

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AÑASCO**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009
AND INDEPENDENT AUDITORS' REPORT**

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO

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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 basic 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, 2009, which collectively comprise **the Municipality’s** basic financial statements, as listed in the table of contents. These basic 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 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.

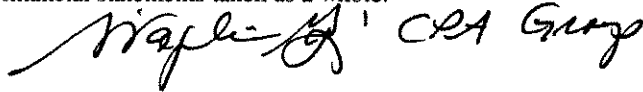
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality of Añasco** as of June 30, 2009 and the respective 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 reports dated December 22, 2009 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 43 through 46 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

December 22, 2009

A handwritten signature in black ink, appearing to read "Raphael A. CRA Group". The signature is written in a cursive style and is positioned to the right of the date.

License number 200
Ponce, Puerto Rico

Stamp number 2495696 was
affixed to the original report.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF AÑASCO

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2009

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, 2009. 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 \$27,287,117 (Net assets).
- The capital assets increased by \$1,696,505 as compared to prior year mainly due to additions and improvements of infrastructures.
- The Municipality's governmental funds reported total ending fund balance of \$8,763,195 this year. This amount represents an increase of \$1,843,538 during the current year as compared to the prior year ending fund balance of \$6,919,657. The undesignated fund balance of the General Fund for fiscal year 2009 amounts to \$1,939,493, which represents a decrease of \$3,149,406 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.

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, 2009 and 2008 is presented below:

	2009	2008	Change	% Change
Current and other assets, net of accumulated amortization	\$ 13,161,872.00	\$ 11,184,516.00	1,977,356.00	
Capital assets, net of accumulated depreciation	39,390,154.00	37,693,649.00	1,696,505.00	
Total assets	52,552,026.00	48,878,165.00	3,673,861.00	7.52%
Long term liabilities	21,734,898.00	18,319,102.00	3,415,796.00	
Other liabilities	3,530,011.00	3,499,300.00	30,711.00	
Total liabilities	25,264,909.00	21,818,402.00	3,446,507.00	15.80%
Net assets:				
Invested in capital assets, net of related debt	26,826,556.00	27,706,897.00	(880,341.00)	
Restricted	7,838,026.00	5,356,365.00	2,481,661.00	
Unrestricted	(7,377,465.00)	(6,003,499.00)	(1,373,966.00)	
Total net assets	\$ 27,287,117.00	\$ 27,059,763.00	227,354.00	0.84%

As noted above, the Municipality total assets increased by approximately \$3.7 millions while the total liabilities also increased by \$3,446,507 mainly due to the acquisition and improvements of capital assets by the amount of \$2,887,137 and the issuance of obligations bonds amounting to \$4,101,000 respectively. As a result, the net assets increased by \$227,354.

Net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets amounted to \$27,287,117 as of June 30, 2009, as compared to the net assets of \$27,059,763 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.

Changes in Net assets

The condensed statement of activities of the Municipality for the years ended June 30, 2009 and 2008 is presented in the following page. As noted therein, the Municipality's net assets increased by approximately \$230,000. Grants and contributions, including federal aid, accounted for approximately 21.51% and 16.27% of the Municipality's total revenue for fiscal years 2009 and 2008, respectively. On the other hand, in fiscal year 2009, approximately 44.73% (41.01 percent in fiscal year 2008) resulted from taxes.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2009 were for activities related to general government (\$5,460,436), urban and economic development (\$4,673,339), and culture, recreation and education (\$2,167,151). The total amount of expenses and administration, human services and welfare, health and sanitation, and public works and permanent improvements. Total expenses on 2009 exceeded total expenses of fiscal year 2008 by 7.90% (\$1,198,538).

