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Honesty - Integrity - Experience

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February 20, 2014

Honorable Mayor and Members of
The Municipal Assembly
Municipality of Aguadilla

In planning and performing our audit of the financial statements of Municipality of Aguadilla as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Aguadilla's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Municipality's internal control in our report dated December 20, 2013. This letter does not affect our report dated December 20, 2013, on the financial statements of Municipality of Aguadilla.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Municipality's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roman Toro & Co.

ROMAN TORO & CO., C.P.A., CSP
LICENSE #35 – IN FORCE

Municipality of Aguadilla
Memorandum on Management Letter Points
Year Ended June 30, 2013

New Federal Compliance Framework and Single Audit Guidance

On December 19, 2013, the U.S. Office of Management and Budget (OMB) issued a preliminary publication of the expected new guidance on federal assistance administration and audit. This publication is expected to change nearly all guidance of awarding, managing, and auditing federal assistance provided mainly to non-profit organizations, institutions of higher education, and state and local governments. This final guidance supersedes and streamlines requirements from eight (8) OMB Circulars, which are A-21, A-87, A-110, and A-122 (which have been placed in OMB guidance); Circulars A-89, A-102 Common Rule, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up.

The Municipality's management should consider this overhaul in its future planning and operations, because certain changes include new aspects

This new federal award guidance is divided into three main categories: (1) **Administrative Requirements** (Subparts A through D, covering OMB Circulars A-102, A-110 and A-89); (2) **Cost Principles** (Subpart E, covering OMB Circulars A-21, A-87, A-122 and 45 C.F.R. Part 75); and (3) **Audit Requirements** (Subpart F, covering OMB Circulars A-133 and A-50).

In terms of administrative requirements, some of the most significant following changes include:

- Grant information, important terminology, and required certifications will be standardized, to improve ease of use for applicants and grantees.
- Requires grantees and sub-grantees to disclose conflicts of interest and criminal violations prior to receiving grants.
- Grant applications, approvals, and evaluations will require grantees and sub-grantees to focus more on performance milestones, which in the past was focused mostly on compliance requirements.
- Federal awarding agencies will now evaluate the merits of applications in conjunction with identified risks and, before the money is spent, impose specific conditions as necessary to mitigate potential risks of waste, fraud and abuse.
- With respect to documentation and record retention requirements, the new guidance will encourage entities to transmit and store information in electronic, open, machine-readable formats with appropriate internal controls to safeguard against inappropriate alteration of such records.
- Expanded guidance on managing non-compliance and efficiently closing-out awards, including an extension of the closeout period from 180 days to one year.

In terms of cost principles, some of the most significant following changes include:

- Federal agencies and all pass-through entities must either honor a grantee's negotiated indirect cost rate with the Federal government, or provide a minimum indirect cost rate of 10% of modified total direct grant costs to those grantees and sub-grantees who have never had a negotiated indirect cost rate. This new requirement will hope to alleviate grantees in cases where pass-through agencies (normally States) use all allowable overhead resources from a federal grant and does not provide them to subrecipients.
- Indirect costs are now classified as either Facilities or Administrative costs, each with a set of guidance for reporting such costs in indirect cost rate proposals.
- Require Federal agencies to accept negotiated indirect cost rates unless an exception is required by statute or regulation,
- Allow for a one-time extension without further negotiation of a federally approved negotiated indirect cost rate for a period of up to 4 years.

New Federal Compliance Framework and Single Audit Guidance (continued)

- Grantees and sub-grantees are prohibited from earning or keeping profit from Federal financial assistance unless expressly authorized by the terms/conditions of the Federal award.
- Guidance includes a list of situations where, by default, the grantees and sub-grantees must seek prior written approval from the Federal, cognizant, or pass-through agencies, which include:
    - Unrecovered indirect costs included as part of cost sharing or matching
    - Additions to program income or use of program income to meet a cost sharing or matching requirement
    - Changes in scope or objective of the project/program;
    - Changes to key persons specified in the application/award;
    - Transfer of participant support costs to other expense categories;
    - Transfer or subcontract of work under the award not otherwise approved;
    - Changes in the amount of approved cost sharing or matching provided by the NFE;
    - Incidental activities for which supplemental compensation is allowable under written institutional policy, if not specifically provided for in the award budget;
    - Indirect costs related to severance payments; costs of membership in any civic/community organization
    - Direct costs for administrative and clerical staff salaries, entertainment costs, travel costs of dependents and officials, costs of selling and marketing any entity products or services; organizational costs when creating an organization (such as incorporation fees), if not individually disclosed in the grant's approved budget;
    - Capital expenditures for:
        - (i) general purpose equipment, buildings and land as direct charges;
        - (ii) special purpose equipment as direct charges with unit costs of $5,000 or greater;
        - (iii) improvements to land, buildings or equipment as direct costs, where such costs materially increase in value or useful life;
    - Special arrangements and alternations of facilities;
    - Costs resulting from violations of, alleged violations of or failure to comply with applicable laws and regulations, except when incurred as a result of compliance with specific provisions of the Federal award
    - Fund raising costs for the purposes of meeting the Federal program objectives;
    - Direct costs of housing, housing allowances and personal living expenses;
    - Costs of insurance or reserves covering the risk of loss of, or damage to, Federal property;
    - Participant support costs such as stipends, travel allowances and other items paid to or on behalf of participants in connection with conferences or training; and
    - Pre-award costs incurred prior to the effective date of the award; among others.

- Guidance also includes new types of costs which are now expressively allowable, eligible, and chargeable to an award, subject to specific requirements to comply. The new Guidance states that:
    - Administrative and indirect costs could be treated as direct costs, if grantee or sub-grantee demonstrates that such costs are directly allocable to a Federal award;
    - Administrative and clerical staff salaries may be direct costs under certain criteria;
    - Contingency costs can be chargeable if it meets certain criteria;
    - Costs of idle facilities when necessary to meet workload fluctuations;
    - Financing costs associated with patents and computer software capitalized in accordance with GAAP could be allowable, for fiscal years beginning on or after January 1, 2016;
    - Temporary dependent care costs could be allowable if it results directly from travel to conferences. Allowable conference spending is clarified to include, but not limited to, facility rental fees, speakers' fees, meals and refreshments, local transportation.

New Federal Compliance Framework and Single Audit Guidance (continued)

- New requirements are imposed over internal controls over salaries and wages charged to federal grants, while allowing flexibility to meet such requirements. Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed, and under certain circumstances, previously approved by the Federal agency, alternative methods of accounting for salaries and wages can be based on achievement of performance outcomes. When after-the-fact interim charges are based on budget estimates, the NFE's internal controls must contain processes to ensure that necessary adjustments are made such that the final amount charged to the award is accurate, allowable and properly allocated. Auditors will be required to tests internal controls related to these costs as part of the new Single Audit requirements.

In terms of audit requirements for federal assistance, the biggest changes include raising the Single Audit requirement threshold from the current $500,000 of annual federal expenditures to $750,000. This is expected to eliminate requirements of Single Audits for more than 5,000 entities across the U.S. Additionally, the Type A/B program determination is increased from the current $300,000 or 3% of $10 million or more, to $750,000 or 3% of $25 million or more, while the major program coverage rule (minimum amount of an entity's annual federal expenditures that the auditor must audit) previously set at 25%/50% is lowered to 20%/40%.

Single Audit reports will now be published online to reduce the administrative burden of transmitting these reports to all interested persons. The Single Audit report due date, currently set at 30 days after receipt of the auditors' report or 9 months after the fiscal year closing date, was clarified to include that if the date falls on Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Another significant change is that it raises the threshold for an auditor to be required to report questioned costs from the current $10,000 to $25,000, while Federal agencies will also seek cooperative resolutions and remedies to findings, in order to encourage entities to improve their internal controls and reduce repeat findings, as well as implement new metrics to identify problematic grantees.

According to the AICPA, the new rules are expected to take effect for single audits of fiscal years beginning on or after January 1, 2015, which, for the Municipality, would mean fiscal year 2015-2016. The OMB and the AICPA will continually publish additional information in the coming months and next year, which the Municipality should distribute to its key personnel who oversee and are responsible for the Municipality's compliance with federal laws and regulations.

Submission of the 2013 Single Audit Reporting Package due to DCF changes

On May 9, 2013 the U.S. Office of Management (OMB) issued a Federal Register Notice which proposed changes to the DCF and its instructions, applicable for audit periods ending in 2013, 2014, and 2015. While it was expected that the new Data Collection Form would be available in Summer 2013, the form has been delayed and is expected to be issued in January 2014. For single audits realized in 2013 that were due before the 2013 Form is available, auditees would not be able to meet the thirty day deadline for submissions, however, OMB granted a blanket extension until February 28, 2014 for reporting packages due to the Clearinghouse before that date. The extension is automatic and there is no approval required.

Changes to the DCF include a new format to present findings with greater detail as to the type of finding, a standard format for audit finding reference numbers using the sequence of the audit year followed by the finding number (ex. 2013-001, 2013-002, etc.) which will become mandatory for audits in 2014 and onwards, and the Form will now report the amount of Questioned Costs for each finding.

New impositions of cost and reductions of revenues by the State

Increase Obligations to Employee Retirement System

On July 6, 2011, PR Law 116 was enacted which imposed new payroll costs to Municipalities in order to alleviate the financial crisis that the PR Employee Retirement System (ERS) encountered by its own faults. Currently, the Municipality contributes 9.275% of each eligible employee's salary for their pension. The new law requires that the Municipality pay an additional incremental of 1% contribution on eligible employees' earnings for their pension benefits for the next 5 years, which will then be increased to a 1.25% incremental contribution for another 5 years until 2021. Although the law provides a three year subsidy by the Puerto Rico Office of Management and Budget lasting until FY 2014, this represents an increase in payroll costs of 12.5% over ten years for which the Municipality was not provided new or additional sources of income to meet such demands. The Municipality will have to carefully consider this additional cost when hiring new employees participating in the ERS because, at the final implementation year and future years, this pension contribution will be the most significant payroll benefit awarded to its employees, surpassing all other payroll taxes and benefits combined for each employee.

Fiscal Year ending in	Average Contribution Percentage	Projected Required Appropriation (approx./est.)
2011	10.275%	$1.1-3 million (*increase paid by OGP*)
2012	11.275%	
2013	12.275%	
2014	**13.275%**	**$1.4 million**
2015	14.275%	$1.5 million
2016	15.525%	$1.7 million
2017	16.775%	$1.8 million
2018	18.025%	$2.0 million
2019	19.275%	$2.1 million
2020	20.525%	$2.2 million
2021	20.775%	$2.4 million

Elimination of Electric Utility Subsidy

On December 12, 2011, the Governor of Puerto Rico signed into law Senate Project 1443, which requires Municipal facilities which collect rent or fee for entry or use be subject to pay electric utility costs. Municipalities were exempted from paying electric utilities in exchange for the PR Electric Power Authority being exempt from paying municipal taxes; however, this new law breaks uncharted ground, and presents a new cost to the Municipality's finances, particularly to the bright and promising area of municipal enterprises. However, the Municipality has designed its enterprises to be cost-efficient, and with proper monitoring costs the enterprises should be able to bare this new imposition. In the short term, the Municipality already has an accountant within the Finance Department who has recorded all electric utility bills by account for various years, and this information should be identified by those activities which might be subject to the new law's requirement. On longer term, because the state has eliminated this type of subsidy, the Municipality, in return, should consider ways of eliminating exemptions it provides the PR Electric Power Authority (AEE) in order to recoup income, such as charges for services it brings to the agency which are not paid but normally charged to private businesses, and fines and penalties for their actions in leaving trash, scrap, tree brush, or other items on public roads.

AEE Utility FY 2013 (Un-audited and Estimated)	
Las Cascadas Water Park	$300,000
Ice Skating Arena	$287,000
Bowl Recreation Center	$ 81,000
Ramey Skate Park	$ 27,000
Total	$695,000

New impositions of cost and reductions of revenues by the State (continued)

Reduction of Municipal Sales and Use Tax Rate
As per Act Number 138 of 2013, an amendment to Act Number 40 of 2013, the municipal tax rate will be reduced to 1.0% (from 1.5%) effective February 1, 2014. This Act contemplates the elimination of the 0.5% collected by the Puerto Rico Secretary of Treasury.

Law 154 of 2013: Limits on Municipal Budgeting and Accumulated Surpluses
Effective July 1, 2014, Municipalities will be restricted by law to prepare their annual budgets using their audited annual financial statements ("single audits") in order to determine the budgeted annual revenues of volume of business tax, sales and use tax, and licenses and permits taxes. The law states: "These items are not able to use the mechanism of estimated income to support the operating budget of the municipality. This provision shall not apply to the calculations and estimates of those items are included as revenue in the budget of the municipality and that are not expressly enumerated in this Article."

