

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

MUNICIPIO DE AÑASCO
AUDITORÍA 2010-2011
30 DE JUNIO DE 2011

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DIVISION REGLAMENTACION
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO**

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT WITH ADDITIONAL REPORTS
REQUIRED UNDER THE OMB CIRCULAR A-133**

FOR THE YEAR ENDED JUNE 30, 2011

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COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT WITH
ADDITIONAL REPORTS REQUIRED UNDER THE OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Añasco, (**"the Municipality"**), as of and for the year ended June 30, 2011, which collectively comprise **the Municipality's** basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **the Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Añasco**, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of **the Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **the Municipality's** financial statements as a whole. 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 also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jose L. Cardona & Co.
JOSÉ L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2012

The stamp number 2620081 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the original of this report.



COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Within this section of the Municipality of Añasco's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2011. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality's primary government.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality of Añasco exceeded its liabilities at the close of the most recent fiscal year by \$30,496,730 (Net assets).
- The capital assets increased by \$1,535,399 as compared to prior year mainly due to additions and improvements of infrastructures.
- The Municipality's governmental funds reported total ending fund balance of \$9,587,148 this year. This amount represents an increase of \$471,064 during the current year as compared to the prior year ending fund balance of \$9,116,084. The undesignated fund balance of the General Fund for fiscal year 2011 amounts to \$1,289,581, which represents an increase of \$10,640 as compared to the prior year balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the users of the financial statements with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator on whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality are classified in the category of governmental funds.

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government wide financial statements, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a 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 information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General and the Debt Service Funds.

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Assets - The condensed statement of net assets of the Municipality as of June 30, 2011 and 2010 is presented below:

	2011	2010	Change	%Change
Current and other assets, net of accumulated depreciation	\$ 14,928,500	\$ 13,228,648	\$ 1,699,852	
Capital assets, net of accumulated depreciation	<u>41,809,589</u>	<u>39,552,819</u>	<u>2,256,770</u>	
Total assets	<u>56,738,089</u>	<u>52,781,467</u>	<u>3,956,622</u>	<u>7.50%</u>
Long term liabilities	5,035,557	4,205,755	829,802	
Other liabilities	<u>21,205,802</u>	<u>19,614,281</u>	<u>1,591,521</u>	
Total liabilities	<u>26,241,359</u>	<u>23,820,036</u>	<u>2,421,323</u>	<u>10.17%</u>
Net assets:				
Invested in capital assets, net of related debts	26,832,494	26,048,085	784,409	
Restricted	6,557,433	7,820,079	(1,262,646)	
Unrestricted	<u>(2,893,197)</u>	<u>(4,906,833)</u>	<u>2,013,636</u>	
	<u>30,496,730</u>	<u>28,961,331</u>	<u>1,535,399</u>	<u>5.30%</u>

As noted above, the Municipality total assets increased by \$3,956,622 while the total liabilities increased by \$2,421,323 mainly due to by the investment in capital assets (\$3,343,092) and the issuance of bonds (\$2,380,000). As a result, the net assets increased by \$1,535,399.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets amounted to \$30,496,730 as of June 30, 2011, as compared to the net assets of \$28,961,331 of the previous fiscal year.

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

The amounts restricted for debt service represent another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

An additional portion of the Municipality's net assets is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments 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 operation.

Activities

The condensed statement of activities of the Municipality for the years ended June 30, 2011 and 2010 is presented below. As noted therein, the Municipality's net assets increased by approximately \$1.5 million. Grants and contributions, including federal aid, accounted for approximately 47.50% and 46.92% of the Municipality's total revenue for fiscal years 2011 and 2010, respectively. On the other hand, in fiscal year 2011, approximately 40.70% (45.06% percent in fiscal year 2010) resulted from taxes.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2011 were for activities related to general government (\$7,252,633), culture, recreation and education (\$2,503,154), and public housing and welfare (\$2,430,793). Total expenses on 2011 increase, in comparison with fiscal year 2010 total expenses, by 10.97% (\$1,592,049).

	2011	2010	Change	% Change
Program revenues:				
Operating grants and contributions	\$ 1,312,460	\$ 947,813	\$ 364,647	
Capital grants and contributions	855,489	831,240	24,249	
General revenues:				
Property taxes	3,843,464	3,809,336	34,128	
Municipal license taxes	1,788,414	1,797,298	(8,884)	
Construction excise taxes	183,976	315,383	(131,407)	
Sale tax	1,365,504	1,373,135	(7,631)	
Unrestricted contributions	6,213,721	5,817,568	396,153	
Miscellaneous	2,081,819	1,299,840	781,979	
Total revenues	<u>17,644,847</u>	<u>16,191,613</u>	<u>1,453,234</u>	<u>8.98%</u>

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Expenses:				
General government	7,252,633	6,297,681	954,952	
Urban and economic development	1,606,158	1,908,393	(302,235)	
Public safety	693,315	459,557	233,758	
Health and sanitation	1,461,415	1,291,197	170,218	
Culture, recreation and education	2,503,154	2,471,083	32,071	
Public housing and welfare	2,430,793	1,873,759	557,034	
Interest on long-term obligations	161,980	215,729	(53,749)	
Total expenses	<u>16,109,448</u>	<u>14,517,399</u>	<u>1,592,049</u>	<u>10.97%</u>
Change in net assets	1,535,399	1,674,214	(138,815)	
Net assets at beginning of fiscal year	<u>28,961,331</u>	<u>27,287,117</u>	<u>1,674,214</u>	
Net assets at end of fiscal year	<u>\$ 30,496,730</u>	<u>\$ 28,961,331</u>	<u>\$ 1,535,399</u>	<u>5.30%</u>

Total revenues from governmental activities increased by approximately 8.98 % (\$1,453,234), as compared to prior year. This decrease is mainly the result of a decrease on program and property tax revenues and revenues related to interest on deposits.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

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

At the end of the current fiscal year, the Municipality's governmental funds reported ending fund balances of \$9,587,148, which represents an increase of approximately \$471,000 in comparison with prior fiscal year balance of \$9,116,084. For the end of fiscal year 2011 the Municipality of Añasco presents an unreserved fund balance and reserved for debt service of \$3,029,715 (general fund - \$1,289,581 and debt service fund - \$1,740,134). The remaining of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: a) capital projects \$5,411,143; b) pay for debt service \$204,927; c) encumbrances \$784,461; and d) other specified purposes \$156,902.

CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental activities as of June 30, 2011 amounted to approximately \$26,832,494 (net of accumulated depreciation and related debt). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

The total increase in the Municipality's investment in capital assets was 5.26% as compared to the last fiscal year. Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2011 were \$3,343,092 while depreciation charges amounted to \$1,086,322 for the fiscal year. The ending balance reported on capital assets amounted to \$63,611,720 by the end of year, with depreciation amounting to \$21,802,131.

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Cost basis of capital assets and the accumulated depreciation:

	Cost Basis of Capital Assets at June 30, 2011	Accumulated Depreciation at June 30, 2011
Land	\$ 6,725,440.00	\$ -
Construction in progress	2,168,416	-
Land improvements	5,316,469	3,120,110
Building, structures and improvements	21,570,987	4,300,974
Infrastructure	20,509,582	9,076,687
Machinery and equipment	2,657,796	1,512,399
Licensed vehicles	<u>4,663,030</u>	<u>3,791,961</u>
 Total	 <u>\$ 63,611,720</u>	 <u>\$ 21,802,131</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 12 members, exercises the legislative power.

As previously discussed in this report, the Municipality provides a full range of services to its community in general. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants.

The Municipality has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

The Municipality's Original Budget for the fiscal year 2010 - 2011 increased by \$1,286,513 as compared to the prior fiscal year.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Luis Ramirez Dómenech, at Box 173, Añasco, Puerto Rico 00610-173 or call (787) 826-3100.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	Governmental Activities
Cash in commercial banks	\$ 452,021
Account receivable, net:	
Property taxes	766,391
Sales taxes	65,089
Grants and contributions	703,415
Restricted assets:	
Cash and cash equivalents	3,356,769
Cash and cash equivalents with fiscal agent	9,492,275
Capital assets:	
Non-depreciable	8,893,856
Depreciable, net of accumulated depreciation of \$21,802,131	32,915,733
Deferred charges, net of accumulated amortization of \$46,662	<u>92,540</u>
Total assets	<u><u>\$ 56,738,089</u></u>
 LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 3,109,683
Due to other agencies	70,374
Deferred revenues - Municipal license tax	1,672,036
Accrued interest	183,464
Non current liabilities:	
Due within one year	2,039,026
Due after one year	<u>19,166,776</u>
Total liabilities	<u>26,241,359</u>
 NET ASSETS:	
Investment in capital assets, net of related debt	26,832,494
Restricted for:	
Debt service	204,927
Capital purposes	5,411,143
Other specified purposes	941,363
Unrestricted deficit	<u>(2,893,197)</u>
Total net assets	<u>30,496,730</u>
Total liabilities and net assets	<u><u>\$ 56,738,089</u></u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses, including Depreciation and Amortization	Charges for Services	Program Specific Operating Grants and Contributions	Program Specific Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
General government	\$ 7,252,633	\$ 1,277,015	\$ -	\$ 855,489	\$ (5,120,129)
Urban and economic development	1,606,158	560,850			(1,045,308)
Public safety	693,315				(693,315)
Health and sanitation	1,461,415				(1,461,415)
Culture, recreation and education	2,503,154	243,954	229,450		(2,029,750)
Public housing and welfare	2,430,793		1,083,010		(1,347,783)
Interest on long-term obligations	161,980				(161,980)
Total governmental activities	<u>\$ 16,109,448</u>	<u>\$ 2,081,819</u>	<u>\$ 1,312,460</u>	<u>\$ 855,489</u>	<u>(11,859,680)</u>

General Revenues:

Taxes:	
Property tax	3,843,464
Municipal license	1,788,414
Construction	183,976
Sales	1,365,504
Total taxes	<u>7,181,358</u>
Grants and Contributions, not restricted to specific programs	5,540,993
Unrestricted interest on deposits	233,229
Miscellaneous	439,499
Total general revenues	<u>13,395,079</u>
Net change in net assets	1,535,399
Net assets - beginning of year	28,961,331
Net assets - ending	<u>\$ 30,496,730</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

ASSETS	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Cash in commercial banks	\$ 452,021			\$ 452,021
Account receivable, net allowance of uncollectible accounts:				
Property taxes	560,418	205,973		766,391
Sales taxes	65,089			65,089
Grants and contributions	124,459		454,497	578,956
Due from other funds	1,810,358		168,313	1,978,671
Restricted assets:				
Cash in commercial banks	1,757,015		1,599,754	3,356,769
Cash with fiscal agent		2,734,520	6,757,755	9,492,275
Total assets	<u>\$ 4,769,360</u>	<u>\$ 2,940,493</u>	<u>\$ 8,980,319</u>	<u>\$ 16,690,172</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	\$	\$	\$	\$
Accounts payable and accrued liabilities	278,850	166,662	1,035,555	1,481,067
Intergovernmental payables	70,374			70,374
Due to other funds	168,313		1,810,358	1,978,671
Deferred revenues:				
Municipal license tax	1,672,036			1,672,036
Other	505,745	274,947	138,434	919,126
Matured bonds due and payable		758,750	223,000	981,750
Total liabilities	<u>2,695,318</u>	<u>1,200,359</u>	<u>3,207,347</u>	<u>7,103,024</u>