	2009	2008	Change	% Change
Program revenues:				
Operating grants and contributions	\$ 1,395,350.00	\$ 1,356,034.00	39,316.00	
Capital grants and contributions	2,172,681.00	1,317,535.00	855,146.00	
General revenues:				
Property taxes	4,207,232.00	3,603,395.00	603,837.00	
Municipal license taxes	1,703,464.00	1,670,101.00	33,363.00	
Construction excise taxes	159,516.00	357,464.00	(197,948.00)	
Sale tax	1,350,715.00	1,108,766.00	241,949.00	
Unrestricted contributions	3,761,237.00	5,163,664.00	(1,402,427.00)	
Miscellaneous	1,840,180.00	1,856,496.00	(16,316.00)	
Total revenues	16,590,375.00	16,433,455.00	156,920.00	0.95%
Expenses:				
General government	5,460,436.00	5,317,139.00	143,297.00	
Urban and economic development	4,673,339.00	3,284,925.00	1,388,414.00	
Public safety	94,367.00	90,444.00	3,923.00	
Health and sanitation	1,499,159.00	2,298,200.00	(799,041.00)	
Culture, recreation and education	2,167,151.00	2,326,340.00	(159,189.00)	
Public housing and welfare	1,093,507.00	898,687.00	194,820.00	
Interest on long-term obligations	1,375,062.00	948,748.00	426,314.00	
Total expenses	16,363,021.00	15,164,483.00	1,198,538.00	7.90%
Change in net assets	227,354.00	1,268,972.00	(1,041,618.00)	
Net assets at beginning of fiscal year	27,059,763.00	25,790,791.00	1,268,972.00	
Net assets at end of year	\$ 27,287,117.00	\$ 27,059,763.00	227,354.00	0.84%

Total revenues from governmental activities increased by approximately 0.95% (\$157,000) as compared to prior year. This increase is the result of an increase of approximately \$894,500 in program revenues; offset by a decrease of approximately \$737,500 in general revenues. The decrease in general revenues was due to a decrease in construction excise taxes, unreserved grants and contribution, 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 \$8,763,195, which represents an increase of approximately \$1.8 millions in comparison with prior fiscal year balance of \$6,919,657. For the end of fiscal year 2009 the Municipality of Añasco presents an unreserved fund balance of \$925,169. The remainder 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 \$6,177,204; b) pay for debt service \$1,014,324; c) encumbrances \$617,793; and d) other specified purposes \$28,705.

CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental activities as of June 30, 2009 amounted to approximately \$26,826,556 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

The total decrease in the Municipality's investment in capital assets was 3.18% as compared to the last fiscal year. Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2009 was \$2,887,137 while depreciation charges amounted to \$1,040,272 for the fiscal year. The ending balance reported on capital assets amounted to \$58,995,268 by the end of year, with depreciation amounting to \$19,605,114.

Cost basis of capital assets and the accumulated depreciation and amortization:

	Cost Basis of capital assets at 06/30/2009	Accumulated depreciation at 06/30/2009
Land	6,725,440.00	
Construction in progress	1,660,339.00	
Land Improvements	4,569,008.00	2,854,620.00
Buildings, structures and improvements	21,133,022.00	3,550,564.00
Infrastructure	18,558,547.00	8,241,553.00
Machinery and equipment	2,294,261.00	1,319,553.00
Licensed vehicles	4,054,651.00	3,638,824.00
Totals	<u>58,995,268.00</u>	<u>19,605,114.00</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 Budget for the fiscal year 2008-2009 increased by \$448,247 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 Dóminech, at P.O. Box , Añasco, PR 00610 or call (787) 826-3100.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
ASSETS	
Cash in commercial banks	\$ 627,674
Account receivables, net:	
Property taxes	777,762
Sales taxes	55,948
Grants and contributions	746,105
Restricted assets:	
Cash and cash equivalents	3,771,435
Cash and cash equivalents with fiscal agent	7,137,409
Capital assets:	
Non-depreciable	8,385,779
Depreciable, net of accumulated depreciation of \$19,605,114	31,004,375
Deferred charges, net of accumulated amortization of \$43,445	<u>45,539</u>
Total assets	<u>52,552,026</u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 657,580
Due to other agencies	431,003
Deferred revenues - Municipal license tax	1,585,500
Accrued interest	855,927
Non current liabilities:	
Due within one year	1,956,864
Due after one year	<u>19,778,035</u>
Total liabilities	<u>25,264,909</u>
NET ASSETS:	
Investment in capital assets, net of related debt	26,826,556
Restricted for:	
Debt service	1,014,324
Capital purposes	6,177,204
Other specified purposes	337,297
Unrestricted deficit	<u>(7,068,264)</u>
Total net assets	<u>\$ 27,287,117</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, 2009