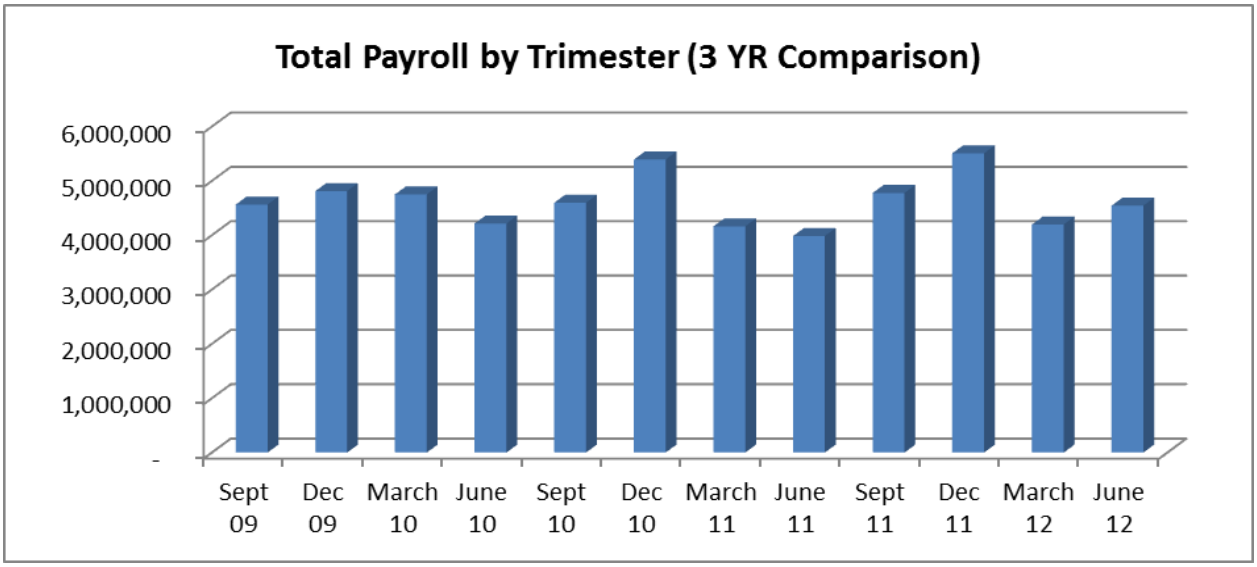
Additionally, the law restricts the use of accumulated surpluses for the amortization of municipal debt. While the law allows for a reserve of 30% of accumulated and annual fund surpluses, the rest is restricted by the law for service of the municipality's debt, stating "In cases where the Municipality reflects a surplus in the current budget, the surplus should be used to pay off the accumulated debt. As an exception, the municipality may establish an emergency fund that draws no more than thirty percent (30%) of the surplus that can only be used when there is an emergency declaration made by the Governor of the Commonwealth of Puerto Rico that apply to the Municipality."

Conclusion
As discussed above, the Municipality should consider these factors when preparing its next year's budget and future plans, and consider amending its current plans respectively. Much uncertainty exists in Puerto Rico's current economy, and these new impositions on municipal budgets make it harder to provide services with fewer resources. We encourage the Municipality to continue searching for new revenue sources and to continually monitor both its current budget and changes in laws and regulations which could or will impact it.

As requested by the Mayor, we have included this next section by matter of courtesy. However, we do not provide any assurance over the information provided below except as it related to our audit work.

Analysis of the Municipality's payroll expenditures - Global

For the fiscal year ended June 30, 2013, the Municipality incurred and paid a total of **$19 million** for payroll compensation to employees, for an average of 1,053 employees year-round. $10.37 million was from the General Fund.



As of the date of this report, the Municipality had approximately 1,027 employees at year-end, an amount consistent with the past 5 years, including 226 under Head Start programs. The overall number of employees of the Municipality continues to decrease as per previous years. For 2013, 43 employees chose to retire and 51 terminated or resigned their positions, while only 21 new employees were hired. In terms of payroll, the approximate average salary of a municipal employee is $18,000, and added compensation benefits averaging $4,000 per employee.

Payroll-related benefits and taxes, such as ERS, social security, vacation and sick days paid in excess, Christmas bonus, CFSE, and medical insurance totaled almost $5 million in 2013, which are an addition, on average, of $4,500 to an eligible employee's compensation. The Municipality is required to contribute to the state's retirement system for certain employees, which cost the Municipality more than $1.1 million to the ERS system. For the 2013 year, the Municipality paid approximately $137,000 in vacation days and $515,000 in sick days over maximum accumulated levels.

Aguadilla's Benefits Paid to Employees
(All values are approximate)

Description	General Fund
Social Security	$900,000
Medical Plans	$1.1 million
Contributions to retirement plans	$1.1 million
CFSE	$675,000
Unemploment Tax	$279,000
Christmas Bonus	$625,000

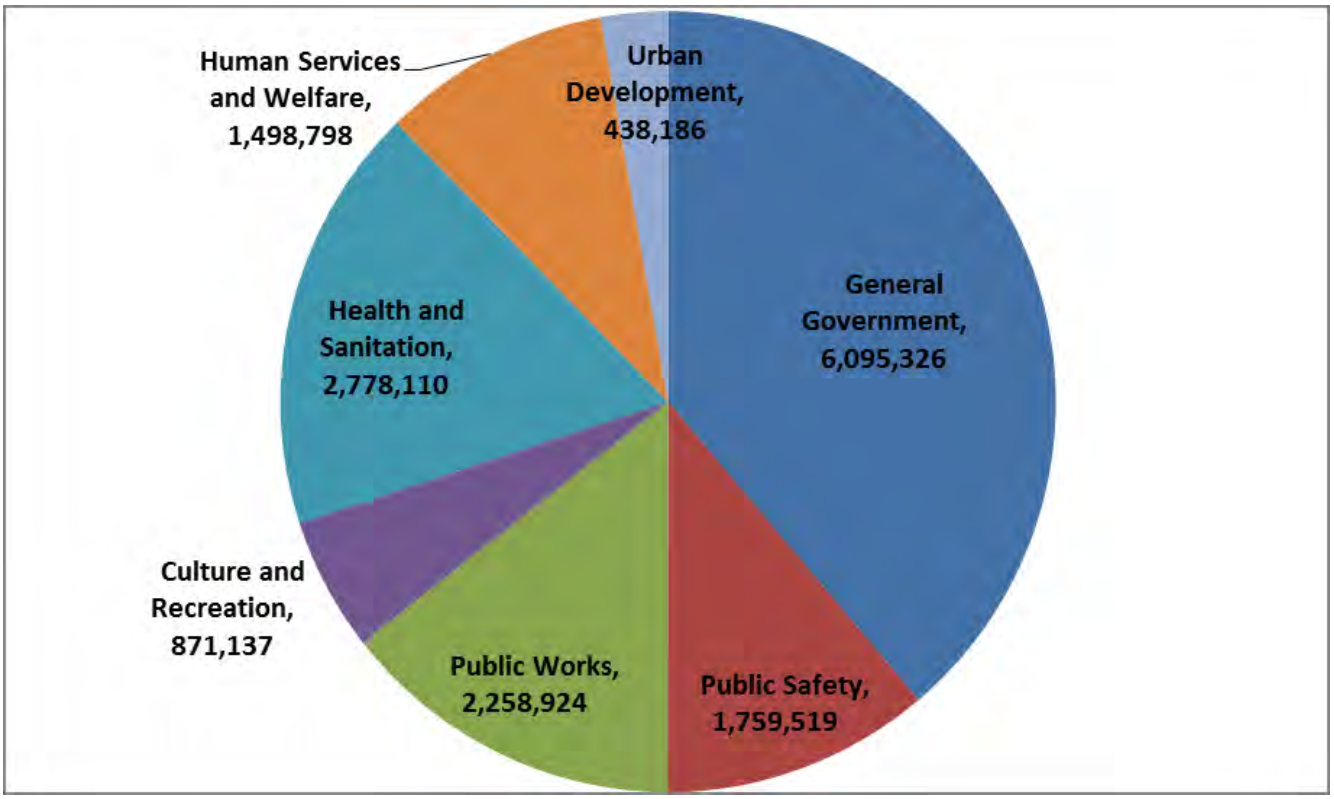
Analysis of the Municipality's payroll expenditures (continued)

Payroll expenditures by municipal services and activities

By breaking down the payroll expenditures by activity, the Municipality can understand how its human resources are allocated to the major services it provides. In providing various services to its citizens, the Municipality spent 28% ($17.9 million) of its total expenditures in payroll. Of the total payroll expenditures, the General Fund spent 65% ($11.6 million). About one-fifth (21%) of the General Fund's payroll and related expenditures were those related to the government's administration, including general government, the municipal assembly, the mayor's office, the finance department, and all related sub-departments and divisions. Payroll expenditures from this General Fund segment represent 10% of the Municipality's total expenditures.

Approximately one-quarter of the Municipality's payroll originate from federal or state subsidized programs with social objectives, such as Public Instruction (mostly Head Start) and Human Services and Welfare (mostly HUD programs). Most of these payroll expenditures are subsidized with outside sources.

The following is a breakdown of the Municipality's total payroll by activity:



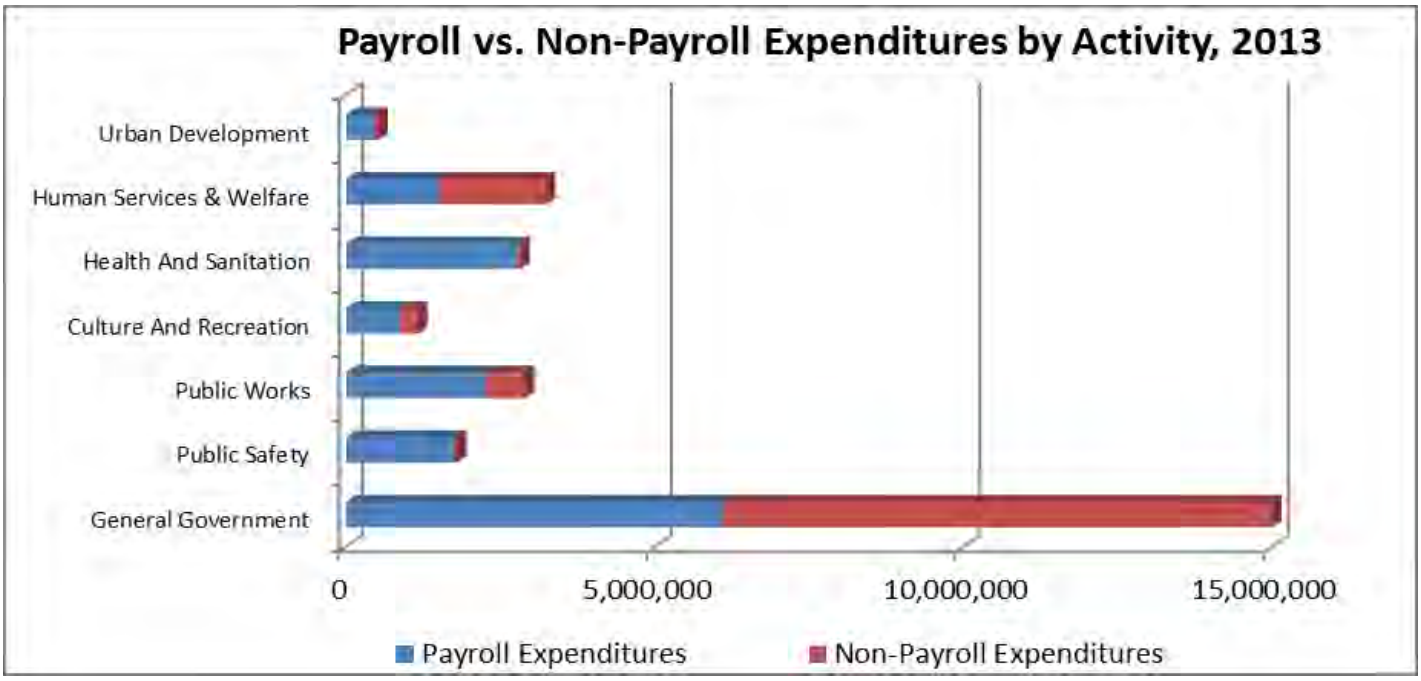
Analysis of the Municipality's payroll expenditures (continued)

The remaining General Fund payroll expenditures are concentrated on Health and Sanitation (18% of General Fund payroll, 10% of total General Fund expenditures), Public Works (14% of payroll, 8% of total) and Public Safety (11% of payroll, 6% of total). In terms of proportion, the most labor intensive service is public safety with 98% allocated to payroll.