FUND BALANCE:

Reserved for:				
Debt service		1,740,134	204,927	1,945,061
Capital purposes			5,411,143	5,411,143
Other specified purposes			156,902	156,902
Encumbrances	784,461			784,461
Unrestricted	1,289,581			1,289,581
Total fund balances	<u>2,074,042</u>	<u>1,740,134</u>	<u>5,772,972</u>	<u>9,587,148</u>
Total liabilities and fund balances	<u>\$ 4,769,360</u>	<u>\$ 2,940,493</u>	<u>\$ 8,980,319</u>	<u>\$ 16,690,172</u>

See notes to the basic financial statements.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 9,587,148

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 41,809,589
- Deferred (unavailable) revenues in the governmental funds that are recognized as revenues in the statements of activities 919,126
- 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 costs are deferred in the statement of net assets and reported net of accumulated depreciation. 92,540
- 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. 124,459

The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:

- Accrued employees' Christmas bonus (267,960)
- Intergovernmental payables (1,527,318)
- Bonds payable (16,501,500)
- Accrued interest payable (16,802)
- Notes payable (227,324)
- Compensated absences (1,996,399)
- Solid waste landfill closure and post closure care cost (1,498,829)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 30,496,730

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Taxes				
Property tax	\$ 2,809,683	\$ 1,066,765	\$ -	\$ 3,876,448
Municipal license	1,788,414			1,788,414
Construction excise	183,976			183,976
Sales and use	1,037,268	328,236		1,365,504
Charges for services and other contributions	1,520,256		561,563	2,081,819
Grants and contributions	5,028,414		2,675,886	7,704,300
Interest on deposits	109,802	1,917	121,510	233,229
Miscellaneous	437,996		1,503	439,499
	<u>12,915,809</u>	<u>1,396,918</u>	<u>3,360,462</u>	<u>17,673,189</u>
EXPENDITURES:				
Current:				
General government	6,580,688		10,429	6,591,117
Urban and economic development	1,332,670		225,038	1,557,708
Public safety	599,108			599,108
Health and sanitation	1,235,068		38	1,235,106
Culture, recreation and education	2,094,352		230,532	2,324,884
Public housing and welfare	884,343		1,427,168	2,311,511
Debt service:				
Principal		863,750	223,000	1,086,750
Interest		390,698	142,151	532,849
Capital outlays	84,261		3,258,831	3,343,092
	<u>12,810,490</u>	<u>1,254,448</u>	<u>5,517,187</u>	<u>19,582,125</u>
Excess (Deficiency) of revenues over expenditures	<u>105,319</u>	<u>142,470</u>	<u>(2,156,725)</u>	<u>(1,908,936)</u>
Other financing sources (uses):				
Proceeds from issuance of bonds			2,380,000	2,380,000
Transfer-in from other funds	122,697	217,376		340,073
Transfer-out to other funds	(217,376)	(1,187)	(121,510)	(340,073)
	<u>(94,679)</u>	<u>216,189</u>	<u>2,258,490</u>	<u>2,380,000</u>
Net change in fund balances	✓ 10,640	358,659	101,765	471,064
Fund balance at beginning of fiscal year	<u>2,063,402</u>	<u>1,381,475</u>	<u>5,671,207</u>	<u>9,116,084</u>
Fund balance at end of fiscal year	<u>\$ 2,074,042</u>	<u>\$ 1,740,134</u>	<u>\$ 5,772,972</u>	<u>\$ 9,587,148</u>

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See notes to the basic financial statements.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 471,064
Amounts reported for governmental activities in the statement of activities are different because:	
The following adjustment recorded in the statement of activities are related to revenues that do not provide current financial resources, therefore are deferred in the governmental funds - Decrease in property tax deferred revenues, Grants and Contributions	(32,984)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense	2,256,770
Repayment of principal of long term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets	1,143,881
Certain adjustments on interest reported in the statement of activities are not considered to affect current financial resources, therefore are not presented in the governmental funds	370,869
The landfill closure and post closures care cost has been adjusted in accordance with amortization schedule. This adjustment does not affect expenditures in the governmental funds	(48,349)
Some revenues recorded in the statement of activities do not provide current financial resources, therefore, they are not presented in the governmental funds statements. This revenue is measurable but not available at end of fiscal year	4,642
The debt issue costs are presented as expenditures in governmental funds, however, this cost is allocated in the statement of activities over their repayment period as amortization expense	59,621
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Decrease \ Increase in Christmas bonus payable, compensated absences, intergovernmental payable and solid waste landfill costs	(310,115)
Proceed from issuance of bonds provide current financial resources on governmental funds, but issuing such debts increase long-term liabilities in the statement of net assets	<u>(2,380,000)</u>
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,535,399</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Añasco (“the Municipality”) was 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* (the Act). **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 judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over **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, education, urban development, economic development, and many other fiscal, general and administrative services.

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, 2011, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34: *“Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments”*, (“GASB No. 34”). GASB No. 34, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way **the Municipality** prepares and presents financial information. The Statement was adopted as of July 1, 2001. In addition, to this Statement, GASB Statement No. 37: *“Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”*, and GASB Statement No. 38: *“Certain Financial Statement Note Disclosures”* have been adopted and are reflected in these financial statements.

According to the financial reporting model established by GASB No. 34, the required basic financial statements 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 consists of: (1) Management’s Discussion and Analysis (MD&A), (2) budgetary comparison schedule – general fund and (3) budgetary comparison schedule – debt service fund. RSI is information presented along with, but separate from, **the Municipality’s** basic financial statements.

- 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, 2011, 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.
- 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.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

As defined by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, component units are entities that are legally separate organizations that should be included in **the Municipality's** reporting entity because of the significance of their operating of financial relationship with **the Municipality**. By nature and significance of the relationship between the entity and a primary government.