Function/Programs	Expenses including depreciation and amortization	Charges for services	Program-specific operating grants and contributions	Program-specific capital grants and contributions	Net (expenses) revenue and changes in net assets
Governmental activities:					
General government	\$ 5,460,436	\$ 988,551	\$	\$	\$ (4,471,885)
Urban and economic development	4,673,339	337,696	586,593	2,172,681	(1,576,369)
Public safety	94,367				(94,367)
Health and sanitation	1,499,159		11,573		(1,487,586)
Culture, recreation and education	2,167,151	252,372	93,016		(1,821,763)
Public housing and welfare	1,093,507		704,168		(389,339)
Interest on long-term obligations	1,375,062				(1,375,062)
Total governmental activities	<u>\$ 16,363,021</u>	<u>\$ 1,578,619</u>	<u>\$ 1,395,350</u>	<u>\$ 2,172,681</u>	<u>(11,216,371)</u>
General revenues					
Taxes:					
Property					4,207,232
Municipal license					1,703,464
Construction					159,516
Sales					<u>1,350,715</u>
Total taxes					7,420,927
Grants and contributions, not restricted to specified programs					3,455,425
Unrestricted interest on deposits					305,812
Miscellaneous					<u>261,561</u>
Total general revenues					<u>11,443,725</u>
Net change in net assets					227,354
Net assets, beginning of year					<u>27,059,763</u>
Net assets, end of year					<u>\$ 27,287,117</u>

See notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF AÑASCO

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	General fund	\$1,480,000 loan fund	Debt service fund	Other funds	Total governmental funds
ASSETS					
Cash in commercial banks	\$ 627,674	\$	\$	\$	\$ 627,674
Account receivable, net of allowance of uncollectible accounts:					
Property taxes	573,233		204,529		777,762
Sales taxes	55,948				55,948
Grants and contributions	137,164			503,022	640,186
Due from other funds	1,025,510			207,454	1,232,964
Restricted assets:					
Cash in commercial banks	1,976,846			1,794,589	3,771,435
Cash in fiscal agent		1,478,409	1,899,587	3,759,413	7,137,409
Total	<u>\$ 4,396,375</u>	<u>\$ 1,478,409</u>	<u>\$ 2,104,116</u>	<u>\$ 6,264,478</u>	<u>\$ 14,243,378</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 241,265	\$	\$ 180,484	\$ 188,276	\$ 610,025
Intergovernmental payable	301,445				301,445
Due to other funds	207,454			1,025,510	1,232,964
Deferred revenues					
Municipal license tax	1,585,500				1,585,500
Other	517,749		191,808	100,192	809,749
Matured bonds due and payable			717,500	223,000	940,500
Total liabilities	<u>2,853,413</u>	<u>\$</u>	<u>1,089,792</u>	<u>1,536,978</u>	<u>5,480,183</u>
FUND BALANCE:					
Reserved for:					
Debt service			1,014,324		1,014,324
Capital projects		1,478,409		4,698,795	6,177,204
Other specified purposes				28,705	28,705
Encumbrances	617,793				617,793
Unreserved	925,169				925,169
Total fund balances	<u>1,542,962</u>	<u>1,478,409</u>	<u>1,014,324</u>	<u>4,727,500</u>	<u>8,763,195</u>
TOTAL	<u>\$ 4,396,375</u>	<u>\$ 1,478,409</u>	<u>\$ 2,104,116</u>	<u>\$ 6,264,478</u>	<u>\$ 14,243,378</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
JUNE 30, 2009**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 8,763,195

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 39,390,154
- Deferred (unavailable) revenues in the governmental funds that are recognized as revenues in the statements of activities 809,749
- Debt issued by the Municipality has associated costs (debt issued costs) that are paid from current available financial resources in the governmental funds. However, these cost are deferred in the statement of net assets and reported net of accumulated depreciation. 45,539
- 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. 105,919

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

- Accrued employees' Christmas bonus (228,044)
- Intergovernmental payables (129,557)
- Bonds payable (16,000,250)
- Accrued interest payable (675,439)
- Notes payable (340,414)
- Compensated absences (1,770,640)
- Solid waste landfill closure and post closure care cost (2,683,095)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 27,287,117