2013 Payroll and Payroll-Benefits Expenditure Breakdown – General Fund
(all values are approximate and unaudited)

	Payroll Compensation	Payroll Benefits and Taxes	Total Payroll, Benefits and Taxes	% of Payroll vs Total Municipal Payroll Costs	Total Expenditures per Activity	% of All Expenses
Governmental Activities						
General Government	4,050,097	2,045,229	6,095,326	39%	16,774,165	36%
Public Safety	1,373,796	385,723	1,759,519	11%	1,791,429	98%
Public Works	1,803,514	455,410	2,258,924	14%	2,891,327	78%
Culture and Recreation	667,255	203,882	871,137	6%	1,161,364	75%
Health and Sanitation	2,220,868	557,242	2,778,110	18%	2,823,870	98%
Human Services and Welfare	1,169,174	329,624	1,498,798	10%	3,234,571	46%
Urban Development	365,574	72,612	438,186	3%	519,239	84%
Total, General Fund	**11,650,278**	**4,049,722**	**15,700,000**	**100%**	**29,195,965**	**54%**

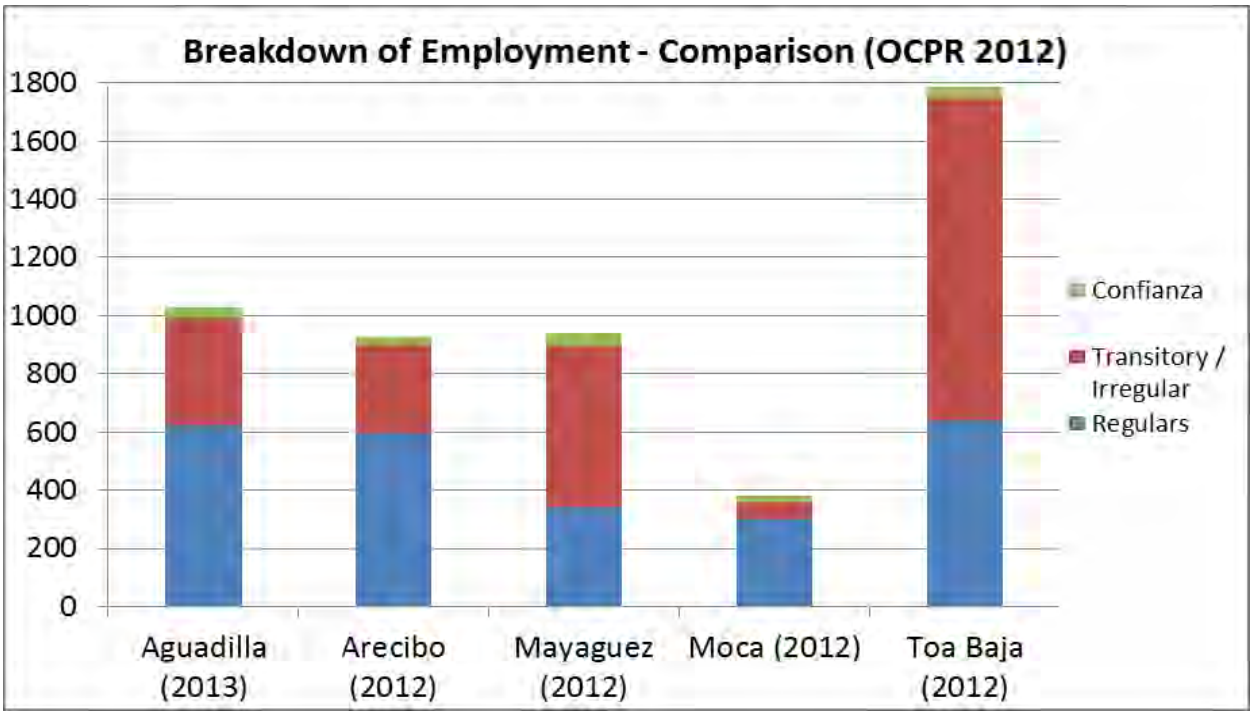
The following graph illustrates the amount of payroll expenditures versus total expenditures assigned to a particular service or activity:



Analysis of the Municipality's payroll expenditures (continued)

Comparing with other municipalities

We compared the Municipality with other cities in Puerto Rico comparable in terms of financial position and population, including Arecibo, Mayaguez, Moca, and Toa Baja. When using the latest available data provided by the Puerto Rico Controller's Office (FY2012-2011), Aguadilla maintains a similar distribution of positions of employees:

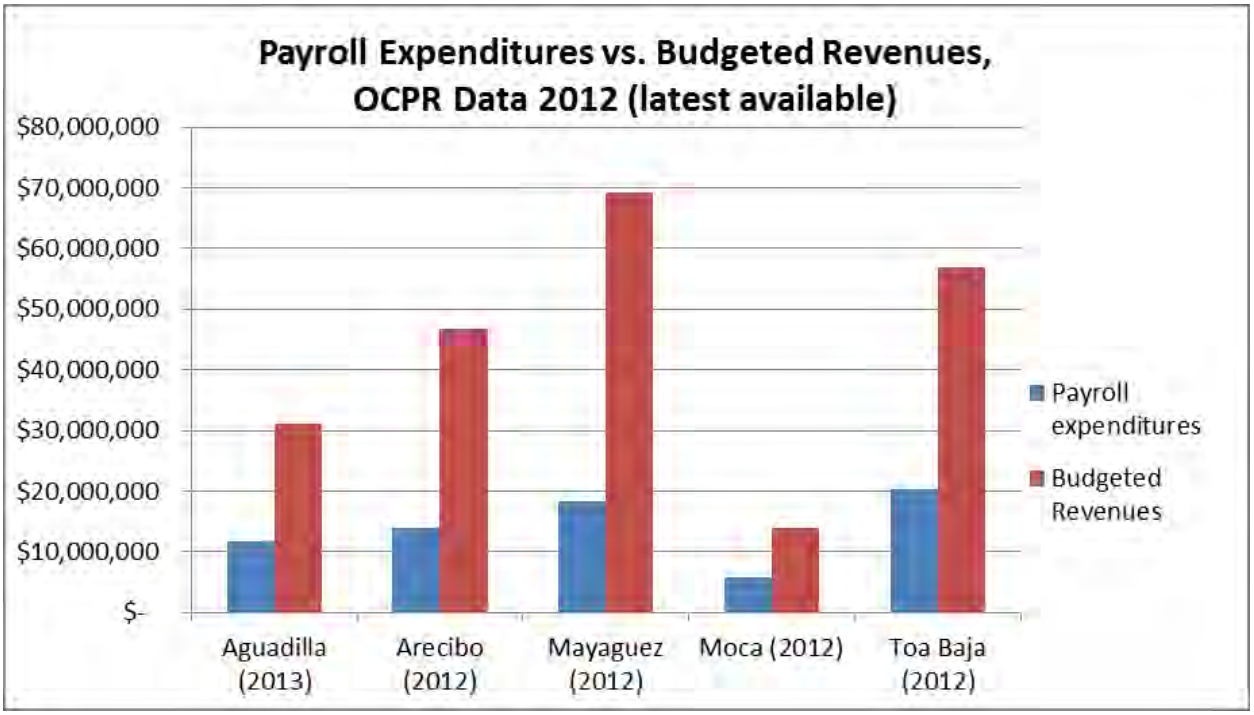


The Municipality of Aguadilla's employment position breakdown within the organization, when compared to the trends of the other Municipalities (in parentheses), is as follows:

1. 61% of employees are in permanent or regular positions (78% highest, 36% lowest, 55% average)
2. 36% of employees are in transitory or irregular positions (62% highest, 16% lowest, 41% average). This figure includes employees of the Head Start program, which are 20% of total municipal employees by themselves.
3. 4% of employees are in positions of confidence (6% highest, 2% lowest, 4% average)

Analysis of the Municipality's payroll expenditures (continued)

Comparing with other municipalities (continued)



The preceding graph compares General Fund payroll expenditures versus the total General Budget income. Aguadilla's relation amounts to 37% of budgeted revenues dedicated to payroll. For other municipalities, that average is 33%, with the least being 26% and the highest 41%.

It is important to note, however, that the comparative summarized data used of various municipalities is dated, limiting the scope and usefulness of the information provided for current decision-making. Additionally, the information was recompiled by the PR Controller's Office for its own use and public disclosure, and the details and documents which support the summarized data were not made available to us for our evaluation and analysis. Such information does not necessarily consider other important factors related to human resource management and payroll expenditures.

Aguadilla CITY "Jardín del Atlántico"

COMMONWEALTH OF PUERTO RICO AUTONOMOUS MUNICIPALITY OF AGUADILLA

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Commonwealth of Puerto Rico

Autonomous Municipality of Aguadilla

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Prepared by:
Finance Department

Noemí Alfanso Valle
Finance Director

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INTRODUCTORY SECTION

- Letter of Transmittal
- Certificate of Achievement - Government Finance Officers Association
- Organization Chart
- List of Principal Officials

Paseo Real Marina Boat Ramp, featuring a salt water fountain.

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LETTER OF TRANSMITTAL

To the Mayor, Members of the Municipal Assembly, and the Citizens of the **Autonomous Municipality of Aguadilla, Puerto Rico**:

We are pleased to present, a Comprehensive Annual Financial Report (CAFR) of the **Autonomous Municipality of Aguadilla, Puerto Rico (Municipality)** for the fiscal year ended June 30, 2013. The management of the **Municipality** is responsible for the accuracy, the completeness, and fairness of the presentation of the financial data, including all required disclosures. Because the costs of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects, and reported according to the accounting generally accepted in the United States of America. This belief is based on a comprehensive system of internal controls established for this purpose.

The **Municipality** financial statements have been audited by Román Toro & Co., CPA, a public accounting firm fully licensed and qualified to perform audits of local governments within the Government of Puerto Rico, with the purpose of providing reasonable assurance that the financial statements of the **Municipality**, for the fiscal year ended June 30, 2013, are free of material misstatement. This audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the **Municipality**'s financial statements for the year ended June 30, 2013, are fairly presented in conformity with the accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the Financial Section of this report.

The **Municipality** is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on those involving the administration of Federal Awards. Information related to this Single Audit; including a Schedule of Expenditures of Federal Awards, the Independent Auditor's Report on compliance with requirements applicable to each major program and on internal controls over compliance according to OMB Circular A-133, and a Schedule of Findings and Questioned Costs, is included in a separately issued report.

THE REPORT

The CAFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the Government Finance Officer's Certificate of Achievement for Excellence in Financial Reporting, organizational chart, and a list of principal officials.

The Financial Section is prepared according to accounting principles generally accepted in the United States of America. This Section of the CAFR includes the Management's Discussion and Analysis (MD&A), which can be found immediately following the report of the independent auditors, the basic financial statements and combining and individual fund statements and schedules, the Notes to the Basic Financial Statements and required supplementary information.

The MD&A serves as a narrative introduction, overview, and analysis that accompany the basic financial statements. The MD&A should be read in conjunction with the transmittal letter. The basic financial statements include the government-wide financial statements; which presents an overview of the **Municipality**'s entire operations. These statements provide separate data for "governmental activities" and "business-type activities". The fund level statements present the financial information of each of the **Municipality**'s major funds, as well as non-major funds.

The Statistical Section includes tables containing historical financial data, debt statistics, and other miscellaneous social and economic data of the **Municipality**.

AN OVERVIEW OF THE MUNICIPALITY

It is said that Columbus landed at the site of Aguadilla in 1493. Luis de Córdova founded the **Municipality** in the year 1775. Aguadilla is known as *La Villa del Ojo de Agua* (Village of the Eye of Water). Aguadilla is also known as *Jardín del Atlántico* (*Garden of the Atlantic*). Aguadilla derives its name from a name given by the Indians *Guadilla or Guadiya*, which means garden.

The **Municipality** occupies a total area of 76.3 square miles, of which 36.6 square miles are land area and 39 square miles of water. This **Municipality** serves a population of approximately 64,685 citizens, according to the 2010 Census.

The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Government of Puerto Rico. The legislative body consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period. The Mayor appoints the Finance Director and Internal Auditor both positions have to be confirmed by the Municipal Legislature.

The **Municipality** has Governmental Funds and Proprietary Funds. The governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Expenditures generally are recorded when liability is incurred, as under accrual accounting.

However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In prior years, the Aguadilla's Waterfalls Aquatic Park and Aguadilla's Ice Skating Arena were considered and reported as major enterprise funds. However, by GAAP criteria, those enterprises need not be considered major enterprises, because for 2013, the **Municipality** created the **Aguadilla City Enterprises** as a new enterprise to group and combine the administration and operation of the Aguadilla's **Waterfalls Aquatic Park**, Aguadilla's **Ice Skating Arena** and others non-major enterprise funds. Accordingly, the individual fund data for those enterprise funds are not provided in the form of *combining statements* in this report. The purpose of these funds and other projects (presented later) are to provide an income source to the **Municipality** other than taxes imposed to the citizens and visitors of Aguadilla.

The state government of Puerto Rico approved Law No. 149 of 2009, and amendments, which modifies Law No. 81 of 1991, to allow municipalities to acquire franchise businesses. Under this new Law, the **Municipality** then created three new franchises, which are being operated on the **Waterfalls Aquatic Park** facilities: Chicken Inn (chicken, burgers, and pizza), Riquíssimo (bakery and deli), and Sweet Dreams Creamery. They are administered under the **Waterfalls Aquatic Park**. These franchises will be operated within the **Aguadilla City Enterprises**, and only this Proprietary Fund is presented in the Financial Statements.

The **Municipality** retains exclusive rights to sell licenses for these new franchises in Puerto Rico.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, Reporting Entity and Component Unit Presentation and Disclosure, require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

Our specific evaluations of the criteria applicable to the **Municipality** indicate no organizations meet the criteria to be included as component units.

SERVICES PROVIDED TO AGUADILLA'S CITIZENS

The **Municipality** provides essential services to the population such as: welfare, public safety, street maintenance and repair, urban development, recycling programs, parks and recreation, general services, among others.

OUR FUTURE LEADERS The **Municipality** along with the Puerto Rico Family Department, established an office called "Center of Resources and Referrals for Children". The purpose of this office is to provide an information structure for the community, with technical assistance, training, orientation, and specialized materials oriented to early education.

The system information provides a range of services for the community, including the access to a catalog which includes all available services, such as: Child Care, Head Start, Mothers and Child Program, among others. It provides the services from Pediatricians, vaccinations, dentists, and other health professionals related to the children.

We also provide a data base called "Nacraware", which provides information of licensed Day Cares in Puerto Rico and in the United States.

We established an educational program called **"Having Fun and Learning at the Aguadilla City Electronic Library" and the San Antonio Electronic Library.** With this agreement, we intend to help 120 students with tutorials in Math, English, Spanish, and Science, on weekdays from 4:00 PM to 6:00 PM.