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 in the basic financial statements of **the Municipality** for the fiscal year ended June 30, 2011.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of; the statement of net assets and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of **the Municipality** as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). 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 by presenting all of **the Municipality's** assets and liabilities, with the difference between these two items reported as "net assets" (equity) and/or accumulated deficit. 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 and discloses legal and contractual restrictions on resources.

Net assets are reported 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 and, reduced by the outstanding debts that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – these result when constraints placed on net assets use are either externally imposed by grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

- Debt service – Represents net resources available to cover future debt service payments of bonds and notes payable.
- Capital projects – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.
- Other specified purposes – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.
- Unrestricted net assets – these consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources 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 Municipality's** results of operations by showing, how **the Municipality's** net assets or liabilities changed during the fiscal year ended June 30, 2011, 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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 three broad categories; program revenues, general revenues and special items.

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 or, the net program revenue that contributes to **the Municipality's** general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- Charges for services – These revenues 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. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- Program-specific operating and capital grants and contributions – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular 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. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital 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, municipal license and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, 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 certain funds in the governmental funds financial statements as indirect cost allocations permitted under some federal programs, **the Municipality** has reported these indirect costs as direct expenses of the general government function. Accordingly, **the Municipality** generally does not allocate general government (indirect) costs to other functions

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 non-exchange revenues that can be used to support **the Municipality's** programs or services. These governmental activities are also generally reported in the governmental funds financial statements.

The Municipality has no fiduciary activities, which are those in which it 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.

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 governmental fund financial statements ("GFFS") are composed of; the balance sheet - governmental funds, and, 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; **the Municipality's** major governmental funds, as defined below, the fiscal accountability and, 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** reports its governmental funds within the following categories:

- General fund – The general fund is **the Municipality's** main operating fund and a major governmental 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; legal requirements, GAAP requirements or, 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 non-major governmental funds, as defined below, used by **the Municipality** to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by **the Municipality** or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 governmental fund, as defined below, used by **the Municipality** to account for the accumulation of resources for, and the payment of, principal and interest for; bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or, bonds payable or any 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 the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service - interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the HUD Section 108 capital project fund.

- Capital projects funds – Capital projects funds are non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from other of **the Municipality's** operating activities. The routine purchases of minor fixed assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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 non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major 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 reported as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures 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 inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are; general fund, debt service fund and, other governmental funds.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The accompanying GFFS are integrated by other statements and schedules required by GAAP; schedule of revenues and expenditures - budget and actual – budgetary basis – general fund, reconciliation of the balance sheet – governmental funds to the statement of net assets, and, reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

Measurement focus, basis of accounting and financial statements presentation

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 on deposits and investments) 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 non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange 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 non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, 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 non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by **the Municipality** on non-governmental 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 and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange 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.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Voluntary non-exchange 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 non-exchange transactions discussed above. Events that are neither exchange nor non-exchange 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 fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the 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.

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, **the Municipality** generally considers most revenues to be available if collected within 90 days after June 30, 2011, 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, 2011.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. 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 non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange 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 for expenditure-driven grants).

Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2011.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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* (GASB 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 GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying GFFS 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 GASB 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 of bonds due on July 1 which are recorded as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.
- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Validated 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 full from current financial resources.

The measurement focus of the GFFS is on decreases of 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 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 state of net assets.

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 each fiscal year an annual budget for **the Municipality's** general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds.

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The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate 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 preliminarily 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 no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget 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 approve 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 budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, 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 a budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits **the Municipality** to continue making payments for its operations and other purposes until the new budget is approved.

The annual budget 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 budget, which is subject to the approval of the Municipal Legislature

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. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between 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 using 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.

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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 fiscal 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 fiscal 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 statement of revenues and expenditures - budget and actual - budgetary basis - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2011. 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, 2011, 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.

Unrestricted and restricted deposits

The Municipality's deposits are composed of; demand deposits in commercial banks, demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and, Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms) 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 Commonwealth's Secretary of the Treasury, but not in **the Municipality's** name.

Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$2,734,520 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash in fiscal agent recorded in the non-major governmental funds amounting to \$6,757,755 which is restricted for; the acquisition, construction or improvements of major capital assets and, the operations of federal and state funded programs.

Restricted cash in commercial banks for other governmental funds, amounting to \$1,599,754, are restricted to finance the acquisition, construction and improvement of major capital assets.

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Unrestricted and restricted accounts and notes receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2011. 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 mainly composed of: amounts owed to **the Municipality** for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the general fund, special revenue fund and capital project funds).

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

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.

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, construction or improvement, 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 government-wide 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 or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

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Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Licensed vehicles	8
Furniture and fixtures	5 to 20

Depreciation and amortization expense of capital assets is recorded as a direct expense 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.

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 thereafter to pay obligations due at June 30, or;
- The resources are received by the **Municipality** before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Municipality** has a legal claim to the resources, 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.

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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 government-wide statement of net assets is limited to leave that; is attributable to services already rendered on or before June 30, 2011 and, 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, include 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, Medicare taxes, employer contributions to the employees' retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees 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 days is not paid to the employee. 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 employees 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.

Long-term debt

The long-term liabilities reported in the accompanying statements of net assets include **the Municipality's** bonds payable, notes payable, obligations under capital leases, accrued compensated absences, estimated for landfill closure and post closure care costs legal 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 on July 1, are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (June 30,). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs are reported as deferred charges, which 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.

Accounting for pension costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of **the Municipality** participate.

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The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to **the Municipality** in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to **the Municipality**.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

Risk management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (see note 4).

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

Risk management

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of **the Municipality**. The current insurance policies have not been canceled or terminated at June 30, 2011. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

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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 – Represents fund balances available to finance future debt service payments.
- Advances – Represent the reservation of financial resources set aside for long-term accounts and interfund receivables, which are not considered current available financial resources at June 30, 2011.
- Other specified purposes – Represents resources set aside for use under federal and state grant programs accounted for in special revenue funds.