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, 2009**

	General fund	\$1,480,000 loan fund	Debt service fund	Other funds	Total governmental funds
REVENUES:					
Taxes					
Property	\$ 3,530,452	\$	\$ 602,694	\$	\$ 4,133,146
Municipal license	1,703,464				1,703,464
Construction excise	159,516				159,516
Sales and use	985,811		370,048		1,355,859
Charges for services	1,240,923			337,696	1,578,619
Grants and contributions	3,320,280			3,712,379	7,032,659
Interest on deposits	153,335	23,476	11,046	117,955	305,812
Miscellaneous	247,214				247,214
Total revenues	<u>11,340,995</u>	<u>23,476</u>	<u>983,788</u>	<u>4,168,030</u>	<u>16,516,289</u>
EXPENDITURES:					
Current:					
General government	4,889,727	1,591		12,049	4,903,367
Urban and economic development	2,814,292			1,696,770	4,511,062
Public safety	87,121			480	87,601
Health and sanitation	1,292,131			11,573	1,303,704
Culture, recreation and education	1,825,193			90,921	1,916,114
Public housing and welfare	215,312			704,168	919,480
Debt service:					
Principal			812,750	446,000	1,258,750
Interest			824,659	161,876	986,535
Capital outlays	90,828			2,796,309	2,887,137
Total expenditures	<u>11,214,604</u>	<u>1,591</u>	<u>1,637,409</u>	<u>5,920,146</u>	<u>\$ 18,773,750</u>
Excess (deficiency) of revenues over (under) expenditures	<u>126,391</u>	<u>21,885</u>	<u>(653,621)</u>	<u>(1,752,116)</u>	<u>(2,257,461)</u>
Other financing sources (uses):					
Transfers-in from other funds	266,952		295,570		562,522
Transfers-out to other funds	(295,570)	(23,476)	(11,046)	(232,430)	(562,522)
Proceeds from issuance of bonds		1,480,000		2,621,000	4,101,000
Total other financing sources (uses), net	<u>(28,618)</u>	<u>1,456,524</u>	<u>284,524</u>	<u>2,388,570</u>	<u>4,101,000</u>
Net change in fund balance	97,773	1,478,409	(369,097)	636,454	1,843,539
Fund balance (deficit) at beginning of fiscal year	<u>1,445,189</u>		<u>1,383,421</u>	<u>4,091,046</u>	<u>6,919,656</u>
Fund balance at end of fiscal year	<u>\$ 1,542,962</u>	<u>\$ 1,478,409</u>	<u>\$ 1,014,324</u>	<u>\$ 4,727,500</u>	<u>\$ 8,763,195</u>

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, 2009**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,843,538
Amounts reported for governmental activities in the statement of activities are different because:	
The following revenues recorded in the statement of activities do not provide current financial resources, therefore are deferred in the governmental funds - Increase in property tax deferred revenues	
	74,086
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost 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	2,887,137
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	61,063
Certain interest reported in the statement of activities do not require the use of the current financial resources, therefore are not reported as expenditures in the governmental funds	(388,527)
Amortization of deferred charges reported in the statement of activities does not required the use of current financial resources, therefore are not reported as expenditures in the governmental funds	(20,716)
The landfill closure and post closures care cost do not required the use of current financial resources, therefore are not reported as expenditures in the governmental funds	(128,227)
Proceeds from issuance of bond anticipation notes provide current financial resources to governmental funds, but issuing such debt increases long-term liabilities in the statement of net assets	<u>(4,101,000)</u>
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 227,354</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, 2009

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, 2009, 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, 2009, 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

- 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.

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, 2009.

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

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.

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, 2009, 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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Urban and economic development:

- Department of public works
- Department of tourism

Public safety:

- Department of municipal police
- Department of emergency management

Health and sanitation:

- Department of health
- Department of sanitation

Culture, recreation and education – Department of recreation and sports

Public housing and welfare:

- Department of elderly affairs
- Department of federal programs

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

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.

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

- 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. 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are: general fund, \$1,480,000 loan fund, debt service fund and, other governmental funds.

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.

