reached $1,112,258.

Other governmental funds- The other governmental funds (OGF) total assets amounted to $1,763,655 which consist mainly of restricted cash in fiscal agent and commercial banks ($1,142,192), receivables from intergovernmental grants and contributions ($127,125) and due from other funds ($431,057). The OGF's total liabilities amounted to $535,688 which are composed of deferred revenues ($137,575), due to other funds (358,710) and accounts payable and accrued libilities ($34,403). At the end of the current fiscal year, OGF's total and reserved fund balance reached $1,232,967.

Condensed Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Fiscal Year Ended June 30,

	2007	2006
Revenues:		
Total revenues - major governmental funds	$ 13,875,907	$ 12,701,695
Total revenues - other governmental funds	2,485,972	2,876,885
Combined total revenues	16,361,879	15,578,580
Expenditures:		
Total expenditures - major governmental funds	12,896,454	11,582,892
Total expenditures - other governmental funds	2,528,925	3,037,874
Combined total expenditures	15,425,379	14,620,766
Excess of expenditures over revenues	936,500	957,814
Other financing sources (uses), net:		
Other financing sources, net - major governmental funds	37,837	(402,161)
Other financing sources (uses), net - other governmental funds	(21,063)	439,200
Combined other financing sources (uses), net	16,774	37,039
Net change in fund balance	953,274	994,853
Fund balance at beginning of fiscal year	4,339,450	3,344,597
Fund balance, at end of fiscal year	$ 5,292,724	$ 4,339,450

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net assets reported total gross capital assets, at cost, amounting to $53.8 millions, of which $15.4 millions represent infrastructure assets. The related accumulated depreciation and amortization of capital assets amounted to $17.8 millions, of which $7.4 millions are related to infrastructure assets. This investment in capital assets includes land, buildings, improvements, equipment, infrstructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were $2.1 millions for the year ended June 30, 2007. Depreciation and amortization charges for the year totaled $0.8 millions.

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

Debt Administration

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

The applicable laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, the municipality must have sufficient "payment capacity". Act No. 64 of July 3, 1996 as amended, provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if deposits in Municipality's Redemption fund and the annual amounts to be collected thought the Municipality's Special Additional Tax (as defined below), as projected by the Government Development Bank for Puerto Rico, will be sufficient to service the maturity of the Municipality's outstanding general obligation debt and any additional proposed general obligation debt ("Payment Capacity").

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

ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

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

Those factors were considered when preparing the Municipality's budget for the 2007-2008 fiscal year. There were no significant changes between the budget for fiscal year 2006-2007 and the one for fiscal year 2007-2008.

REQUEST FOR INFORMATION

This financial report is designed to provide s general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipalitys' accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality' Director of Finance, Mrs. Irene Malavé Ruiz, at PO Box 1385, Añasco, Puerto Rico, 00610.

BASIC FINANCIAL STATEMENTS

Commonwealth of Puerto Rico
Municipality of Añasco
Statement of Net Assets
June 30, 2007

Assets

	Governmental activities
Current assets:	
Cash in commercial banks	$ 2,510,602
Investment in certificate of deposit	635,409
Accounts receivable:	
Taxes:	
Property taxes	496,411
Sale taxes	60,022
Intergovernmental	305,450
Other Receivables	353,585
Accrued interest on deposits	20,034
Restricted assets:	
Cash in commercial banks	1,573,609
Investment in certificate of deposit	106,520
Cash in fiscal agent	4,798,002
Property taxes receivable	122,166
Total current assets	10,981,810
Noncurrent assets:	
Capital assets:	
Depreciable capital assets	43,327,408
Nondepreciable capital assets	10,527,402
Acummulated depreciation and amortization	(17,801,178)
Capital assets, net of accumulated depreciation	36,053,632
Deferred charges, net of accumulated amortization of $45,448	69,681
Total noncurrent assets	36,123,313
Total assets	$ 47,105,123

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Añasco
Statement of Net Assets
June 30, 2007

Liabilities and net assets

		Governmental activities
Current liabilities (due within one year):		
Accounts payable		$ 344,980
Commitments and contingencies		-
Intergovernmental payables		548,959
Accrued employees' christmas bonus		210,607
Accrued interest payable on long-term debt		256,218
Unearned revenues		3,583,321
Current portion of long-term obligations:		
Bonds payable	$ 718,000	
Notes payable	59,258	
Compensated absences	681,347	
Total current portion of long-term obligations		1,458,605
Total current liabilities		6,402,690
Noncurrent liabilities, excluding current portion (due in more than one year):		
Bonds payable		11,654,250
Notes payable (including Bond Anticipation Note of $1,614,604)		2,015,482
Landfill closure and postclosure costs		2,425,947
Compensated absenses		816,552
Total noncurrent liabilities		16,912,231
Total liabilities		23,314,921
Net assets (deficit):		
Invested in capital assets, net of related debt		26,168,744
Restricted for:		
Debt service	$ 1,112,258	
Capital projects	2,992,070	
Other specified purposes	273,111	
Total restricted net assets		4,377,439
Unrestricted		(6,755,979)
Total net assets		$ 23,790,204

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Añasco
Statement of Activities
Fiscal Year Ended June 30, 2007

Function/programs	Expenses including depreciation and amortization of $847,215	Program revenues: Charges for services	Program revenues: Program-specific operating grants and contributions	Program revenues: Program-specific capital grants and contributions	Net (expenses) and changes in net assets
Governmental activities:					
General government	$ 5,811,788	$ 1,252,467	$ -	$ -	$ (4,559,321)
Urban and economic development	2,132,105	228,952	-	1,108,831	(794,322)
Public safety	376,111	-	79,165	-	(296,946)
Health and sanitation	1,952,645	59,530	-	-	(1,893,115)
Culture, recreation and education	1,765,680	370,127	93,457	-	(1,302,096)
Public housing and welfare	849,175	-	600,237	-	(248,938)
Interest on long-term obligations	800,117	-	-	-	(800,117)
Total governmental activities	$ 13,687,621	$ 1,911,076	$ 772,859	$ 1,108,831	(9,894,855)

General revenues	
Taxes:	
Property taxes	3,574,297
Municipal license taxes	1,463,583
Construction excise taxes	428,153
Sales tax	498,034
Total taxes	5,964,067
Grants and contributions, not restricted to specified programs	6,029,515
Unrestricted interest on deposits	508,886
Miscellaneous	135,634
Loss in capital assets disposition	(1,440)
Total general revenues and loss in disposition	12,636,662
Net change in net assets	2,741,807
Net assets at beginning of fiscal year	21,048,397
Net assets at end of year	$ 23,790,204