SPORTS Aware of the necessity for providing sport activities to our citizens, including our young and elderly population, we created the program **"More Sports in your Community"**, which provides more than 20 sport activities on a weekly basis, including Tae Kwon Do, Basketball, Baseball, Tennis, Dance, Zumba, Volleyball, Boxing, among others.

This year, we finished construction on the **Tres Palmas Park**, with a total investment of over $3.5 million. We also made improvements to the Ana Beltrán Track, among them the replacement of its surface, with an investment of $493,000. We also remodeled the track at the Ramey Air Force Base with an investment of over $300,000.

PUBLIC WORK SERVICES This important department is in charge of maintaining the roads, bridges and all related infrastructure in the best possible conditions. The **Municipality**'s General Fund has separated a budget of approximately $2.9 millions for their operation of the current fiscal year. Among these projects, was the **Cuesta Vieja - Cuesta Nueva Connector**, with an investment of $1.7 million.

HEALTH AND SANITATION This department is responsible for the solid waste disposal. The **Municipality** is committed with our environment, and accordingly, we have implemented an intensive recycling program in all the communities of Aguadilla. Annually, we provide seminars and trainings to all schools in Aguadilla, and conducted several contests in which approximately 25 educational institutions participate.

This department is in charge of the coordination of the landfill post-closure maintenance. The closure of the landfill has been approved by the US Environmental Protection Agency as of July 2010. The post-closure costs will be financed through the revenue from the sales and usage taxes and from the collection of waste from private companies in the Aguadilla area. Maintenance cost was $192,797 this year, which is being funded by the General Fund, and by the sales and usage taxes.

We have entered into a contract with the Municipality of Moca for the collection and disposal of waste, at an annual cost of $860,000.

In addition, this department has the responsibility of the pruning of trees and debris collection. The importance of these services, is that due to the susceptibility of our area to suffer from flooding and other hazardous weather, it helps to prevent disasters and loss of properties and, more important, lives.

PUBLIC SAFETY Aguadilla has its own police department, Aguadilla's City Police Department (ACPD). The ACPD only has jurisdiction in the **Municipality** and provides services and protection to local citizens and travelers alike. This year we provided a budget of approximately $1.8 million for equipment, payroll, and other related expenditures.

This department has 60 employees from which only nine are for administrative functions. Among our special projects, we bought a modern and sophisticated mobile headquarter. This unit is equipped with four security cameras, one special camera that elevates up to seven feet to monitor activities, conference room and a detention area, among other features.

We have placed several security cameras among the **Municipality** to monitor strategic areas that are distant from the Municipal Headquarters. In addition, we have a boat specially equipped for marine surveillance, and four jet skis. Recently, we acquired a sport car for the Transportation Unit.

Aguadilla also hosts the Puerto Rico State Police Command (PRSP) for its region. This region covers Aguada, Aguadilla, Isabela, Moca, Rincón and San Sebastián. It also hosts the PRSP Highway Patrol Division for its region, the *Fuerzas Unidas de Rápida Acción* (United Forces for Rapid Action) of the PRSP, the US Army Reserve Center, PR National Guard, and the Border Patrol.

URBAN DEVELOPMENT The **Municipality** is performing several projects and major improvements in the infrastructure that is property of the **Municipality** as well as property that belongs to the Government of Puerto Rico. During this fiscal year, we have invested approximately $6 million on such projects. We continued under the agreement with the Department of Public Transportation and the Road Authority, for the construction of **La Vía Boulevard**. This project will be located at the La Vía sector, which borders the city and was the site of the Historic Train Route.

A train passed through the area from 1892 to 1954, as part of a transportation system for passengers and cargo which ran around the island. This year we invested $1.4 million in conditioning and preparation of the space to begin construction, this on top of the $4 million we invested last year in expropriations of property and land preparation and conditioning.

OFFICE OF PERMITS In 2000, a Territorial Ordering Plan was adopted by the **Municipality** to make an inventory of land, roads, and infrastructure that are the property of the **Municipality**.

The **Municipality** is at the Fifth Level of Hierarchy of Autonomy. With this level of autonomy, the **Municipality** can decide about preliminary development projects and construction permits for urbanization projects; municipal projects, and projects of social interest, among others.

One of the most significant projects that have been delegated with this agreement is the construction of malls, with an area of less than 249,999 square meters and hotels with a maximum of 200 rooms.

This department is integrated by 23 employees that evaluate, inspect, and document the projects; including engineers and technicians.This department investigates complaints of construction and use, and is responsible for helping enforce the law, identifying projects of illegal nature, imposing fines, and referring for legal processing.

NEW PROJECTS

There is currently one ongoing project at the **Aguadilla's Waterfalls Aquatic Park**, which is the construction of a new hotel next to the park, which will be called **Las Cascadas Hotel**. This project represents an economic injection for the **Municipality** and an employment source for the western region of Puerto Rico.

The Hotel requires an investment of approximately $22 million, which will be financed through an emission of bonds of the Governmental Development Bank of Puerto Rico. Requisite permits, design, and studies have been completed with an investment of $167,000.

We began construction of the hotel this year and expect completion in December, 2014. The revenue that this proprietary fund will generate will absorb the repayment of this debt. This hotel is going to be administered by the **Municipality**, in association with Marriott International, who are going to consult in the areas of marketing and sales.

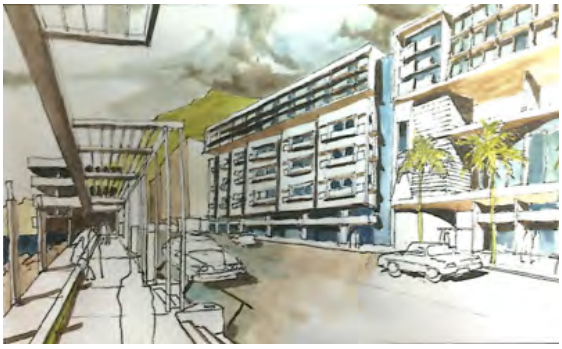
Ocean Dreams Apartments, **Real Marina Suites**, and **Atlantic View**, are three apartment's complex that will be built and available for sale with in the next five years, all these projects have an incredible ocean view. Facilities of pool, private parking, and other amenities will be available for the residents of these complexes.

The **Ocean Dreams Apartments** consists of 40 units distributed along four floors. The complex will have 12 units with a construction area of 1,028 square feet, which includes 2 rooms and 2 bathrooms. The other 28 units will consist of 3 rooms and 2 bathrooms in a construction area of 1,117 square feet. The investment of this project is approximately $5,630,000; and the projected selling price will start at $300,000 per unit.

The **Real Marina Suites** consists of 60 units, from which 12 units will have a distribution of two rooms and two bathrooms in 1,160 square feet of construction; and 48 units with a distribution of three rooms and two bathrooms in 1,293 square feet of construction. The starting selling price is $300,000 per unit, and the investment is estimated in $7.75 million. Construction on this project will begin next year.

The **Atlantic View** will have 60 units, all of them with a construction area of 1,303 square feet, and a distribution of 3 rooms and 2 bathrooms. This project needs an investment of $7.6 million, with a selling price of $300,000.

A project that will increase and strengthen the fishing industry is the **Paseo Real Marina**. This project will include the installation of stone revetments along approximately 2,100 meters of coastal zone to protect State Road PR-442 and Yumet Street from Columbus Park to the intersection with San Carlos Street. The first phase of this project was completed this year with an investment of over $12 million. The replacement and/or improvement of the existing bridge and boat ramp over La Cacula Creek was completed during the year. Relocation of the potable water, sanitary, electric power and telecommunications systems, road reconstruction, traffic signs, and the development of recreational facilities that will include a pedestrian Walkway, parking area and six (6) kiosks for the sale of crafts or food, with their corresponding restrooms is in the next phase of the project.



Approval from the Board of Planning has been obtained to build an **Arts Center Complex**. This project includes an arts center with capacity for 1,500 seats and an IMAX© theatre with 800 seats, a hotel with a casino, apartments for rent or sale, and commercial locals of approximately 40,000 square feet of available space. We finished the process of appraising and buying the properties that exists in the area in which the complex will be located. Public hearings were completed this year, and over $5 million have been invested of a total of approximately $80 million estimated to complete the project.

The new **Aguadilla City Center** facility is composed of a multi-floor parking with capacity for 500 vehicles, an area where the traditional market place is located, premises available for rent at a monthly fee of $25 per square feet (offices and restaurants), and an activities room with capacity for 500 guests.

The area that is designated for office rent has 27,500 square feet, and the area for the restaurants has 1,400 square feet of construction. The market place has space for seven kiosks on a construction area of 2,600 square feet. There is also space for some Central Government offices and for a new Court House. The Department of Justice and the Property Register will use this facility to house their offices. The rent income obtained from these government offices, will repay the General Bond Obligation used to finance the construction.

In the City Hall, we constructed an **Anthropologic Museum**, which is available for all Aguadilla's Citizens. Along with this project, an Annex to the City Hall was completed in January of 2013. The new building has eight floors in which the municipal departments are located. The old City Hall and the new building are connected through a bridge over the García Méndez Walking Path. To generate revenues for this project, the **Municipality** will sell advertisements to be shown in a gigantic screen in the front of the building.

Other projects that we are working on are the **Museum of Discovery**, **Music Museum**, and a **Historical Archive** in the town center. This complex will also include a cyber-café, music and dance classrooms. Also in the town center, a new gym will be constructed.

Before the end of 2013, we will inaugurate the **Veteran's Cemetery**, a project that has been planned for almost 10 years, at a total investment of over $10 million.

Sites of Interest

As mentioned above, the **Municipality** operates four Proprietary Funds: the **Aguadilla's Waterfalls Aquatic Park**, **A.I.S.A.**, the **Aguadilla Bowling Alley**, operated and accounted for under the **Aguadilla City Enterprises**. The aquatic park opened its doors in 1985 and is currently known as the biggest water park in the Caribbean; and includes 10 different rides. Its attractions include the "Crazy River" which simulates rapid rivers, and the Wave Pools, which simulate the waves of a beach.

For children there's the Kiddy Pool area, and for the lovers of speed and adventure there's the Speed Slide, "The Bomb", and the Water Tunnel. This park offers four water slides with an approximate travel time that ranges from fifty-seconds to eighty-seconds; these are the Cosmos and the Snake. During this fiscal year, major improvements were made to our facilities, to offer our community a renovated park.

A.I.S.A. opened its doors in 2005, and is believed to be the only facility of its kind in the Caribbean. Although Puerto Rico hosts several ice skating events during the Christmas season, the **A.I.S.A.** is the only ice-skating facility open year-round. The arena was built by the **Municipality**, under the current Municipal administration of Hon. Carlos Méndez Martínez.

A.I.S.A. is located along the beachfront, and it is about the size of a Junior-Hockey (115' x 62') arena. This facility has on the first floor the ice-skating rink, an arcade, and three activity rooms available for rent. These activity rooms are rented at a rate of $150.00. The second floor hosts a Boxing Club, a Music Room for the City Band, and an office space rented. The Boxing Club is an initiative of the **Municipality**, in which boxing practices are provided to our citizens at no charge.

The Music Room has instruments available for use to our visitors, and music lessons are provided at no charge to adults and children. In the **A.I.S.A.**, we constructed in the third floor, three activity rooms with ocean view. In the first floor of the **A.I.S.A.**, a new restaurant was constructed, **Yolas Restaurant**.

As part of the **Aguadilla City Enterprises** four franchises operated during this fiscal year. Along with these Municipal Enterprises, our **Municipality** has other parks and facilities of recreational interest.

The **Municipality** has the **Punta Borinquen Lighthouse**, which was built in 1889, and has been designated a historic site worthy of preservation by the National Register of Historic Places.

Near to this lighthouse is the Punta Borinquen Golf Course, which is an 18 holes golf course, originally built for President Dwight D. Eisenhower.

We renovated a historic monument, **El Parterre**. This is a beautiful recreational park that was first built on the late 1890's. This park has become a valuable icon of the **Municipality** as the years have gone by and the majesty of this spring dresses the park.

In Aguadilla, we have two other mayor plazas, **Youth Fountain** and **Los Catalanes**. The first one has a big fountain in tribute to the youth, gazebos, and five kiosks for the sale of food and drinks. **Los Catalanes Plaza** consists of public areas for rest, fountains, and five kiosks.

Aguadilla was the site of the U.S. military's Ramey Air Force Base for almost five decades. During this period, Aguadilla was home to the Strategic Air Command 72nd Bombardment Wing, Heavy equipped with B-52s, a very strategic facility during the Cold War.

Though the infrastructure still exists, it was handed over to the Government of Puerto Rico in 1973. The aerial facilities are now civilian controlled by the Puerto Rico Ports Authority. The facilities now make up the **Rafael Hernández International Airport**. The barracks now host the Faro Inn Suites, a 79-room hotel. The Officer's Club now hosts the Faro Conference Center, a 22,000-foot (6,700 m) meeting facility. The hospital has been transformed to become the **Courtyard by Marriott Punta Borinquen Resort & Casino**, a 150-room hotel with a casino and the first Marriott in Puerto Rico out of the San Juan Metropolitan Area.

Ramey also hosts the **University of Puerto Rico - Aguadilla Campus** and the Friedrich Froebel Bilingual School (K-6). The High School became Ramey Job Corps Campus and the elementary school became the Esther Feliciano Mendoza Middle School.

There is still an active part of the base that hosts the Coast Guard Borinquen Air Station. There are also other government agencies installed at Ramey, including the United States Department of Homeland Security, Customs & Border Protection, and the United States Border Patrol, the United Forces for Rapid Action of the Puerto Rico State Police and the Puerto Rico National Guard.