Interfund transactions

Permanent reallocations of resources among **the Municipality's** funds are classified as interfund transfers. **The Municipality** has the following types of reciprocal and non-reciprocal interfund activities recorded among governmental 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.

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.

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Municipal solid waste landfill closure and post closure care cost

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

The estimated liability for solid waste landfill closure and post closure 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, by definition, near or after the close of the landfill.

The estimates of closing and post closing costs include; the cost of equipment and facilities that will be acquired near the time the landfill stops accepting waste or after for the purpose of post closure care and monitoring, the cost of applying the final cover and the cost of post closure 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). 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 land fill has no effect in the factors used to calculate the accrued liability for the closure and post closure costs of the original landfill. In this case, a separate calculation of the closure and post closure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current cost for landfill closure and post closure care costs may also occur after the date that the landfill stops accepting solid waste. The changes may include changes due to inflation (or deflation), changes in technology, changes in closure and post closure 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, landfill closure and post closure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following statements that have effective dates on or after June 30, 2011:

Statement Number	Statement Name	Adoption Required Fiscal Year
60	Accounting and reporting for service concession arrangements	2012 – 2013
61	The financial reporting entity: Omnibus-an amendment of GASB Statement No. 14 and No. 34	2012 – 2013
62	Codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements	2012 – 2013
63	Financial reporting of deferred outflows of resources, deferred inflows of resources, and net position	2012 - 2013

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

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2. DEPOSITS

The **Municipality** maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB). Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB.

On July 1, 2004, the **Municipality** adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate risk, custodial credit risk, foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the **Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the **Municipality** is only allowed to invest its 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. According to the aforementioned investment guidelines, the **Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the **Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the **Municipality's** deposits is considered low at June 30, 2011.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2011, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2011, the interest rate risk associated with the **Municipality's** cash is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the **Municipality's** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the **Municipality** are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the **Municipality** are fully collateralized 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 unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by the **Municipality** through June 30, 2011. The **Municipality's** management has concluded that at June 30, 2011, the custodial credit risk associated with the **Municipality's** cash is considered low.

Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the **Municipality**, the **Municipality** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **Municipality's** deposits is considered low at June 30, 2011.

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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 Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Añasco. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2011 the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with the tax return filed. 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 on April 15. 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 percent discount is granted automatically on the total tax due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$1,672,036 respectively at June 30, 2011.

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 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 was 6.68% (of which taxpayers pay 6.48% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2011. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 8.68% (of which 8.48% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2011.

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.

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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 December 31. If CRIM remits to **the Municipality** property tax advances, which are less than the 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 of August 30, 1991, as amended, 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 by the Commonwealth but is 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 ("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:

- 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.
- 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 \$10,680,615, amounted to \$766,391 at June 30, 2011. The composition of property taxes receivable and the related deferred revenue at June 30, 2011 is as follows:

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	\$ 7,790,982	\$ 2,889,633	\$ 10,680,615
Less allowance for uncollectible accounts	7,230,564	2,683,660	9,914,224
Net property tax receivable	\$ 560,418	\$ 205,973	\$ 766,391
 Deferred (earned but unavailable) property tax revenues in GFFS	 \$ 505,745	 \$ 193,438	 \$ 699,183

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
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5. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Añasco approved the Ordinance no. 10, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5%, over the sales 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 be distributed within all municipalities by a formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposited on a municipal redemption fund in GDB and will be used only for the repayment of future municipal loans to GDB. The remaining 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.

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 asses the collectibility of interfund balances. Interfund balances at June 30, 2011 consisted of the following:

	Transfer From			
	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Other Governmental Funds	
Transfer to:	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Major funds:				
General fund	\$ 122,697	\$ 217,376	\$ -	\$ 340,073
Nonmajor funds:				
Other governmental funds	(217,376)	(1,187)	(121,510)	(340,073)
Total	<u>\$ (94,679)</u>	<u>\$ 216,189</u>	<u>\$ (121,510)</u>	<u>\$ -</u>
	Due From			
	Major Funds			Total Governmental Funds
	General Fund	Debt Service Fund	Other Governmental Funds	
Due to:	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Major funds:				
General fund	\$ -	\$ -	\$ 168,313	\$ 168,313
Nonmajor funds:				
Other governmental funds	1,810,358			1,810,358
Total	<u>\$ 1,810,358</u>	<u>\$ -</u>	<u>\$ 168,313</u>	<u>\$ 1,978,671</u>

At June 30, 2011, all amounts due to among funds are considered collectible by **the Municipality's** management.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
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7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increase</u>	<u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities				
<u>Capital assets not being depreciated:</u>				
Land	\$ 6,725,440	\$ -	\$ -	\$ 6,725,440
Construction in progress	2,699,592	495,077	(1,026,253)	2,168,416
Total capital assets, not being depreciated	9,425,032	495,077	(1,026,253)	8,893,856
<u>Capital assets, being depreciated:</u>				
Land improvements	4,569,008	569,660	177,801	5,316,469
Buildings, structures, improvements	21,133,022	377,199	60,766	21,570,987
Infrastructure	18,691,778	1,030,118	787,686	20,509,582
Machinery and equipment	2,395,137	262,659		2,657,796
Licenses vehicles	4,054,651	608,379		4,663,030
Total capital assets, being depreciated	50,843,596	2,848,015	1,026,253	54,717,864
<u>Less accumulated depreciation for:</u>				
Land improvements	2,987,895	132,215		3,120,110
Buildings, structures, improvements	3,925,769	375,205		4,300,974
Infrastructure	8,659,120	417,567		9,076,687
Machinery and equipment	1,417,696	94,703		1,512,399
Licenses vehicles	3,725,329	66,632		3,791,961
Total accumulated depreciation	20,715,809	1,086,322	-	21,802,131
Total capital assets, being depreciated, net	30,127,787	1,761,693	1,026,253	32,915,733
Governmental activities capital assets, net	<u>\$ 39,552,819</u>	<u>\$ 2,256,770</u>	<u>\$ -</u>	<u>\$ 41,809,589</u>

Depreciation and amortization expenses for the fiscal year ended June 30, 2011 were charged to functions \ programs as follows:

Governmental activities:	
General government	\$ 491,275
Public safety	44,405
Urban and economic development	91,544
Health and sanitation	171,326
Public housing and welfare	172,317
Culture, recreation and education	115,455
	<u>\$ 1,086,322</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
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8. EMPLOYEES' RETIREMENT SYSTEMS

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program.