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Añasco
Balance Sheet - Governmental Funds
June 30, 2007

	Major governmental funds					
	General fund	State legislative joint resolutions special revenue fund	$ 3,421,000 Loan Fund	Debt service fund	Other governmental funds	Total governmental funds
Assets						
Cash in commercial banks	$ 2,510,602	$ -	$ -	$ -	$ -	$ 2,510,602
Investment in certificate of deposit	635,409					635,409
Accounts receivable, net of allowance of uncollectible accounts						
Taxes						
Property taxes	496,411	-	-		-	496,411
Sale taxes	60,022	-	-	-	-	60,022
Intergovernmental		80,505	-	-	127,125	207,630
Other receivables	293,218	-	-	-	60,367	353,585
Accrued interest on deposits	-	-	11,200.00	5,920	2,914	20,034
Due from other funds	358,857	674,341	-	-	431,057	1,464,255
Restricted assets						
Cash in commercial banks	-	1,288,496	-	-	285,113	1,573,609
Investment in certificate of deposit	-	106,520	-	-	-	106,520
Cash in fiscal agent			2,110,791	1,830,132	857,079	4,798,002
Property taxes receivable	-	-		122,166		122,166
Total assets	$ 4,354,519	$ 2,149,862	$ 2,121,991	$ 1,958,218	$ 1,763,655	$ 12,348,245
Liabilities and Fund balances						
Liabilities						
Accounts payable and accrued liabilities	$ 172,355	$ 138,222	$ -	$ -	$ 34,403	$ 344,980
Intergovernmental payable	235,498	-	-	-	-	235,498
Due to other funds	988,052	11,088	89,777	16,628	358,710	1,464,255
Deferred revenues	2,043,329	2,000,552	-	111,864	137,575	4,293,320
Matured bonds due and payable	-	-	-	461,250	-	461,250
Accrued interest payable	-	-	-	256,218	-	256,218
Total liabilities	3,439,234	2,149,862	89,777	845,960	530,688	7,055,521
Fund balances						
Reserved for						
Debt service	-	-	-	1,112,258	-	1,112,258
Capital projects	-	-	2,032,214	-	1,232,967	3,265,181
Encumbrances	401,163	-	-	-	-	401,163
Unreserved	514,122	-	-	-	-	514,122
Total fund balances	915,285	-	2,032,214	1,112,258	1,232,967	5,292,724
Total liabilities and fund balances	$ 4,354,519	$ 2,149,862	$ 2,121,991	$ 1,958,218	$ 1,763,655	$ 12,348,245

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2007

The amounts of governmental activities reported in the statement of net assets and the balance sheet-governmental funds, are different for the following reasons:

Total fund balance reported in the balance sheet - governmental funds	$ 5,292,724
Add (Deduct):	
Capital assets used in governmental funds activities are not financial resources, therefore are not reported in the governmental funds	36,053,633
Deferred (unavailable) revenues in the governmental funds that are recognized as revenues in the statements of activities	709,999
Debt issued by the Municipality has associated costs (debt issued costs) that are paid from current available financial resources in the governmental funds. However, these cost are deferred in the statement of net assets and reported net of accumulated deepreciation.	69,681
Intergovernmental receivables related to Christmas bonus that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds.	97,820
The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:	
Accrued employees' Christmas bonus	(210,607)
Intergovernmental payables	(313,462)
Bonds payable	(13,525,603)
Notes payable	(460,135)
Compensated absences	(1,497,899)
Solid waste landfill closure and postclosure cares costs	(2,425,947)
Net assets - governmental activities reported in statement of net assets	$ 23,790,204

The accompanying notes to the basic financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Añasco
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Fiscal Year Ended June 30, 2007

	Major governmental funds					
	General fund	State legislative joint resolutions special revenue fund	$ 3,421,000 Loan Fund	Debt service fund	Other governmental funds	Total governmental funds
Revenues:						
Taxes:						
Property taxes	$ 2,769,630	$ -	$ -	$ 753,625	$ -	$ 3,523,255
Municipal license taxes	1,463,583	-	-	-	-	1,463,583
Construction excise taxes	428,153	-	-	-	-	428,153
Sale taxes	498,034	-	-	-	-	498,034
Charges for services	1,577,649	-	-	-	232,193	1,809,842
Grants and contributions	4,540,848	1,238,189	-	-	2,215,455	7,994,492
Interest on deposits	294,914	26,085	149,563	-	38,324	508,886
Miscellaneous	135,634	-	-	-		135,634
Total revenues	$ 11,708,445	$ 1,264,274	$ 149,563	$ 753,625	$ 2,485,972	$ 16,361,879
Expenditures:						
Current						
General government	5,005,265	97,060	-	-	38,546	$ 5,140,841
Urban and economic development	1,273,003	-	-	-	840,837	2,113,840
Public safety	41,716	-	-	-	309,327	351,043
Health and sanitation	1,692,804	-	-	-	3,241	1,696,045
Culture, recreation and education	1,653,441	-	-	-	93,487	1,746,928
Public housing and welfare	224,564	-	-	-	469,033	693,597
Debt service:						
Principal	61,900	-	-	495,000	223,000	779,900
Interest	119,317	-	-	539,459	91,340	750,116
Capital outlays	186,822	1,167,214	338,889		460,144	2,153,069
Total expenditures	$ 10,258,832	$ 1,264,274	$ 338,889	$ 1,034,459	$ 2,528,925	$ 15,425,379
Excess (deficiency) of revenues over (under) expenditures	1,449,613	-	(189,326)	(280,834)	(42,953)	936,500
Other financing sources (uses):						
Transfers-in from other funds	176,200	-		425,032	-	601,232
Transfers-out to other funds	(425,032)	-	(138,363)	-	(37,837)	(601,232)
Proceeds from issuance of bonds	-	-		-	16,774	16,774
Total other financing sources (uses), net	(248,832)	-	(138,363)	425,032	(21,063)	16,774
Net change in fund balance	1,200,781	-	(327,689)	144,198	(64,016)	953,274
Fund balance (deficit) at beginning of fiscal year	(225,496)	-	2,359,903	968,059	1,296,984	4,339,450
Fund balance at end of fiscal year	$ 975,285	$ -	$ 2,032,214	$ 1,112,257	$ 1,232,968	$ 5,292,724