Ramey is also the site of the new **Skate and Splash Park**. This is a recreational park ideal for kids and adults. The project has a skate bowl in concrete ideal for everyone who likes this sport, a splash park and other recreational sites for kids, and a racetrack. In addition, a building is located in the center of the park, which has gazebos, and in the second floor a room available for rent.

The strategic location of Aguadilla has made it one of the most famous in world-class surfing beaches. Aguadilla's beaches, being the most numerous of all other municipalities in Puerto Rico, host a variety of amateur and professional surfing events every year. They have also hosted a variety of championships, including the ISA world championships in 1968 and 1988. Aguadilla's famous surfing spots include "Surfer's Beach", "Table Tops", "Gas Chamber", "Las Ruinas", and "Survival".

ECONOMIC FACTORS

Local Economy

Aguadilla was once primarily a fishing village, but has changed with the times. Although there is still a great deal of commercial fishing in Aguadilla, the city is now also home to a variety of industrial plants ranging from LifeScan, Symmetricom and Hewlett Packard at San Antonio Technological Park. These industrial plants have drastically increased the income per capita of Aguadilla, creating a robust middle class and upper-middle class, by Puerto Rican standards.

Aguadilla has two other industrial sites: Montaña Industrial Park and Camaseyes. In the last one, Suiza Dairy, Micron Technology, and Productos La Aguadillana are located. While the Puerto Rico State Police Academy, Automeca Technical College, and another branch of Hewlett Packard are located in Montaña Industrial Park.

Effective November 15, 2006, the Government of Puerto Rico implemented a State Sales Taxes of 6%. Through the Law No. 80 of July 29, 2007, all Municipalities in Puerto Rico were required to impose an additional 1%, which is retained by the Municipalities. We restricted the use of the 1% for the solid waste disposal management. During this fiscal year, the Sales and Usage Taxes Revenue was just above $4.3 million.

Long – Term Financial Planning

As shown in the Balance Sheet – Governmental Funds Financial Statements, the General Fund has a total of $10.2 of fund balance. This amount, according to GASB 54 requirements, Fund Balance is divided onto four categories: Restricted, Committed, Assigned, and Unassigned. Restricted Fund Balance for the year was $181, Committed Fund Balance was $728,714, Assigned Fund Balance was $338,696, and Unassigned Fund Balance was $9,197,365.

The Due from Other Funds line item of the Balance Sheet – Governmental Funds Financial Statements General Fund which is $5.6 million, mainly related to the expenditures incurred by projects and services carried by other funds, which are financed by the General Fund until the Federal Government or State Agencies transfer the funds.

Relevant Financial Policies

Budgeting As an internal control, the budgetary control is maintained by line item and administered by the Executive Branch and the Legislative Branch.

The Mayor along with the administration of the Executive Branch Budget is authorized to make adjustments through Executive Orders, which have to be notified to the Legislative Branch. An analysis of the encumbrances that are outstanding on each line item is made before the release of a purchase order. Accountability for budgetary compliance is held at the department level. This control ensures compliance with the legal requirements of the approved budget.

Major Initiatives

The **Municipality** is in the process of creating several new municipal enterprises, to be operated under the **Aguadilla City Enterprises**. These will include a new cemetery for the general public with an investment of over $5 million, after completing construction of the **Veteran's Cemetery** this year. We completed construction of the **Tres Palmas Park**, which has an artificial lake, a basketball court, and a baseball park. Also, the **Paseo Real Marina** project, has begun construction of the first phase, expected to be completed next year. For the **Paseo Real Marina** the **Municipality** this year invested over $1 million on the construction of this project, with 31% of completion, and expect it to be ready during fiscal year 2013 - 2014.

Another project which has already begun construction, is the **Historical Archive** and the **Museum of the Discovery**. This **Historical Archive** is expected to be completed around January, 2016. Other projects currently in construction are: the BBQ Patio Grill (adjacent to the Aguadilla Ice Skating Arena and expected to be finished before the end of 2013), the remodeling of the Plácido Acevedo Plaza (expected to be completed around September, 2014), and the **Las Cascadas Hotel** (expected to be completed before the end of 2014).

We continue the development process for the **La Vía Boulevard** which is in the final stages of planning and permits. For the **Arts Center Complex** has finished the public hearing process and we hope to continue advancing with this $80 million project.

Next to the **Las Cascadas Hotel**, the **Municipality** acquired 14 acres of land next to State Road #2, to be developed for businesses that are planning to establish new facilities in our city.

Awards and Acknowledgments

Last year we received our third **Certificate of Achievement for Excellence in Financial Reporting** for our **Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012**. The Certificate of Achievement is a prestigious national award recognizing compliance with the highest standards for the preparation of state and local government financial reports. For a Certificate of Achievement to be awarded, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which complies with program standards. This report also must satisfy both the generally accepted accounting principles and applicable legal requirements.

We believe that our current report conforms with the Certificate of Achievement Program requirements, and we submit it to the GFOA to determine its eligibility.

Respectfully submitted,

Mrs. Noemí Alfonso Valle
Finance Director

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2012

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Government of Puerto Rico, Municipality of Aguadilla Puerto Rico

Executive Director / CEO

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Municipality of Aguadilla, Puerto Rico for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. The Municipality of Aguadilla, Puerto Rico has received a Certificate of Achievement for the last four consecutive years (fiscal years ended 2009, 2010, 2011, and 2012). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Aguadilla CITY "Jardín del Atlántico"
HON. CARLOS MENDEZ MARTINEZ MAYOR
HON. RAFAEL FERNANDEZ NADAL MUNICIPAL LEGISLATURE PRESIDENT
CITY ADMINISTRATOR
CONSULTING OFFICES
PERMITS
HUMAN RESOURCES
PUBLIC RELATIONS
AUDITING
FINANCE
LAND PLANNING
PURCHASES
CENTRAL ARCHIVES
PROJECT PLANNING AND ADMINISTRATION
MAYOR'S OFFICE
CULTURE AND TOURISM
LEGAL DIVISION
BUDGET
INTERNAL AUDITOR
ENVIRONMENTAL CONTROL
OASIS
SPORTS & RECREATION
EMERGENCY CONTROL
GERIATRIC CENTER
SECTION 8 HOUSING PROGRAM
MUNICIPAL SECRETARY
PUBLIC WORKS
MUNICIPAL POLICE
TECHNICAL SERVICES
TECHNOLOGICAL DEVELOPMENT
FEDERAL PROGRAMS
SCHOOL TRANSPORTATION
PUBLIC BUILDINGS
EMBELLISHMENT AND MAINTENANCE
SANITATION
MUNICIPAL ENTERPRISES
RECYCLING
AGUADILLA BOWLING ALLEY
WATERFALLS AQUATIC PARK
ICE SKATING ARENA
FRANCHISE DIVISION

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Elected Officials

MAYOR

HON. CARLOS MENDEZ MARTINEZ

MUNICIPAL LEGISLATURE

PRESIDENT

HON. RAFAEL FERNANDEZ NADAL

VICEPRESIDENT

HON. JOSE R. BARRADAS MEJIAS

LEGISLATORS

HON. ANA N. MENDEZ BARRETO

HON. MELVIN BARRETO RUIZ

HON. EDWIN MATOS CARDONA

HON. DAVID GONZALEZ PUMAREJO

HON. MIRTA SOTOMAYOR GONZALEZ

HON. ALBERTO L. TORRES TORRES

HON. EVELYN HERNANDEZ TALAVERA

HON. ISABEL GOMEZ ORTIZ

HON. RAFAEL CRESPO PADILLA

HON. MIRELYS CRUZ CORTES

HON. JOHN A. GONZALEZ LEON

HON. MILTON MORALES PEREZ

HON. NOEMI CABRERA

HON. EDGAR SANABRIA ALVAREZ

Appointed Officials

MS. WANDA I. PEREZ – MAYOR OFFICE DIRECTOR

MS. NOEMI ALFONSO VALLE – FINANCE DIRECTOR

MR. JOSE I. LACOURT RIVERA – AUDIT DEPARTMENT DIRECTOR

MS. DAMARIS MEDINA – MUNICIPAL SECRETARY

MS. LISSETTE FELICIANO – ASSISTANT TO THE MAYOR

MR. DAVID MORALES – CITY ADMINISTRATOR

MS. JESSICA ACEVEDO – PLANNING & BUDGET DEPARTMENT DIRECTOR

MS. NANNETTE GUEVARA – HUMAN RESOURCES DEPARTMENT DIRECTOR

ENG. ORLANDO GONZALEZ – PERMITS DEPARTMENT DIRECTOR

MR. JOSE CASTRO – PUBLIC WORKS DIRECTOR

MS. TERESA SOTO – CITY ENTERPRISES ADMINISTRATOR

FINANCIAL SECTION

- Independent Auditor's Report
- Management Discussion and Analysis
- Basic Financial Statements
- Notes To The Basic Financial Statements
- Combining Financial Statements

Las Cascadas Hotel

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Aguadilla, Puerto Rico (Municipality),** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Aguadilla, Puerto Rico** , as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 23 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* effective July 1, 2012, and Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Aguadilla, Puerto Rico's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the **Municipality**'s internal control over financial reporting on our test 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* in considered **Municipality**'s internal control over financial reporting and compliance.

ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 – IN FORCE

Yauco, Puerto Rico
December 20, 2013

Stamp #E75235 was affixed to
the original report

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The following is a discussion and analysis of the **Autonomous Municipality of Aguadilla, Puerto Rico (Municipality)**'s financial performance, including an overview and analysis of the financial activities of the **Municipality** for the fiscal year ended June 30, 2013. Readers should consider this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the **Municipality**'s financial statements, including the notes to the financial statements, which are located after this analysis.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The government-wide financial statements report information about the **Municipality** as a whole using the economic resources measurement focus and accrual basis of accounting:

- Net Position of the **Municipality** Governmental Activities, on a government-wide basis, decreased at the close of fiscal year 2013 by ($3,157,175), and 2012 increased by $22,539,046, as restated.

- Net Position of the **Municipality** Business-Type Activities, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by $11,425,619 and 2012 by $10,963,464.

- Net Position of the **Municipality**, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by $157,346,358, and 2012 by $160,041,378, as restated.

- Total Revenues of the **Municipality** Governmental Activities, on a government-wide basis, decreased by $9.3 million (14.8%) and expenses decreased $351,494 million (0.006%) in comparison with year 2012.

- Total Revenues of the **Municipality** Business-Type Activities, on a government-wide basis, decreased by ($789,820) (26.6%) and expenses decreased ($1,233,816) (37.3%) in comparison with year 2012, due principally activities of a new enterprise.

- Total net change in net position, on a government-wide basis, amounted to ($2,695,020), a decrease of ($24,936,402) (925.3%) with respect to prior year (2012) net change, principally for a donated capital assets from the Commonwealth of Puerto Rico in 2012. Without the donated capital the decrease was ($8,505,562).

Fund Highlights

The fund financial statements provide detailed information about the **Municipality**'s most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the **Municipality**'s governmental funds reported combined ending fund balances of $38,865,908, an increase of $422,857 in comparison with the prior year, as restated.

- The General Fund reported an excess of revenues over expenditures and other financing sources and uses of $179,651 and unassigned fund balance of $9,303,962.

- Proprietary funds reported combined fund net position of $11,425,619, an increase of $462,155 in comparison with prior year, after transfer of $357,892 of contributed capital by the general fund. Without these transactions the result of operation of the proprietary funds was positive by $104,263.

- The business-type activities of the **Municipality** include the Aguadilla City Enterprises as new enterprise to group the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others non-major enterprise funds.

continue

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2013 was $123,136,358 (net of accumulated depreciation of $57,567,382, related debt of $84,579,829 and unspent capital debt proceeds of $12,884,103), and $9,608,418 (net of accumulated depreciation of $4,959,505) from business-type activities.

- Long term debt general and special obligations bonds increased to $86,094,829, approximately an increase of 5.8% ($4,748,900) with respect to prior year balance.

- Other noncurrent liabilities increases and net reductions from payments amounted to $2,179,698 and ($1,000,288), respectively. Such increase is principally for Landfill Post-Closure Care Costs Obligation new estimate for the amount of $1,675,885 during the fiscal year.

- On a budgetary basis, actual revenues exceeded actual expenditures by $188,409, net of $1,237,572 transfers out to other funds.