Persons joining **the Municipality** on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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

Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. **The Municipality's** contributions are 9.275% of gross salary. Law establishes contributions' requirements.

The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2008 was approximately \$2.8 millions. **The Municipality** total payroll for all employees was approximately \$4.24 millions. For the year ended June 30, 2011, **the Municipality** contributed approximately \$208,282, which represents 100% of required contributions.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

9. LONG-TERM DEBT

The Municipal Legislature is legally authorized to approve the contracting of debts of **the Municipality**. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of **the Municipality** (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of **the Municipality**; and
- Direct obligations are not to be issued by **the Municipality** if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all 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 bond anticipation 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 and bond anticipation notes 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, 2010, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2011 was as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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	Balance at June 30, 2010	Borrowing or Additions	Payments or Deductions	Balance at June 30, 2011	Balance Due Within One Year
Bonds payable:					
General obligation bonds	\$ 6,540,000	\$ 1,210,000	\$ 851,000	\$ 6,899,000	\$ 306,000
Public improvement	-	688,000	87,000	601,000	92,000
Public improvements bonds / operations	4,224,750		152,500	4,072,750	155,000
Special obligation bonds/IVU	2,461,000	1,170,000	173,000	3,458,000	315,000
	13,225,750	3,068,000	1,263,500	15,030,250	868,000
HUD Section 108	2,676,000		223,000	2,453,000	223,000
Notes payable:					
CRIM:					
LIMS	72,296		47,487	24,808	24,808
Delinquent accounts	212,160		9,644	202,516	9,644
Compensated absences	1,977,596	18,803		1,996,399	1,022,824
Estimated liability for municipal solid waste landfill closure and post closure care costs	1,740,576			1,740,576	
Total	\$ 19,904,378	\$ 3,086,803	\$ 1,543,632	\$ 21,447,549	\$ 2,148,276

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2011 is composed of the following debts:

General obligation bonds

2000 serial bonds, original amount of \$865,000, due in annual principal installments ranging from \$60,000 to \$90,000; plus interest due in semiannual installments at rates not to exceed 4.73% through July 1, 2014	\$ 330,000
2001 serial bonds, original amount of \$415,000, due in annual principal installments ranging from \$16,000 to \$25,000; plus interest due in semiannual installments at rates of 3.25% through January 1, 2024	271,000
2002 serial bonds, original amount of \$660,000, due in annual principal installments ranging from \$15,000 to \$55,000; plus interest due in semiannual installments at variables rates not to exceed 8.00% through July 1, 2026	550,000
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 variables rates not to exceed 5.28% through July 1, 2027	1,530,000
2002 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 variables rates not to exceed 5.31% through July 1, 2028	350,000

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2008 serial bonds, original amount of \$1,485,000, due in annual principal installments ranging from \$20,000 to \$115,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	1,440,000
2009 serial bonds, original amount of \$2,000,000, due in annual principal installments ranging from \$60,000 to \$147,000; plus interest due in semiannual installments at variables rates not to exceed 4.75% through July 1, 2029	1,819,000
2011 serial bonds, original amount of \$1,210,000, due in annual principal installments ranging from \$135,000 to \$215,000; plus interest due in semiannual installments at variables rates not to exceed 7.50% through July 1, 2017	<u>1,210,000</u>
	<u>7,500,000</u>
<u>Special obligation bonds/operations</u>	
1998 serial bonds, original amount of \$565,000, due in annual principal installments ranging from \$6,250 to \$12,875; plus interest due in semiannual installments at variables rates not to exceed 5% through July 1, 2017	281,250
2001 serial bonds, original amount of \$1,010,000, due in annual principal installments ranging from \$25,000 to \$90,000; plus interest due in semiannual installments at variables rates not to exceed 8.00% through July 1, 2025	810,000
2004 serial bonds, original amount of \$3,421,000, due in annual principal installments ranging from \$80,000 to \$261,000; plus interest due in semiannual installments at variables rates not to exceed 6.60% through July 1, 2029	<u>2,981,000</u>
	<u>4,072,250</u>
<u>Special obligation bonds/IVU</u>	
2008 serial bonds, original amount of \$277,000, due in annual principal installments ranging from \$5,000 to \$25,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2032	267,000
2008 serial bonds, original amount of \$580,000, due in annual principal installments ranging from \$129,000 to \$161,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2012	311,000
2008 serial bonds, original amount of \$766,000, due in annual principal installments ranging from \$11,000 to \$66,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	743,000
2008 serial bonds, original amount of \$998,000, due in annual principal installments ranging from \$15,000 to \$83,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2033	967,000
2010 serial bonds, original amount of \$1,070,000, due in annual principal installments ranging from \$130,000 to \$205,000; plus interest due in semiannual installments at variables rates not to exceed 7.5% through July 1, 2017	<u>1,170,000</u>
	<u>3,458,000</u>
Total outstanding bonds payable	<u>\$ 15,030,250</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 GDB 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.