975,285

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
Reconciliation of the Statement of revenues, Expenditures and Changes
in Fund Balances-Governmental funds to the Statement of Activities
Fiscal Year ended June 30, 2007

Governmental activities' amounts reported in the statements of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds are difference because:

Net change in fund balances reported in statement of revenues, expenditures and changes in fund balance - governmental funds.	$ 953,274
Add (Deduction)	
The following revenues recorded in the statement of activities do not provide current financial resource, therefore are deferred in the governmental funds:	
Decrease in Property tax deferred revenues	51,042
Decrease in Charges for services deferred revenues	101,234
Increase in Intergovernmental grants and contributions deferred revenues	(83,290)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets area allocated over their estimated usedful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense.	1,310,802
Repayment of principal of long term obligation is an expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets.	779,900
Amortization of deferred charges reported in the statement of activities does not required the use of current financial resources, therefore are not reported as expenditures in the governmental funds.	(4,947)
Some expenses reported in the statement of activities do not required the use of current financial resources, therefore are not reported as expenditures in the governmental funds.	(218,424)
The landfill closure and postclosures care cost do not required the use of current financial resources and therefore are not reported as expenditures in the funds financial statement.	(129,570)
The effect of various miscellaneous transactions involving the disposition of capital assets decrease net assets.	(1,440)
Proceeds from issuance of bond anticipation notes provide current financial resources to governmental fund, but issuing such debt increases long term liabilities in the statement of net assets.	(16,774)
Net change in net assets as reported in the accompaying statement of activities	$ 2,741,807

The accompanying notes to the basic financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

The Municipality of Añasco (the Municipality) is a local municipal government constituted on 1733 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power in the Municipality.

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

a) Financial Reporting Model

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 fiscal year ended June 30, 2007 in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis -- for State and Local Governments* (GASB No. 34), the required basic 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).

RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the following elements: (1) Management's Discussion and Analysis (MD&A), (2) Budgetary Comparison Schedule- General Fund.

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 fiscal year ended June 30, 2007, 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.

The Budgetary Comparison Schedule- General Fund is a companion of the actual results (using the budgetary basis of accounting which differs from GAAP) with the original budget and the final amended budget for the General Fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

b) Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

According to GASB No. 39, a legally separate tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

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

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2007.

c) Government-wide Financial Statements

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

  The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

  Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

  The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

  (1) ***Debt service*** – Represent net resources available to cover future debt service payments of bonds and notes payable.

  (2) ***Capital projects*** – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.

  (3) ***Other specified purposes*** – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs. Also represent net resources available for the payment of certain accounts payable and commitments approved by the Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth and fiscal agent of the Municipality.

- **Unrestricted deficit** – This category consists of the excess of liabilities over related assets that are neither externally nor legally restricted, neither invested in capital assets. However, assets reported within unrestricted deficit often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net assets changed during the year ended June 30, 2007, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

Municipal legislature
Mayor's office
Department of finance and budget
Department of human resources
Department of municipal secretary
Department of internal audit

Urban and economic development:

Department of public works
Department of tourism

Public safety:

Department of municipal police
Department of emergency management

Health and sanitation

Department of health
Department of sanitation

Culture, recreation and education:

Department of recreation and sports

Public housing and welfare:

Department of elderly affairs
Department of federal programs

The statement of activities demonstrates the degree to which *program revenues* offset *direct expenses* of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

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

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted investment earnings, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities, includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to other funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect expenses as direct expenses of the general government function. Accordingly, the Municipality does not allocate general government (indirect) expenses to other functions.

The effects of all interfund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

The Municipality classifies all of its activities as *governmental activities* in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other nonexchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- ***General fund*** – The general fund is the Municipality's main operating and major fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

- ***Special revenue funds*** – The special revenue funds are nonmajor funds, as defined below, used by the Municipality to account for revenues derived from grants or other revenue sources (other than major capital projects) that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- ***Debt service fund*** – The debt service fund is a major fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds and notes for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years. Principal and accrued interest due on July 1 of the following fiscal year related to long-term debt for which debt service payments are accounted for in the debt service fund, are recorded as debt service fund's liabilities at June 30, if resources are available at June 30 for its payment.

  General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases, compensated absences, claims and judgments, and notes payable, among others) are accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for in the general fund.

- ***Capital projects funds*** – Capital projects funds are major and nonmajor funds, as defined below, used to account for the financial resources used in the acquisition or construction of major capital facilities, other assets and permanent improvements. Significant capital outlays financed from general obligation bond proceeds are accounted for also in the capital projects funds.

  The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as certain vehicles and other minor capital assets) have been reported in the fund from which financial resources were used for the purchase.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and nonmajor categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is considered a major governmental fund if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and nonoperating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes, means all expenditures, including operating and nonoperating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the state legislative joint resolutions special revenue fund, (3) $3,421,000 loan fund, (4) and the debt service fund

The state legislative joint resolutions special revenue fund is a major governmental fund used to account for financial resources derived from grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to: (1) partially subsidy certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services and donations to citizens and (3) finance the acquisition, construction or improvement of certain capital assets (not accounted for in capital project funds) approved by the Commonwealth's Legislature.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the schedule of revenues and expenditures – budget and actual – budgetary basis – general fund, (2) the reconciliation of the balance sheet – governmental funds to the statement of net assets, and (3) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest income) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2002. GASB No. 33 established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its nonexchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government mandated nonexchange transactions, and (d) voluntary nonexchange transactions.

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed nonexchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted.

Government-mandated nonexchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary nonexchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated nonexchange transactions discussed above. Events that are neither exchange nor nonexchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable. Receipts of any type of revenue sources collected in advance for use in the following period are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 90 days after June 30, 2007, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2007.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions and interest income. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for nonexchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

Interest income is recorded when earned only if collected within 90 days after year-end since these would be considered both measurable and available.

As previously discussed the Municipality adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASBI No. 6, expenditures and related liabilities are generally recorded in the accompanying governmental fund financial statements in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.

- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due in July 1 of the following fiscal year, which are recorded when resources are available in the debt service fund (generally June 30).

- Obligations under capital leases, amounts subject to claims and judgments under litigation and other long-term obligations are recorded only when they mature (when payment is due).

- Accounts payable and accrued liabilities not expected to be liquidated with available and expendable financial resources are recorded in the accompanying statement of net assets but not in the governmental funds.

- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

The measurement focus of the GFFS is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying statement of net assets.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source for both funds. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminary verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days, up to June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue making payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared under the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2007. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2007, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by the Municipality since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

g) *Unrestricted and Restricted Deposits*

The Municipality's deposits are composed of cash on hand, demand deposits and cash equivalents in: (1) commercial banks, and (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality, a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Cash with fiscal agent in the debt service funds consists of property tax collections amounting to $1,830,132, which are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent in the $3,421,000 loan fund amounting to $2,110,791, which are restricted for the payment certain accounts payable and specific commitments, previously agreed with and approved by GDB. Cash in fiscal agent recorded in the nonmajor governmental funds amounting to $857,079, which are restricted for: (1) the acquisition, construction or improvement of major capital assets and (2) the operations of federal and state funded programs.

Restricted cash in commercial banks for the state legislative joint resolutions special revenue fund and the other governmental funds, amounting to $1,288,496 and $285,113 respectively, restricted to: (1) finance the operations of all other federal and state funded programs recorded in the nonmajor special revenue funds, (2) finance the acquisition, construction and improvement of major capital assets.

h) *Unrestricted and Restricted Accounts and Notes Receivable*

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2007. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs (recorded in the general fund, special revenue funds and capital project funds).

The accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Deferred Charges

Deferred charges capitalized in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recognized in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

j) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of $500 or more at the date of acquisition or construction, and with useful lives extending beyond one year. All assets with individual costs under $500 or with useful lives not exceeding one year, are charged directly to expense in the accompanying statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net assets, all capital assets are recorded at cost, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical cost if actual cost was unavailable based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002. The method to deflate the current costs using an approximate price index was used only in the case of certain items for which their historical cost documentation was not available. Actual historical costs were used to value the infrastructure, land, building, structures, building improvements, construction in progress, machinery and equipment and licensed vehicles constructed or acquired during or after the year ended June 30, 2003.

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

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction-in-progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight – line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	Years
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Licensed vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20

Depreciation and amortization expense on capital assets are recorded as direct expenses of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

k) Deferred Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30, or:

- The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

l) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2007 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of the Municipality is established by law and provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

m) Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds, notes, obligation under capital leases, compensated absences, estimated for landfill closure and postclosure care costs and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due in July 1 of the following fiscal year are recorded as fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

In the GWFS debt issuance costs are reported as deferred charges and are amortized under the straight-line method over the life of the debt while in the GFFS such costs are recognized as expenditures during the current period.

The Municipality also obtains medical insurance coverage for its employees. The current insurance policies have not been canceled or terminated at June 30, 2007. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

p) Reservations of Fund Balances

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

- ***Encumbrances*** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.

- ***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.

- ***Debt Service*** – Represent fund balances available to finance future debt service payments.

- ***Advances***– Represent the reservation of resources set aside for long-term accounts, notes and interfund receivables, which are not considered current available financial resources.

- ***Other Specified Purposes*** – Represent resources set aside for use in federal and state grant programs accounted for in the special revenue funds.

q) Interfund Activities

Permanent reallocations of resources among the Municipality's funds are classified as interfund transfers. The Municipality has the following types of activities recorded among funds in the accompanying GFFS:

- ***Operating Transfers*** – Represent legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.

- ***Intra-entity Activities*** – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

- ***Advances*** – Represent amounts advanced among funds, which are not considered to be currently available financial resources.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

r) 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 and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

s) Municipal Solid Waste Landfill Closure and Postclosure Care Costs

Municipal solid waste landfill closure and postclosure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for municipal solid waste landfill closure and postclosure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill. In the government-wide statement of net assets, this liability is recognized under the accrual basis of accounting over the useful life of the landfill, even though such costs will only be incurred near of after the close of the landfill.

The estimates of closing and postclosing costs include: (1) the cost of equipment and/or facilities that will be acquired near the time the landfill stops accepting waste or after for the purposes of postclosure care and monitoring, (2) the cost of applying the final cover and (3) the cost of postclosure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services would have been obtained during the current period) allocated in the accompanying statement of net assets based on the landfill capacity used through June 30, 2007. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

Any changes in the estimated total current costs that occur before the landfill stops accepting solid waste are reported in the period of the changes, and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the landfill has no effect in the factors used to calculate the accrued liability for the closure and postclosure costs of the original landfill. In this case, a separate calculation of the closure and postclosure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current costs for landfill closure and postclosure care costs may also occur after the date that the landfill stops accepting solid waste. These changes may include changes due to inflation (or deflation), changes in technology, changes in closure and postclosure care requirements, corrections of errors in estimation, and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, municipal solid waste landfill closure and postclosure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

2. DEPOSITS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and GDB. Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $100,000 per depositor. Under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2007.

Cash and cash equivalents as of June 30, 2007, are classified in the accompanying financial statement as follows:

	Major governmental funds					
	General fund	State legislative joint resolution special revenue fund	$3,421,000 Loan fund	Debt service fund	Other governmental funds	Total governmental funds
Unrestricted:						
Cash in commercial banks including cash equivalents of $635,409	$ 3,146,011	-	-	-		$ 3,146,011
Total unrestricted deposits	3,146,011	-	-	-	-	3,146,011
Restricted:						
Cash in commercial banks including cash equivalents of $186,520	-	1,395,016	-	-	285,113	1,680,129
Cash in GDB as fiscal agent	-	-	2,110,791	1,830,132	857,079	4,798,002
Total restricted deposits	-	1,395,016	2,110,791	1,830,132	1,142,192	6,478,131
Total carrying amount of deposits	$ 3,146,011	1,395,016	2,110,791	1,830,132	1,142,192	$ 9,621,142

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico, the Municipality may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

3. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Law No. 113 of July 10, 1974, as amended to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Añasco. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2007, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must asses his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year. Taxpayers with a sales volume of $1 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future period) are recorded as deferred revenues. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to $1,486,240 at June 30, 2007, which represents municipal licenses collected in advance for the taxable year 2007-2008.

4. PROPERTY TAXES

The Municipality is authorized by Law No. 83 of August 30, 1991 as amended to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2007 was 6.28% (of which taxpayers pay 6.08% and 0.20% is reimbursed by the Department of Treasury). Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2007 was 8.28% (of which 8.08% is paid by taxpayers and 0.20% is reimbursed by the Department of Treasury).