- Estimated Revenues increase by $50,173 and total expenditures reflect economies of $138,236. Total Variances amounted to $188,409 or 0.6% of estimated resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the **Municipality**'s basic financial statements, which include three components: (1) Governmental-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements. The focus is on both the **Municipality** as a whole (governmental-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the **Municipality**'s accountability. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

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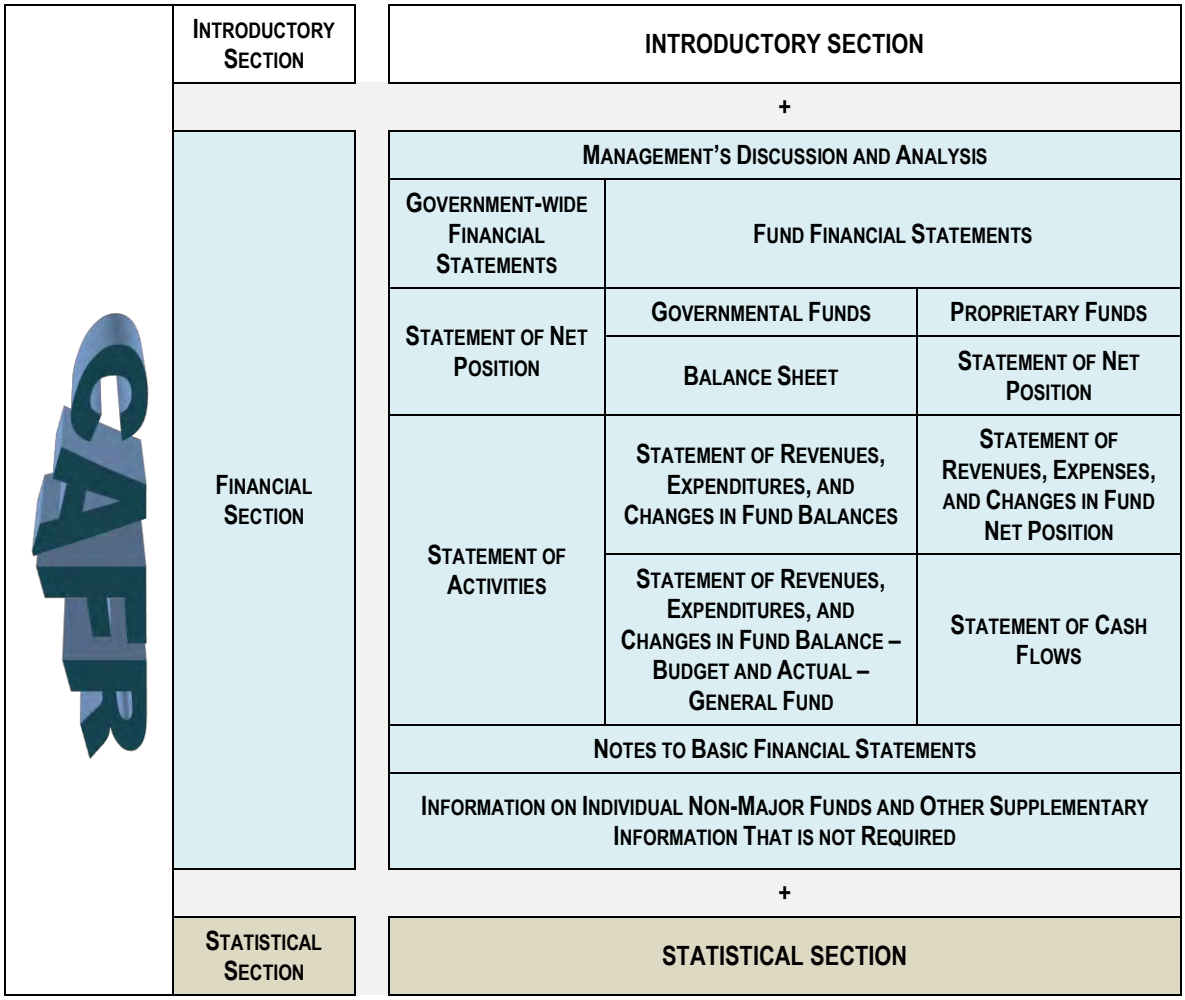
Organization of Autonomous Municipality of Aguadilla, Puerto Rico Comprehensive Annual Financial Report



The **Municipality**'s basic financial statements consist of two kinds of statements, each with a different view of the **Municipality**'s finances. The Government-Wide Financial Statements provide both long-term and short-term information about the **Municipality**'s overall financial status. The Fund Financial Statements focus on major aspects of the **Municipality**'s operations, reporting those operations in more detail than the government-wide statements. The following figure summarizes the major features of the financial statements.

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The overview section below also describes the structure and contents of each of the statements in more detail.

	GOVERNMENT-WIDE STATEMENTS	FUND FINANCIAL STATEMENTS	
		GOVERNMENTAL	PROPRIETARY
SCOPE	Entire entity	The day-to-day operating activities of the **Municipality** for basic governmental services	The day-to-day operating activities of the **Municipality** for business-type enterprises
ACCOUNTING BASIS AND MEASUREMENT FOCUS	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
TYPE OF ASSET AND LIABILITY INFORMATION	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term
TYPE OF INFLOW AND OUTFLOW INFORMATION	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid

Basic Financial Statements

- ***Government-Wide Financial Statements***

The government-wide statements report information about the **Municipality** as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position –The *Statement of Net Position* presents information on all of the **Municipality**'s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors such as the condition of the **Municipality**'s roads and other infrastructure may need to be considered to assess the overall financial position of the **Municipality**.

Statement of Activities – The *Statement of Activities* presents information showing how the **Municipality**'s net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.
Both of these government-wide financial statements distinguish functions of the **Municipality** that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

continue

The governmental activities of the **Municipality** include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. The business-type activities of the **Municipality** include the Aguadilla City Enterprises as new enterprise to group the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others non-major enterprise funds.

The government-wide financial statements can be found on pages 24-25 of this report.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that are 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** can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the **Municipality**'s most significant funds. Funds are accounting devices that the **Municipality** uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Government regulations, as well by bond covenants.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the **Municipality**'s near-term financing requirements.

As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

In particular, unassigned 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 combined ending fund balances of $38.9 million. Approximately 18.4% of this amount is available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

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, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The **Municipality** maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for five major funds and an aggregate total for all non-major funds. The **Municipality**'s major governmental funds are the General Fund, Head Start Fund, Construction & Improvement of Recreational Facilities Fund, Real Marina Fund, and Debt Service Fund. Individual fund data for the **Municipality**'s non-major governmental funds are provided in the form of combining statements elsewhere in this report.

continue

The General Fund is the chief operating fund of the **Municipality**. At the end of the current fiscal year, the General Fund balance was $10,371,553 of which $9,303,962 represents unassigned fund balance of the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 31.6% of the total fund expenditures, while total fund balance represents 35.2% of that same amount. This percentage is a key financial policy for the **Municipality** of which needs to be greater than 20%.

The net increase to fund balance for the General Fund for 2013 was $179,651. This increase was a result of the collection of Volume of Business Taxes that increase during the fiscal year by the amount of $3,014,382 in comparison of prior year. The **Municipality** will continued streamlining of operations throughout the **Municipality** by freezing staff positions. An increase to a minimum of $9.00 per hour, with an increase of $1.75 per hour to all level of salary for employees, was declared effective December 2013.

The governmental fund financial statements can be found on pages 26-30 of this report.

The **Municipality** adopts an annual appropriated budget for its general fund. A Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual has been provided for the General Fund to demonstrate compliance with this budget (page 31).

Proprietary Funds – The **Municipality** maintain only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The **Municipality** uses enterprise funds to account for its Aguadilla City Enterprise.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary funds financial statements provide separate information of Aguadilla City Enterprises, which are considered to be major proprietary fund of the **Municipality**. In prior years, the Aguadilla's Waterfalls Aquatic Park and Aguadilla's Ice Skating Arena were considered and reported as major enterprise funds. However, by GAAP criteria, those enterprises need not be considered major enterprises, because for 2013 the **Municipality** created the Aguadilla City Enterprises as new enterprise to group and combined the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others non-major enterprise funds. Accordingly, the individual fund data for those enterprise funds are not provided in the form of *combining statements* in this report.

The basic proprietary fund financial statements can be found on pages 32-34 of this report.

- ***Notes to Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to basic financial statements can be found on pages 35-83 of this report.

- ***Combining Statements***

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements and can be found on pages 84-100 of this report.

continue

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-Wide Financial Statements Analysis

The following table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

Table 1

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Statement of Net Position
As of June 30,

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Non-current Assets (as Restated)	$ 60,953,780	$ 60,212,061	$ 2,015,972	$ 1,515,027	$ 62,969,752	$ 61,727,088
Capital Assets (as Restated)	194,832,084	190,235,389	9,608,418	9,651,800	204,440,502	199,887,189
Total Assets	**255,785,864**	**250,447,450**	**11,624,390**	**11,166,827**	**267,410,254**	**261,614,277**
Current Liabilities	5,606,625	4,357,451	161,439	78,537	5,768,064	4,435,988
Unearned Revenues	9,376,437	7,776,239	-	-	9,376,437	7,776,239
Noncurrent Liabilities	94,882,063	88,953,753	37,332	61,007	94,919,395	89,014,760
Total Liabilities	**109,865,125**	**101,087,443**	**198,771**	**139,544**	**110,063,896**	**101,226,987**
Net Position:						
Net Investment in Capital Assets	123,136,358	119,836,889	9,608,418	9,587,981	132,744,776	129,424,870
Restricted	20,662,715	25,663,862	-	-	20,662,715	25,663,862
Unrestricted	2,121,666	3,577,163	1,817,201	1,375,483	3,938,867	4,952,646
Total Net Position	**$ 145,920,739**	**$ 149,077,914**	**$ 11,425,619**	**$ 10,963,464**	**$ 157,346,358**	**$ 160,041,378**

Analysis of Net Position

As noted earlier, net position (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $160,041,378 at the close of the most recent fiscal year.

The largest portion of the **Municipality**'s net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, motor vehicles, and machinery and equipment) for $132,744,776 [total capital assets less accumulated depreciation and less any related outstanding debt used to acquire those assets]. The **Municipality** uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net position represent resources that are subject to external restrictions on how they may be used.

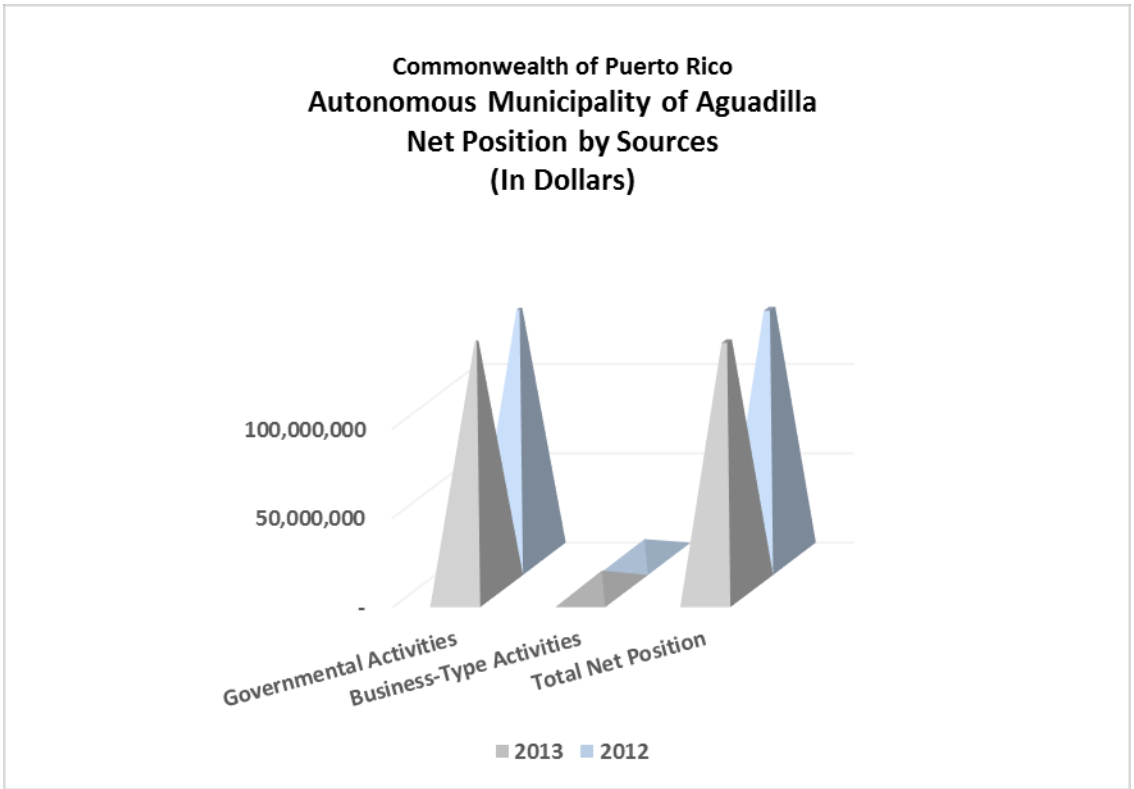
Unrestricted net position are the part of the net position that can be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2013 the **Municipality** presented unrestricted net position of $3,938,867. This balance was affected by long term obligations such as compensated absences $4,574,670, and other debts for the amount of $4,212,564 (including an increase in Landfill Post-Closure Care Costs obligation of $1,584,109 by a revision in estimated cost by a private company) for which the **Municipality** did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. There is $1,817,201 in unrestricted net position reported in connection with the **Municipality**'s business-type activities and $2,121,666 in governmental activities.

continue

An additional portion of the **Municipality**'s net position ($20,662,715) represents resources that are subject to external restrictions on how they may be used. There was a decrease of $5,001,147 in restricted net position. (See **Table 1** and **Figure 1**).