In addition, 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 was \$4,000,000 and bears interest ranging from 4.67% to 6.07% with semiannual principal payments due on February 1 and August 1. The loan matures on August 1, 2021. This 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, 2011, this loan has an outstanding balance of \$2,453,000.

Annual debt service requirements of maturity for bonds payable and the HUD Section 108 loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,091,000	\$ 647,468	\$ 1,738,468
2013	1,151,500	962,257	2,113,757
2014	1,055,000	903,996	1,958,996
2015 – 2019	5,222,750	3,495,296	8,718,046
2020 – 2024	3,849,000	2,144,198	5,993,198
2025 – 2029	3,587,000	1,047,092	4,634,092
2030 – 2034	<u>1,527,000</u>	<u>254,375</u>	<u>1,781,375</u>
	<u>\$ 17,483,250</u>	<u>\$ 9,454,682</u>	<u>\$ 26,937,932</u>

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 \$25,546 through November 1, 2011. This note has an imputed interest rate of 5.95% and was originally recorded at its present value of \$380,946, net of an unamortized discount of \$129,983, at inception. At June 30, 2011, the balance of this note amounted to \$24,808.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The principal and discount amortization (recorded as interest expense) maturities are as follows:

Year Ending June 30,	Principal Amortization	Discount Amortization	Total
2012	\$ 24,808	\$ 738	\$ 25,546

Delinquent accounts – On March 26, 200, 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 \$202,516 and \$134,365 respectively, at June 30, 2011. The principal and interest maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 9,644	\$ 12,597	\$ 22,241
2013	9,644	11,997	21,641
2014	9,644	11,397	21,041
2015 – 2019	48,218	43,789	92,007
2020 – 2024	48,218	32,991	81,209
2025 – 2029	48,218	17,995	66,213
2030 – 2034	28,930	3,599	32,529
	<u>\$ 202,516</u>	<u>\$ 134,365</u>	<u>\$ 336,881</u>

Compensated absences

At June 30, 2011, the liability for compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Accrued vacations	\$ 527,710	\$ 322,493	\$ 850,203
Accrued sick leave	330,075	651,082	981,157
Accrued compensatory time	165,039	-	165,039
Total compensated absences	<u>\$ 1,022,824</u>	<u>\$ 973,575</u>	<u>\$ 1,996,399</u>

Landfill closure and post closure 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.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 \$1,740,576 in the accompanying GWFS, using current costs allocated, based on the actual landfill capacity used at June 30, 2011. The portion of the estimated current costs to be incurred in future years is approximately \$348,115, which has not been recorded yet in the accompanying GWFS.

Actual costs may be different to the recorded estimate liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2011, **the Municipality's** solid waste landfill is still operating and remaining estimated useful life is approximately 5 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, 1995, 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 actions. 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 anticipate unfavorable judgments as of June 30, 2011. 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 \$784,461 in the general fund at June 30, 2011. **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 subsequent fiscal year.

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

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 27, 2012, the date the financial statements were issued. Based on such analysis management decided that no significant disclosure is necessary.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property tax	\$ 2,766,798	\$ 2,766,798	\$ 2,695,360	\$ (71,438)
Municipal license tax	1,755,000	1,755,000	1,783,790	28,790
Sales tax	681,000	681,000	988,128	307,128
Construction excise tax	200,000	200,000	174,727	(25,273)
Charges for services	1,205,000	1,205,000	1,239,814	34,814
Intergovernmental grants and contributions	5,084,501	5,084,501	4,811,049	(273,452)
Interest on deposits and investments	55,000	55,000	105,178	50,178
Miscellaneous	<u>395,722</u>	<u>395,722</u>	<u>543,159</u>	<u>147,437</u>
Total revenues	<u>12,143,021</u>	<u>12,143,021</u>	<u>12,341,205</u>	<u>198,184</u>
EXPENDITURES:				
General government	6,831,576	7,451,676	5,461,739	(1,989,937)
Public safety	625,600	612,272	599,108	(13,164)
Urban and economic development	1,232,236	1,365,687	1,332,700	(32,987)
Health and sanitation	1,137,744	1,270,652	1,235,068	(35,584)
Culture, recreation and education	1,567,632	1,748,288	1,683,569	(64,719)
Public housing and welfare	<u>748,233</u>	<u>914,125</u>	<u>884,343</u>	<u>(29,782)</u>
Total expenditures	<u>12,143,021</u>	<u>13,362,700</u>	<u>11,196,527</u>	<u>(2,166,173)</u>
OTHER FINANCING SOURCES:	-	<u>1,219,679</u>	<u>1,219,679</u>	-
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,364,357</u>	<u>\$ 2,364,357</u>

Explanation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) available for appropriations" from the budgetary comparison schedule	\$ 12,341,205
Differences - budget basis to GAAP:	
Net increase in receivables	452,645
Resources considered revenues for financial reporting but not for budgetary purposes	272,494
Resources considered revenues for budgetary but are not revenues for financial reporting purposes	<u>(150,535)</u>
Total revenues reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 12,915,809</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 11,196,527
Differences in bases of accounting:	
Net increase in payables	95,714
Non budget expenditures	419,089
Prior year encumbrances recorded as current year expenditures for GAAP basis	1,345,121
Resources considered expenditures for budgetary but are not expenses for financial reporting purposes	<u>(245,961)</u>
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 12,810,490</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 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 aspects 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, 2011.