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to the Municipality, except for property assessed of less than $3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. 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 each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 83 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.25% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of $26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

ii. An additional amount not exceeding $16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of an allowance for uncollectible accounts of $3,265,934, amounted to $618,576 at June 30, 2007. The composition of the property tax receivable and the related allowance for doubtful accounts is as follows:

	General fund	Debt service fund	Total
Gross property taxes receivable	$ 3,107,608	$ 776,902	$ 3,884,510
Less:			
Allowance for uncollectible accounts	(2,611,197)	(654,737)	(3,265,934)
Net property taxes receivable	$ 496,411	122,165	$ 618,576
Deferred (unavailable) property tax revenues in GFFS	$ 449,872	$ 111,864	$ 561,736

5. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of the Municipality of Añasco approved the Ordinance No. 10 (Serie 2005-2006) based on State Public Law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5% over the sale of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in the Municipality to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund, will be based on 0.2% of the 0.5% collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1% will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities. During fiscal year 2006-2007 the Municipality collected $498,034 from sale taxes.

6. INTERFUND BALANCES

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2007 consisted of the following:

	Transfers from:					
	Major funds					
Transfers to:	General fund	State legislative joint resolution special revenues fund	$3,421,000 Loan fund	Debt service fund	Nonmajor special revenue funds	Total governmental funds
Major funds						
General fund	$ 176,200	-	-	425,032	-	$ 601,232
Nonmajor funds						
Other Governmental fund	(425,032)	-	(138,363)	-	(37,837)	(601,232)
Total	$ (248,832)	$ -	$ (138,363)	$ 425,032	$ (37,837)	$ -

	Due from:					
	Major funds					
Due to:	General fund	State legislative joint resolution special revenues fund	$3,421,000 Loan fund	Debt service fund	Nonmajor special revenue funds	Total governmental funds
Major funds						
General fund	$ -	674,341	-	-	313,711	$ 988,052
State legislative joint resolutions special revenue funds	11,088	-	-	-	-	11,088
$3,421,000 loan fund	89,777	-	-	-	-	89,777
Debt service fund	16,628	-	-	-	-	16,628
Nonmajor funds						
Other governmental fund	241,364	-	-	-	117,346	358,710
Total	$ 358,857	674,341	-	-	431,057	$ 1,464,255

At June 30, 2007 all amounts due to among funds are considered collectible by the Municipality's management.

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7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
COST BASIS:				
Cost basis:				
Capital assets, not being depreciated/amortized:				
Land	$ 6,356,809	-	-	$ 6,356,809
Construction in progress	7,647,980	1,944,233	5,421,620	4,170,593
Total capital assets, not being depreciated/amortized	14,004,789	1,944,233	5,421,620	10,527,402
Capital assets, being depreciated/amortized:				
Land improvements	4,079,468	-	-	4,079,468
Buildings, structures, and improvements	12,598,745	5,421,620	-	18,020,365
Infrastructure	15,438,359	-	-	15,438,359
Machinery and equipment under capital leases	1,856,696	97,942	12,620	1,942,018
Licensed vehicles	3,795,764	110,894	59,460	3,847,198
Total capital assets, being depreciated/amortized	37,769,032	5,630,456	72,080	43,327,408
Total cost basis of capital assets	51,773,821	7,574,689	5,493,700	53,854,810
Less: accumulated depreciation and amortization:				
Land improvements	2,514,608	110,088	-	2,624,696
Buildings, structures, and improvements	2,639,457	221,588	-	2,861,045
Infrastructure	7,151,911	347,363	-	7,499,274
Machinery and equipment under capital leases	1,305,578	50,587	11,181	1,344,984
Licensed vehicles	3,417,997	112,642	59,460	3,471,179
Total accumulated depreciation and amortization	17,029,551	842,268	70,641	17,801,178
Net capital assets	$ 34,744,270	6,732,421	5,423,059	$ 36,053,632

Depreciation and amortization expense for the fiscal year ended June 30, 2007 was charged to funcitons/programs as follow:

Govermental activities	
General government	$ 411,850
Public Safety	25,068
Economic and urban development	212,755
Health and sanitation	155,578
Public housing and welfare	18,752
Culture, recreation, and education	18,265
Total depreciation and amortizaiton expense	$ 842,268

8. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- ***Retirement Annuity***

  ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	**Other employees:**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

  ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of $300 per month and a maximum of 75 percent of the average compensation.

- ***Merit Annuity***

  ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- ***Deferred Retirement Annuity***

  A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- ***Coordinated Plan***

  On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

i. $165 per month, if retired with 55 years of age and 30 years of credited service
ii. $110 per month, if retired with less than 55 years of age and 30 years of credited service
(c) All other between $82 and $100 per month.
(d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

- ***Death Benefits***

Occupational:

(a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.

(b) **Children** - $10 per month for each child, minor or student, up to a maximum benefit per family of $100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.
Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2004) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2004 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as *System 2000*, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both

alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Amendments to Act No. 447***

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

(a) Increase in minimum monthly pension payments to $300, effective January 1, 2004.
(b) Triennial 3 percent increase in all pensions, effective January 1, 2004.
(c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2004.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from $3,000 to $5,000.

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to $6,600 per year, plus 8.28 percent of gross salary in excess of $6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and majors.

9. LONG-TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and

- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2007, the Municipality is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2007 was as follows:

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	Balance at June 30, 2006	Borrowings or additions	Payments or deductions	Balance at June 30, 2007	Balance due within one year
Bonds payable					
General Obligation Bonds	$ 3,750,000	-	(125,000)	3,625,000	$ 135,000
Public Improvements Bonds	1,010,000	-	(225,000)	785,000	240,000
Special Obligation Bonds	4,722,250	-	(105,000)	4,617,250	120,000
HUD Section 108	3,568,000	-	(223,000)	3,345,000	223,000
	13,050,250	-	(678,000)	12,372,250	718,000
Notes payable					
Bond anticipation notes	1,597,830	16,774	-	1,614,604	-
Puerto Rico Treasury Department					
Property tax advances	27,784	-	(7,878)	19,906	9,787
CRIM					
LIMS	229,783	-	(30,644)	199,139	39,827
Delinquent accounts	257,299	-	(16,208)	241,091	9,644
	2,112,696	16,774	(54,730)	2,074,740	59,258
Compensated absences	1,224,960	272,939	-	1,497,899	681,347
Estimated liability for municipal solid waste landfill closure and postclosure care costs	2,296,377	129,570	-	2,425,947	-
Commitments and contingencies	91,271	-	(91,271)	-	-
Total	$ 18,775,554	419,283	(824,001)	18,370,836	$ 1,458,605

a) Bonds Payable

The Municipality issues general and special (public improvements) obligations bonds, and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs. Bonds payable at June 30, 2007 is composed of the following debts:

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	Outstanding Amount
General Obligations Bonds	
2000 serial bonds, original amount of $865,000, due in annual principal installments ranging from $50,000 to $90,000, plus interest due in semiannual installments at rates not to exceed 7.81% through July 1, 2014	$ 580,000
2000 serial bonds, original amount of $415,000, due in annual principal installments ranging from $15,000 to $25,000, plus interest due in annual installments at rate of 3.25% through January 1, 2024	335,000
2002 serial bonds, original amount of $660,000, due in annual principal installments ranging from $15,000 to $55,000, plus interests due in semiannual installments at variable rates not to exceed 8.00% through July, 1, 2026	$610,000
2003 serial bonds, original amount of $1,850,000, due in annual principal installments ranging from $45,000 to $140,000, plus interest due in semiannual installments at variable rates not to exceed 6.50% through July 1, 2027	1,710,000
2004 serial bonds, original amount of $415,000, due in annual principal installments ranging from $10,000 to $30,000; plus interest due in semiannual installments at rates not to exceed 6.00% through July 1, 2028	390,000
	3,625,000
Public Improvements Bonds	
1995 serial bonds, original amount of $2,150,000, due in annual principal installments ranging from $200,000 to $235,000, plus interest due in semiannual installments rates not to exceed 7.71% through July 1, 2009	650,000
1995 serial bonds, original amount of $420,000, due in annual principal installments ranging from $40,000 to $50,000; plus interest due in semiannual installments at variable rates not to exceed 6.88% through July 1, 2009	135,000
	785,000
Special Obligation Bonds	
1998 serial bonds, original issue amount of $565,000, due in annual principal installments ranging from $5,250 to $12,875, plus interest due in semiannual installments at variable rates not to exceed 7.50% through July 1, 2017	396,250
2001 serial bonds, original issue amount of $1,010,000, due in annual principal installments ranging from $20,000 to $90,000, plus interest due in semiannual installments at variable rates not to exceed 8.00% through July 1, 2025	910,000
2004 serial bonds, original amount of $3,421,000, due in annual principal installments ranging from $75,000 to $120,000, plus interest due in semiannual installments at rates not to exceed 12% through July 1, 2029	3,311,000
	4,617,250
HUD Sec 108	
2002 HUD Section 108 loan, original amount of $4,000,000, due in annual installments of $223,000, plus interest due in semiannual installments at rates not to exceed 6.07% through August 1, 2021	3,345,000
	3,345,000
Total bonds payable	$ 12,372,250

The General Obligation Bonds and the Public Improvements Bonds are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

The laws and regulations of the Commonwealth provide that public debt of the Municipality will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and notes payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The Municipality levies an annual additional special tax of 1.25% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. The proceeds of this special tax are recorded in the debt service fund.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption under the Commonwealth's Industrial Incentives Act and qualify for benefits provided by the U.S. Internal Revenue Code Section 936.

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

Year ending June 30,	Principal	Interest	Total
2008	$ 495,000	$ 534,211	$ 1,029,211
2009	538,500	462,995	1,001,495
2010	576,000	426,678	1,002,678
2011	314,500	399,971	714,471
2012	327,000	413,705	740,705
2013-2017	1,794,500	1,520,590	3,315,090
2018-2022	1,821,750	1,123,931	2,945,681
2023-2027	2,239,000	537,702	2,776,702
2028-2032	921,000	48,280	969,280
Totals	$ 9,027,250	5,468,063	$ 14,495,313

b) HUD Section 108 Loan

During 2002, the Municipality received a HUD Section 108 loan to provide funding for the construction of an industrial park as an economic development activity. The loan amount $4,000000 and bears interest between 4.67% and 6.07% with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2021. The loan is secured by a lien on a real property established through a mortgage that contains such provisions that HUD deems necessary. At June 30, 2007, the outstanding balance of $3,345,000. The principal and interest maturities are as follows.

Year ending June 30,	Principal amortization	Discount amortization	Total
2008	$ 223,000	$ 170,751	$ 393,751
2009	223,000	161,876	384,876
2010	223,000	152,298	375,298
2011	223,000	142,151	365,151
2012	223,000	131,537	354,537
2013-2017	1,115,000	484,088	1,599,088
2018-2022	1,115,000	166,804	1,281,804
Total	$ 3,345,000	$ 1,409,505	$ 4,754,505

c) Bonds anticipation notes

Advances on bond anticipation notes (BAN's) with the U.S. Department of Rural Development (USDRD) have been recorded within long-term obligation in the accompanying statement of net assets. During the fiscal year ended June 30, 2007, the proceeds received from BAN's amounted to $16,774 which has been recorded as other financing sources in his capital project fund, and as an increase in the BAN's liability in the statement of net assets. The proceeds of BAN's have been used to finance the construction of an industrial park in the Municipality. The Municipality has the ability, to refinance such BAN's on a long-term basis with GDB. The agreement with USDRD is non cancelable and does not expire within one year after June 30, 2007. The obligations under the agreement are not callable during that period, except for violations of the provisions of the agreement, for which compliance is objectively determinable or measurable. At June 30, 2007 no violation has occurred thereafter prior to the issuance of the accompanying financial statements.

d) Property Tax Advances

On October 27, 1994 the Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay the debt related to the excess of property tax advances over collection made by the Puerto Rico Treasury Department. The original face amount of the note was $137,812, which is due in monthly principal installments of $765.62, at an interest rate of 4.38% through September 2009. Outstanding balance at June 30, 2007 is net of the unamortized discount. The outstanding principal and interest balances of the note payable amounted to $19,906 and $1,018 respectively, at June 30, 2007. The principal and interest maturities are as follows:

Year ending June 30,	Principal amortization	Discount amortization	Total
2008	$ 8,496	$ 691	$ 9,187
2009	8,876	311	9,187
2010	2,534	16	2,550
Total	$ 19,906	$ 1,018	$ 20,924

e) Notes Payable to CRIM

LIMS – On August 2, 2001, the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The face amount of the loan was $510,929 and bears no interest. The note is payable in monthly installments of $4,258 through November 1, 2011. This note has an imputed interest rate of 7.00% and was originally recorded at its present value of $368,769, net of an unamortized discount of $142,160, at inception. At June 30, 2007, the balance of this note, net of the unamortized discount of $30,778, amounted to $199,139. The principal and discount amortization (recorded as interest expense) maturities are as follows:

Year ending June 30,	Principal amortization	Discount amortization	Total
2008	$ 39,828	$ 11,265	$ 51,093
2009	42,233	8,860	51,093
2010	44,783	6,310	51,093
2011	47,487	3,606	51,093
2012	24,808	738	25,546
Total	$ 199,139	$ 30,778	$ 229,917

Delinquent Accounts - On March 26, 2000, the Resolution No. 10 Series 2001-2002 was enacted which authorized the Municipality to obtain up to $414,881, for a term not exceeding 30 years, for the repayment of bonds issued for the sale of delinquent accounts. A final repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal and accrued interest balances of the note payable to CRIM amounted to $241,091 and $14,996, respectively, at June 30, 2007. The principal and interest maturities are as follows:

Year ending June 30,	Principal amortization	Discount amortization	Total
2008	$ 9,644	$ 14,996	$ 24,640
2009	9,644	14,396	24,040
2010	9,644	13,796	23,440
2011	9,644	13,196	22,840
2012	9,644	12,596	22,240
2013-2017	48,220	53,985	102,205
2018-2022	48,220	38,989	87,209
2023-2027	48,220	23,993	72,213
2028-2032	48,211	8,988	57,199
Total	$ 241,091	$ 194,935	$ 436,026

f) Compensated Absences

At June 30, 2007, the liability for compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Vacations	$ 381,488	263,238	$ 644,726
Sick leave	235,687	553,314	789,001
Compensatory time	64,172	-	64,172
Total	$ 681,347	816,552	$1,497,899

g) Landfill Closure and Postclosure Cost

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB No. 18, the Municipality has performed a study of the activities that need available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recorded estimated liability of $2,425,947 in the accompanying GWFS, using current costs allocated, based on the actual landfill capacity used at June 30, 2007. The portion of the estimated current costs to be incurred in future years is approximately $387,404, which has not been recorded yet in the accompanying GWFS. Actual costs may be different to the recorded estimated liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2007, the Municipality's solid waste landfill is still operating and its remaining estimated useful life is approximately 3 years.

10. COMMITMENTS AND CONTINGENCIES

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act. No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act. No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

Which respects to pending or threatened litigation, the Municipality do not have or anticipated unfavorable judgments as of June 30, 2007. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significantly.

The Municipality has reported, outstanding encumbrances amounting to $401,163 in the general fund at June 30, 2007. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

11. SUBSEQUENT EVENTS

On July 29, 2007, the State Legislature approved State Public Law No. 80 wich ammended State Public Law 117 of July 4, 2006 and established that the municipalities may collect only 1.0% of its 1.5% local sales and use tax. The Law No. 80 established that the Puerto Rico Treasury Department (PRTD) will collect the other 0.5%. Resources collected by the municipality would be use only for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed back to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund, will be based on 0.2% of the 0.5% collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1% will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities. For that reason no future revenues can be estimated by the Municipality for this revenue type in this moment.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
Schedule of Revenues and Expenditures - Budget and Actual
Budgetary Basis - General Fund
Year ended June 30, 2007

	Budgeted Amounts		Actual amounts (budgetary basis)	Variance with final budget - over (under)
	Original	Final		
Revenues:				
Property taxes	$ 2,530,674	$ 2,530,674	$ 2,745,593	$ 214,919
Municipal license taxes	1,201,200	1,469,620	1,465,283	(4,337)
Construction exise taxes	200,000	427,001	428,153	1,152
Sales taxes	-	357,055	438,012	80,957
Charges for services	589,902	1,052,770	997,118	(55,652)
Intergovernmental grants and contributions	4,284,383	4,416,600	4,540,848	124,248
Investment earnings	17,000	224,822	246,807	21,985
Miscellaneous	10,000	125,808	135,634	9,826
Total revenues	8,833,159	10,604,350	10,997,448	393,098
Expenditures:				
Current				
General government	4,571,633	5,581,618	4,973,035	608,583
Urban and economic development	1,104,973	1,643,244	1,139,200	504,044
Public safety	63,591	49,878	38,364	11,514
Health and sanitation	1,301,491	1,242,650	1,125,712	116,938
Culture, recreation, and education	1,191,015	1,480,039	1,310,287	169,752
Public housing and welfare	213,715	220,180	196,930	23,250
Operating transfer-out from other funds	386,741	386,741	425,033	(38,292)
Total expenditures	8,833,159	10,604,350	9,208,561	1,395,789
Excess of revenues over expenditures	$ -	$ -	$ 1,788,887	$ 1,788,887

Explanation of Differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 10,997,448
Differences - budget basis to GAAP	
Net increase in receivables	236,474
Resources considered revenues for financial reporting but not for budgetary purposes	650,723
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 11,884,645
Uses/outflows of financial resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 9,208,561
Differences - budget basis to GAAP	
Net increase in payables	98,117
Nonbudget expenditures	911,248
Prior year encumbrances recorded as current year expenditures for GAAP basis	432,939
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 10,683,865

COMMONWEATH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2007

The Municipality's annual budget is prepared under the budgetary basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenues are generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

Under the budgetary basis of accounting the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior the actual expenditure. In the governmental funds, encumbrances accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lap at year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying Budgetary Comparison Schedule – General Fund, provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2007.

Except for the General Fund and the Debt Service Fund, the Municipality legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information include statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for these major programs.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AÑASCO

Schedule of Revenues and Expenditures - Budget and Actual

Budgetary Basis - Debt Service Fund

Year ended June 30, 2007

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget-over (under)
	Original	Final		
Revenues:				
Property taxes	$ 686,650	686,350	752,386	$ 66,036
Transfers from other funds	-	-	425,032	425,032
Total revenues and transfers from other funds	686,650	686,350	1,177,418	491,068
Expenditures:				
Debt service:				
Principal	419,609	419,609	455,000	35,391
Interest	233,741	233,741	541,187	307,446
Total expenditures	$ 653,350	653,350	996,187	$ 342,837

Reconciliation of differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 1,177,418
Differences in bases of accounting:	
Net encrease in property tax receivable	1,239
Total revenues reported on the statement of revenue, expenditures and changes in fund balances - governmental funds	$ 1,178,657
Uses/outflows of financial resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 996,187
Differences - budgetary basis to GAAP:	
Differences in bases of accounting:	-
Net increase in matured bonds due and payable	40,000
Net decrease in matured interest due and payable	(1,728)
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,034,459

See accompanying notes to the budgetary comparison schedule - debt service fund.