FIGURE 1



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Changes in Net Position

The following table summarizes the changes in net position for the years ended June 30, 2013 and 2012:

Table 2

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Changes in Net Position
For the Years Ended June 30,

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	$ 1,854,693	$ 1,103,816	$ 2,179,690	$ 2,969,510	$ 4,034,383	$ 4,073,326
Operating Grants and Contributions	8,907,699	14,071,839	-	-	8,907,699	14,071,839
Capital Grants and Contributions	72,305	102,123	-	-	72,305	102,123
General Revenues:						
Property Taxes	13,686,377	13,913,645	-	-	13,686,377	13,913,645
Volume of Business Taxes	10,816,480	7,802,098	-	-	10,816,480	7,802,098
Sales and Usage Taxes	4,408,603	3,508,085	-	-	4,408,603	3,508,085
Construction Excise Taxes	2,039,815	2,359,751	-	-	2,039,815	2,359,751
Intergovernmental	10,873,228	18,599,336	-	-	10,873,228	18,599,336
Interests	405,120	538,139	-	-	405,120	538,139
Other General Revenues	409,439	776,279	-	-	409,439	776,279
Total Revenues	53,473,759	62,775,111	2,179,690	2,969,510	55,653,449	65,744,621
Governmental Activities Expenses:						
General Administration	19,661,483	19,185,290	-	-	19,661,483	19,185,290
Public Safety	1,979,991	2,029,544	-	-	1,979,991	2,029,544
Public Works	3,202,954	2,741,210	-	-	3,202,954	2,741,210
Culture and Recreation	1,327,961	1,322,936	-	-	1,327,961	1,322,936
Health and Sanitation	4,520,704	4,610,810	-	-	4,520,704	4,610,810
Landfill Post-Closure Care Costs	1,675,885	-	-	-	1,675,885	-
Public Instruction	6,130,946	5,975,579	-	-	6,130,946	5,975,579
Human Services and Welfare	7,743,953	7,087,321	-	-	7,743,953	7,087,321
Urban Development	6,251,920	7,944,350	-	-	6,251,920	7,944,350
Reimbursement to Grantor Agency	-	230,542	-	-	-	230,542
Loss on Disposition of Asset	21,249	50,034	-	-	21,249	50,034
Interest Costs	3,755,996	5,446,920	-	-	3,755,996	5,446,920
Total Expenses	56,273,042	56,624,536	-	-	56,273,042	56,624,536
Business-Type Activities Expenses:						
Aguadilla City Enterprises	-	-	2,075,427	3,309,243	2,075,427	3,309,243
Total Expenses	-	-	2,075,427	3,309,243	2,075,427	3,309,243
Increase (Decrease) in Net Position Before Capital Contribution and Transfer	(2,799,283)	6,150,575	104,263	(339,733)	(2,695,020)	5,810,842
Capital Contributions	(357,892)	(142,912)	357,892	142,912	-	-
Special Item - Donated Capital Asset	-	16,430,840	-	-	-	16,430,840
Transfer-in (Out)	-	100,543	-	(100,543)	-	-
Changes in Net Position	**(3,157,175)**	**22,539,046**	**462,155**	**(297,364)**	**(2,695,020)**	**22,241,682**
Net Position - Beginning	149,077,914	126,538,868	10,963,464	11,260,828	160,041,378	137,799,696
Net Position - Ending	**$ 145,920,739**	**$ 149,077,914**	**$ 11,425,619**	**$ 10,963,464**	**$ 157,346,358**	**$ 160,041,378**

continue

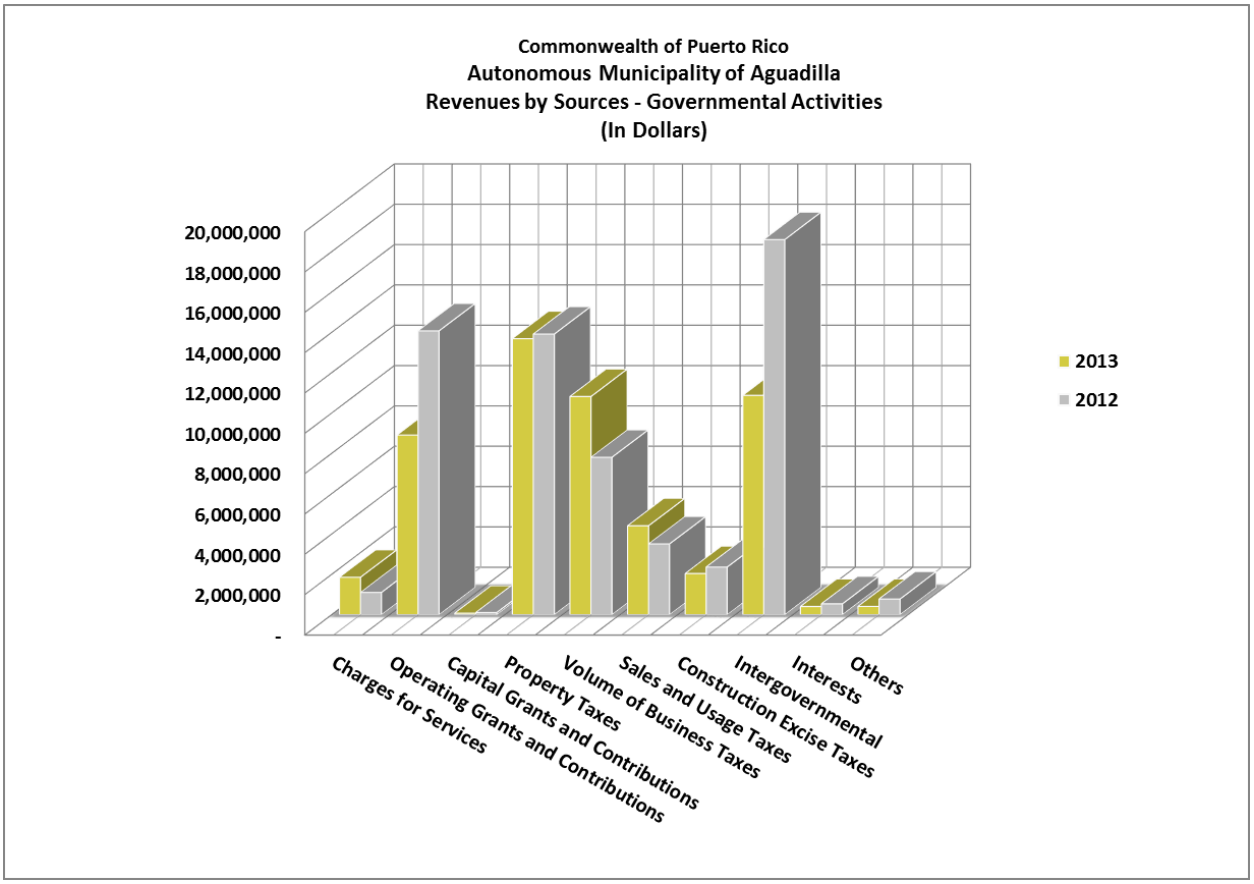
Analysis of Changes in Net Position

The **Municipality**'s net position overall decreased by ($2,695,020) during fiscal year 2012-2013, compared to a $22,241,682 increase last fiscal year. The governmental activities component of 2012-2013 change was a ($3,157,175) decrease, and business-type activities increase of $462,155, that compare with the prior year net change of $22,241,682. A discussion of these changes is presented in the government and business-type activities below.

Governmental Activities. The **Municipality**'s net position decreased by ($2,695,020) during the current fiscal year. For the most part, increases in expenses closely paralleled inflation and growth in the demand for services, urban development, Landfill Post-Closure Care Costs revision, and to cover the interest cost. Also, non-capitalized expenses were incurred for maintenance of capital assets. Principal decrease was in the Intergovernmental revenues due the donated capital assets in the amount of $16,430,840 received from the Commonwealth of Puerto Rico during fiscal year 2011-2012.

Figure 2 present revenues comparison by sources of the governmental activities during the past two years:

FIGURE 2



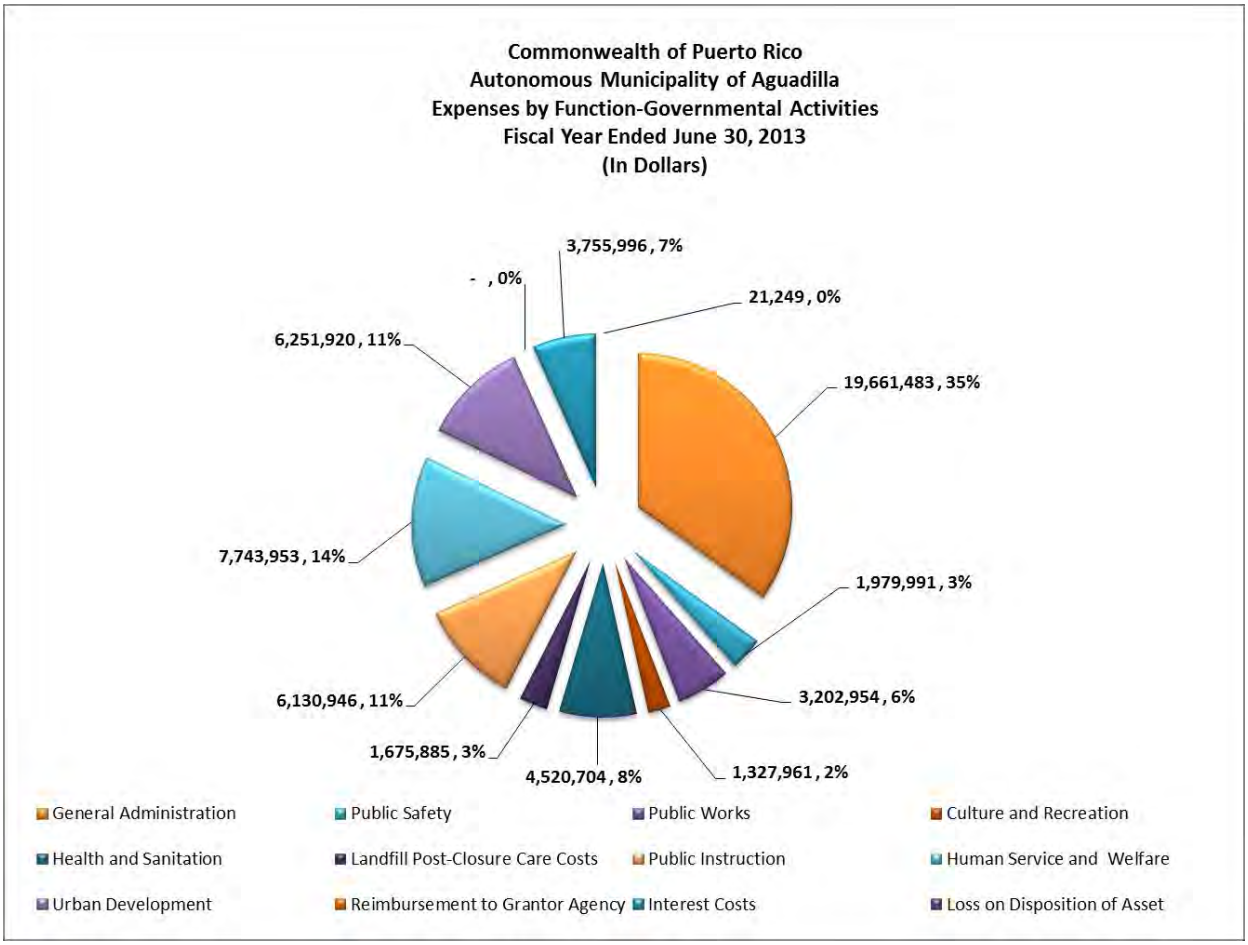
Approximately 17% of the **Municipality**'s revenues came from grants and contributions, 25.5% from property taxes, volume of business taxes 20.2%, intergovernmental 20.3%, and 17% from other sources. The **Municipality**'s expenses cover a range of services. The largest expenses are general administration with 34.7%, education representing approximately 10.9%, human services and welfare with 13.7%, and urban development with 11.1%. Program revenues of the **Municipality** covered 16.1% of total expenses.

Expenses decreased less of 0.1% or ($227,346) in comparison with 2012 year principally from reduction of interest costs of bonds that was refinanced.

continue

Figure 3 present expenses by function of the governmental activities during the fiscal year 2012-2013:

FIGURE 3



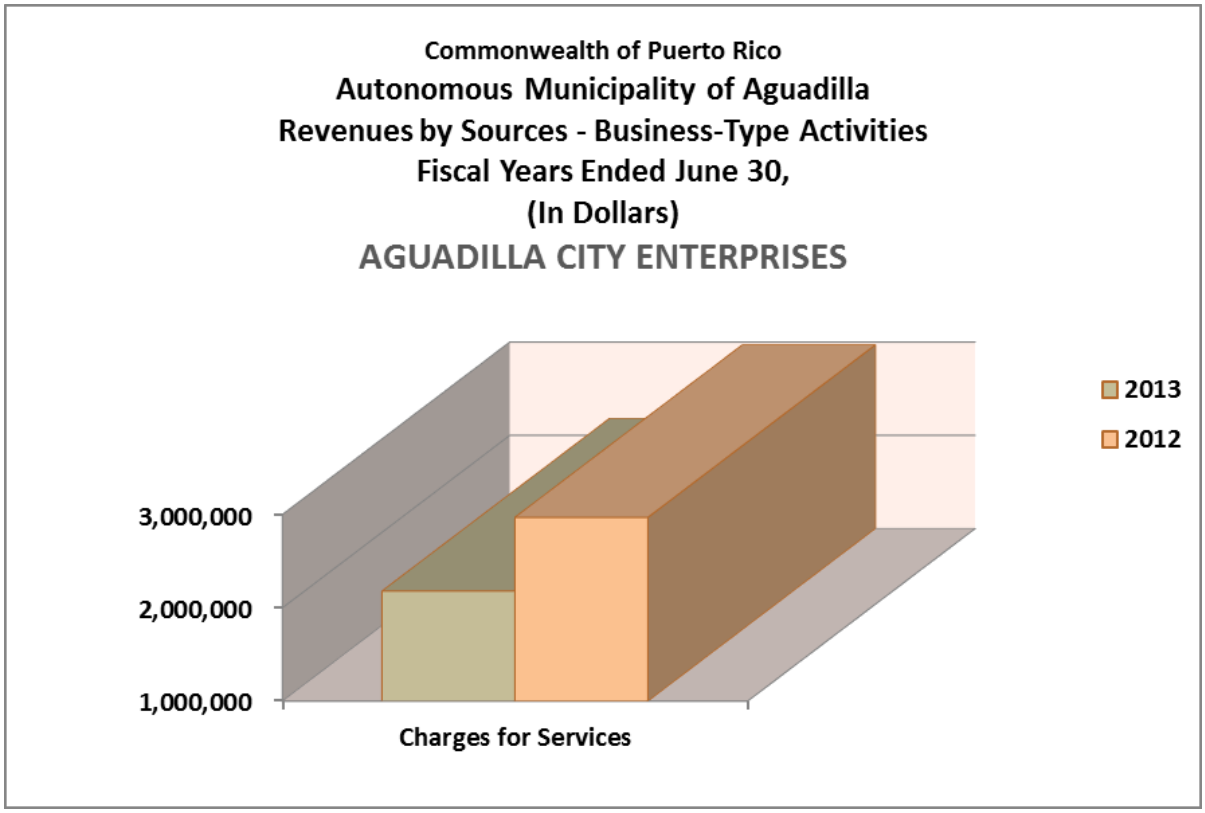
Business-Type Activities. The proprietary fund net position increased by $462,155 during the current fiscal year, after a capital contributions of $357,892 from general fund. The decrease in charges for services and corresponding reduction in expenses was due to a partial closure of the Aguadilla Waterfalls Aquatic Park during facilities improvements.