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 its major programs.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
REVENUES - Property taxes	\$ 897,182	\$ 897,182	\$ 614,104	\$ (283,078)
EXPENDITURES:				
Debt service:				
Principal	260,000	260,000	239,059	(20,941)
Interest	357,604	357,604	250,000	(107,604)
Total expenditures	617,604	617,604	489,059	(128,545)
EXCESS OF REVENUES OVER EXPENDITURES:	\$ 279,578	\$ 279,578	\$ (125,045)	\$ (154,533)

Explanation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) available for appropriations” from the budgetary comparison schedule	\$ 614,104
Differences - budget basis to GAAP:	
Resources considered revenues for financial reporting but not for budgetary purposes	701,118
Differences in bases of accounting:	
Net increase in property tax receivable	(54)
Net increase in deferred revenues	81,750
Total revenues reported on the statement of revenues, expenditures, and changes in fund balance – governmental fund	\$ 1,396,918

Uses/outflows of financial resources:

Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 489,059
Differences - budget basis to GAAP:	
Payments considered expenditures for financial reporting but not for budgetary purposes	709,767
Excess of revenues over expenditures on budgetary basis as reported by CRIM at the beginning of fiscal year	(279,578)
Differences in bases of accounting:	
Net increase in matured bonds	288,250
Net increase in matured interest due and payable	46,950
Total expenditures reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	\$ 1,254,448

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 through Municipal Revenue Collection Center (“CRIM”, by its Spanish acronyms).

The accompanying budgetary comparison schedule – debt service fund, provides information about the original budget and the actual results of operations under the budgetary basis of accounting for fiscal year ended June 30, 2011.

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.

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Añasco, (**“the Municipality”**), as of and for the year ended June 30, 2011, which collectively comprise **the Municipality’s** basic financial statements and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

**To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco**

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

Jose L. Cardona & Co.
JOSE L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2012

The stamp number 2620082 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the original of this report.



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

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

Compliance

We have audited the Municipality of Añasco's ("**the Municipality**") compliance 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, 2011. **The Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of **the Municipality's** management. Our responsibility is to express an opinion on **the Municipality's** compliance based on our audit.

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

In our opinion, **the Municipality of Añasco** complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

**To the Honorable Mayor and Members
of the Municipal Legislature
Municipality of Añasco**

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

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

Jose L. Cardona & Co.
JOSÉ L. CARDONA & CO. P.S.C.

San Juan, Puerto Rico
March 27, 2012

The stamp number 2620083 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 EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor Pass/ Through Grantor/Program Title	CFDA Number	Federal Disbursements Expenditures
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Housing Choice Voucher - Lower Income Housing Assistance Programs	14.871	\$ 522,737
Community Development Block Grant (CDBG) Program, State Program	14.228	1,091,295
Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	214,407
Passed through Commonwealth of Puerto Rico Department of Family - Emergency Shelter Grant (ESG)	14.231	5,833
U.S. Department of Health and Human Services (HHS)		
Passed through Commonwealth of Puerto Rico Department of Family - Child Care and Development Grant	93.575	189,797
Passed through Commonwealth of Puerto Rico Department of Family - Child Care and Development Grant (Recovery Act Funded)	93.713	19,056
Federal Emergency Management Agency		
Passed through Office of the Governor's Authorized Representative to FEMA (GAR)	83.543	73,242
U.S. Department of Agriculture		
Passed through Commonwealth of Puerto Rico Department of Education - Child and Adult Care Food Programs	10.558	15,447
TOTAL		\$ 2,131,814

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of **the Municipality's** federal awards programs presented on a modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

PART I - SUMMARY OF AUDIT RESULTS

Financial Statement

- a. Type of auditor's report issued, *unqualified*.
- b. Internal control over financial reporting:
 - Material weakness (es) identified? ___ YES X NO
 - Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? ___ YES X NO
- c. Noncompliance material to the financial statement noted? ___ YES X NO

Federal Awards

- a. Internal control over major programs:
 - Material weakness (es) identified? ___ YES X NO
 - Significant deficiency (ies) identified that is (are) not considered to be material weakness (es)? ___ YES X NO
- b. Type of auditor's report issued on compliance for major programs, *unqualified*.
- c. Any audit findings disclosed that are required to be reported in accordance of OMB Circular A-133? ___ YES X NO
- d. The programs tested as major program are:
 - CFDA 14.871 – Section 8 Housing Choice Vouchers
 - CFDA 14.228 – Community Development Block Grant \ State's Program
- e. The threshold for distinguishing Types A and B programs was \$300,000.
- f. The Municipality qualifies as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II - FINANCIAL STATEMENTS FINDING SECTION:

No matters are reported.

PART III - FEDERAL AWARD FINDINGS AND QUESTION COSTS:

No matters are reported.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

No prior year findings were reported.

OCAM
DIVISION REGULACION
E INTERVENCION
12 MAR 29 PM 1:43

REGISTRADO
DE AÑASCO

12 MAR 29 AM 11:37

RECIBIDO
UNIDAD DE CORREO

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION
FISCAL**

HOJA DE COTEJO INFORME DE AUDITORIA (SINGLE AUDIT)

MUNICIPIO ATASCO
FECHA DEL INFORME 27 de marzo 2012
PERIODO 01 de julio 2010 al 30 de junio 2011
FIRMA Jose L. Cardona & Co. P.S.C.

RESUMEN DE LOS RESULTADOS DEL REMOTO ("DESK REVIEW")

En mi opinión:

1. El informe reúne los "Standards" generalmente aceptados para auditorías gubernamentales, excepto por (marcar si es apropiado):

Falta reunir los requisitos informativos concernientes:

- | | |
|---|-----|
| Informe Financiero | () |
| Informe de Cumplimiento | () |
| Informe de Control Interno | () |
| Posibles hallazgos no identificados en el Informe | () |
| Otros (Especifique) | () |

2. El informe reúne los requisitos de la Circular OMB-A- 133, excepto por (marcar si es apropiado) :

Falta incluir todos los todos los fondos "CDBG" ()

3. Clasificación de la Opinión:

- | | |
|-------------|---|
| Unqualified | (<input checked="" type="checkbox"/>) |
| Qualified | () |
| Disclaimer | () |

Resumen de Señalamientos de Fondos Federales:

no hay señalamientos pendientes

Resumen de Señalamientos años anteriores:

Cerrados