COMMONWEATH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
NOTES TO BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2007

An annual budget has to be prepared under the budgetary basis of accounting, which is not in accordance with GAAP for the Debt Service Fund. Under the budgetary basis of accounting, revenues are generally recognized when cash is received.

Property tax revenues are used by GDB for the payment of principal and interest of bonds issued by them. Budgeted transfers out from the General Fund are made to finance budgetary debt requirements of Operational Bonds paid though CRIM.

The accompanying Budgetary Comparison Schedule – Debt Service Fund, provides information about the Debt Service fund's original budget and the actual results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2007.

Except for the General Fund and the Debt Service Fund, the Municipality legally does not adopt budgets for its major special revenues and capital projects funds. Accordingly, neither accompanying basic financial statements, nor required supplementary information include statements or revenues and expenditures – budget and actual-budgetary basis, or budgetary comparison schedules, respectively, for these major programs.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AÑASCO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

	NUMBER	EXPENDITURES
US Department of Housing and Urban Development		
Direct Program:		
Community Development Block Grant/ State's Programs	14.228	$1,066,001
Section 8 – Housing Choice Vouchers	14.871	469,033
US Department of Health and Human Services		
Passes through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	88,150
US Department at Home and Security		
Passed through:		
PR Office of Management and Budget (GAR)		
Public Assistant Grant	97.036	3,222
		$1,626,406

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

1. BASIS OF PRESENTATION:

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

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

Carlos R. Díaz Negrón

Certified Public Accountant

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

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

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

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Añasco,** as of and for the year ended June 30, 2007 which collectively comprise the Municipality of Añasco's basic financial statements and have issued my report there on dated December 14, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financing Reporting

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

A control deficiency exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Municipality of Añasco's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Municipality of Añasco's financial statements that is more than inconsequential will not be prevented or detected by Municipality of Añasco's internal control.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

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

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

Compliance and Other Material

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

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

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

December 14., 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2010

The stamp No. 2297325 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

REPORT ON COMPLIANCE WITH

REQUIREMENTS APPLICABLE

TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL

OVER COMPLIANCE IN ACCORDANCE WITH

OMB CIRCULAR A-133

Carlos R. Díaz Negrón

Certified Public Accountant

MEMBER:
American Institute of Certified Public Accountants
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REPORT ON COMPLIANCE WITH
REQUIREMENT APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

I have audited the compliance of the **Municipality of Añasco,** 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, 2007. Municipality of Añasco's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Añasco' management. My responsibility is to express an opinion on the Municipality of Añasco's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United Stated; and OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Añasco's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Municipality of Añasco's compliance with those requirements.

In my opinion, the Municipality of Añasco, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedules of findings and questioned costs as item 01-07.

REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE (CONTINUED):

Internal Control Over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more that inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 01-07 to be significant deficiencies.

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

Municipality of Añasco's response to the findings in my audit is described in the accompanying Corrective Action Plan. We did not audit Municipality of Añasco's response and accordingly, I express no opinion on it.

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

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

December 14, 2007
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2010

The stamp No. **2297326** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AÑASCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	**Unqualified**	
Internal control over financial reporting:		
▪ Material weakness (es) identified?	___yes	_X_no
▪ Reportable condition(s) identified that is not considered to be material weaknesses?	___yes	_X_no
Noncompliance material to financial statement noted?	___yes	_X_no

Federal Awards

Internal control over major programs:		
▪ Material weakness (es) identified?	___yes	_X_no
▪ Report condition(s) identified that are not considered to be material weakness (es)	_X_yes	___no
Type of auditor's report issued on compliance for major programs	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	_X_yes	___no

Identification of major programs:

CFA Number(s)	Name of Federal Program
14.228	Community Development Block Grants/State's Program
14.871	Section 8 – Housing Choice Voucher

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Audit qualified as low-risk audited?	___yes	_X_no

SECTION II – FINANCIAL STATEMENT FINDING

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 01-07 – Davis-Bacon Act

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Davis-Bacon Act

Category:

Compliance

Condition:

As part of my audit procedures we tested 11 disbursements amounting $634,934 to test the compliance with the Davis-Bacon Act for the Community Development Block Grant. For disbursements amounting $317,522 neither the copy of the payroll nor the statement of compliance were not found for examination. In addition, the contracts do not state that the contractor is required to submit such information.

Criteria:

40 USC 276a to 276a-7 establish that when required by the Davis Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by Federal program legislation, all labor and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL.

The Davis-Bacon Act requires that all construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less that those established for the locality of the project.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost

None

Recommendation:

The Municipality should establish an adequate internal control system to ascertain compliance with the Davis-Bacon Act requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO

EXHIBIT – I

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2007

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Añasco
Oficina de Programas Federales y Recursos Externos
P.O. Box 1285 • Añasco Puerto Rico 00610 • Tel (787)826-2100 • Fax (787)826-1580
E-Mail programfederal@hotmail.com

Municipality of Añasco Corrective Action Plan
Year Ended June 30, 2007

Compliance Requirement	Finding	Recommendation	Corrective Action/ Compliance Date
Davis-Bacon Act 40 USC 276a to 276a-7 establish that when required by the Davis Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by Federal program legislation, all labor and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL. The Davis-Bacon Act requires that all construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less that those established for the locality of the project.	Finding No. 01-07 – Davis-Bacon Act As part of my audit procedures we tested 11 disbursements amounting $634,934 to test the compliance with the Davis-Bacon Act for Public Assistance Grants program. For disbursements amounting $317,522 neither the copy of the payroll nor the statement of compliance were not found for examination. In addition, the contracts do not state that the contractor is required to submit such information.	The Municipality should establish an adequate internal control system to ascertain compliance with the Davis-Bacon Act requirement.	Office of the Municipal Secretary and the Bid Board will include in all federal funded contracts Davis-Bacon Act requirement clause and refer all grantees of contracts which are funded with federal funds to the Municipality of Añasco Federal Programs and External Resources for orientation and compliance. Effective Date: Immediately

Isidro Morell
Dir. Federal Programs and External Resources
March 11, 2008