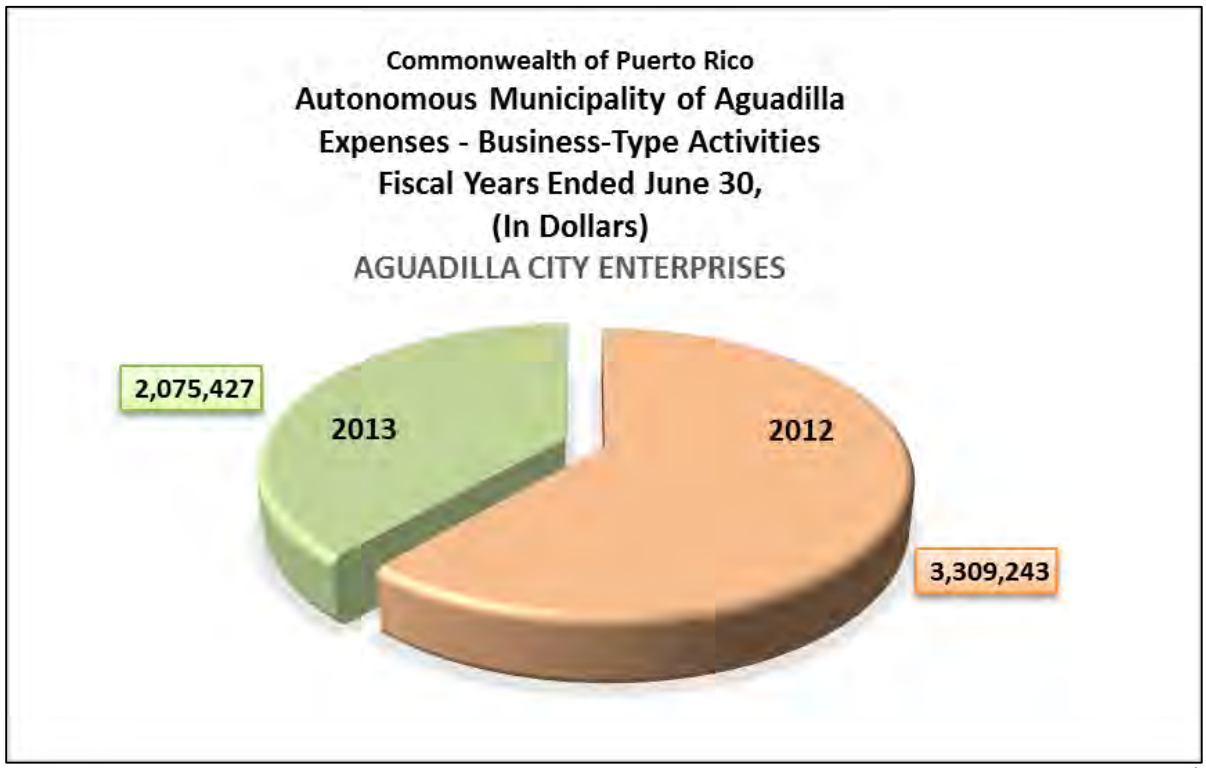
For the most part, decreases in expenses closely paralleled inflation, growth in the demand for services. During 2013 the **Municipality** created the Aguadilla City Enterprises as new enterprise to group and combined the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others non-major enterprise funds. The **Municipality** expected a better control of expenses and an increase in revenues by a program of coordinated activities within all facilities.

continue

Figures 4 present revenues by sources and expenses comparison of the business-type activities during the past two years:

FIGURES 4





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The following table focuses on the cost of each of the **Municipality**'s largest functions/programs as well as each functions/program's net cost (total cost less fees generated by the programs and program–specific intergovernmental aid):

Table 3

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Municipality Cost of Programs/Functions
Fiscal Years Ended June 30,

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Governmental Activities:				
General Government	$ 19,661,483	$ 19,185,290	$ 18,548,845	$ 18,961,652
Public Safety	1,979,991	2,029,544	1,877,324	2,029,544
Public Works	3,202,954	2,741,210	3,202,954	2,741,210
Culture and Recreation	1,327,961	1,322,936	1,310,320	1,322,936
Health and Sanitation	4,520,704	4,610,810	3,796,290	3,730,632
Landfill Post-Closure Care Costs	1,675,885	-	1,675,885	-
Public Instruction	6,130,946	5,975,579	629,469	(2,559,894)
Human Services and Welfare	7,743,953	7,087,321	5,385,054	3,150,992
Urban Development	6,251,920	7,944,350	5,234,959	6,242,190
Reimbursement to Grantor Agency	-	230,542	-	230,542
Interest Costs	3,755,996	5,446,920	3,755,996	5,446,920
Loss on Disposition of Asset	21,249	50,034	21,249	50,034
Total Expenses	56,273,042	56,624,536	45,438,345	41,346,758
Business-Type Activities:				
Aguadilla City Enterprises	2,075,427	3,309,243	(104,263)	339,733
Total Expenses	2,075,427	3,309,243	(104,263)	339,733
Total Expenses	**$ 58,348,469**	**$ 59,933,779**	**$ 45,334,082**	**$ 41,686,491**

Some of the cost of governmental activities in 2013 was paid by those who directly benefited from the programs ($1,854,693) and other governments and organizations that subsidized certain programs with grants and contributions ($8,907,699). The $45,438,345 net cost of services was covered by other general revenues including property taxes, volume of business taxes, sales and usage taxes, intergovernmental and others. Business-type activities in 2013 were paid by those directly benefited from the programs.

continue

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Funds

The focus of the **Municipality**'s governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the **Municipality**'s financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent (see **Table 4**).

Table 4

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Fund Balance
As of June 30,

	2013	2012
Fund Balances:		
Nonexpendable	$ -	$ -
Restricted	28,388,900	26,805,129
Committed	3,083,196	3,136,634
Assigned	338,696	259,667
Unassigned	7,055,116	8,241,621
Total	$ 38,865,908	$ 38,443,051

In particular, unassigned 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 combined ending fund balances of $38.9 million. Approximately 18.2% of this amount is available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed. For the fiscal year ended June 30, 2012, the governmental funds reported combined ending fund balances of $38.4 million, as restated, with a net increase of approximately $423,000 in comparison with the current year. This increase was due primarily by unused of restricted, committed and assigned funds.

The general fund is the operating fund of the **Municipality**. Unassigned Fund Balance of the General Fund represents approximately 23.9% of total fund balances and 89.7% of total ending General Fund Balance that is in compliance with Fund Balances Policies.

For the year ended June 30, 2013, the fund balance of the general fund increased by $179,651 when in the prior year there is a decrease of ($701,899), as restated (see **Table 5**).

continue

Table 5

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
General Fund
As of June 30,

Description	2013	2012
Revenues:		
Property Taxes	$ 9,026,096	$ 9,258,446
Volume of Business Taxes	10,816,480	7,802,098
Sales and Usage Taxes	1,385,764	-
Construction Excise Taxes	2,039,815	2,359,751
Intergovernmental	6,853,262	7,873,865
Interests	337,591	433,396
Charges for Service	332,489	223,638
Miscellaneous	374,515	635,110
Total Revenues	31,166,012	28,586,304
Expenditures:		
General Government	16,774,165	14,441,898
Public Safety	1,791,429	1,851,999
Public Work	2,891,327	2,414,244
Culture and Recreation	1,161,364	946,165
Health and Sanitation	2,823,870	2,895,523
Landfill Post-Closure Costs	192,797	194,102
Human Services and Welfare	3,234,571	3,397,829
Urban Development	519,239	532,380
Capital Outlay	40,156	718,602
Total Expenditures	29,428,918	27,392,742
Net Transfer In (Out)	(1,557,443)	(1,895,461)
Other Financing Sources	-	-
Net Change in Fund Balance	**$ 179,651**	**$ (701,899)**

Proprietary Funds

The **Municipality**'s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

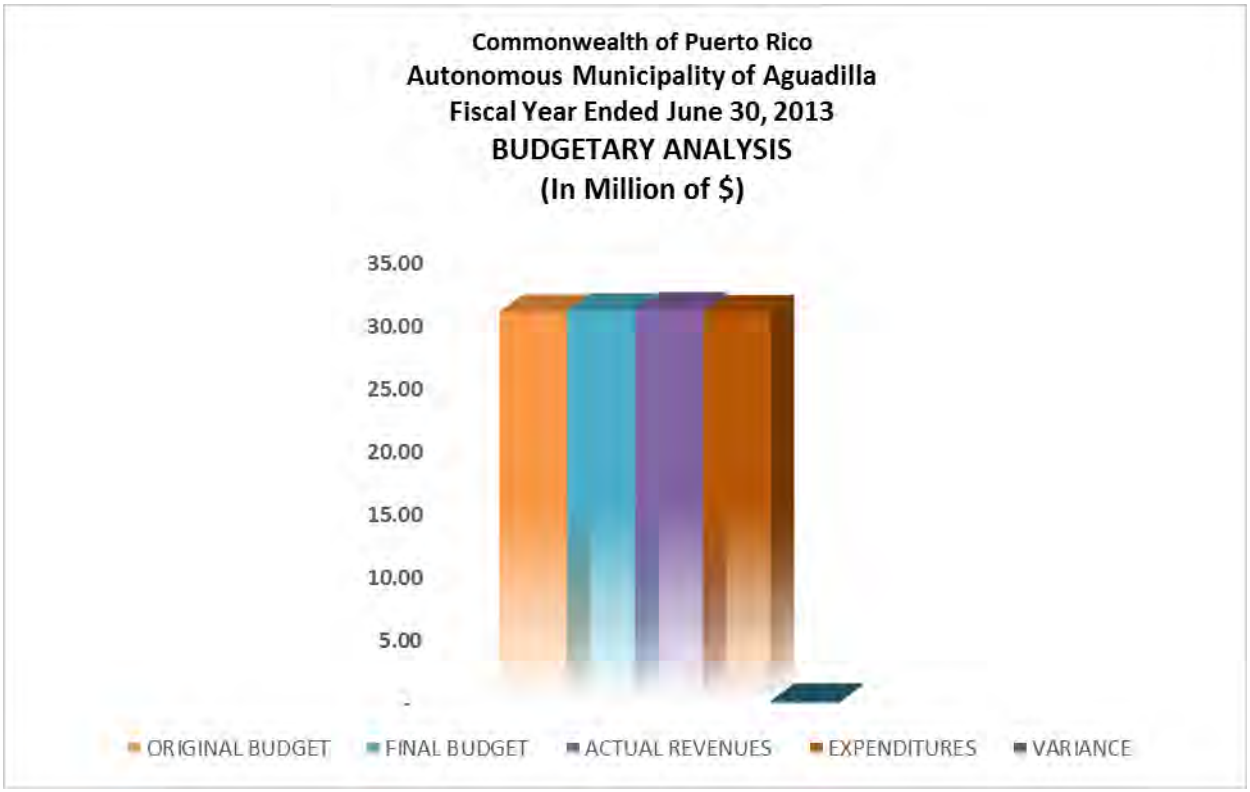
The general fund original budget for the fiscal period 2012-2013 was bigger than prior year budget by approximately $3.1 million due to an increase in volume of business taxes revenues. Actual revenues were more than the revised budgeted revenues by $50,173 due to limited increase in all revenues, except volume of business taxes and intergovernmental revenues.

Also, economies were generated during the year of approximately $138,000. The **Municipality** reported less expenditure than appropriations in those functions on payments for professional and nonprofessional services. Total Variances amounted to $188,409 or less than 0.01% of estimated resources.

continue

Figure 5 presents the budgetary comparison by their components during the fiscal year 2012-2013:

FIGURE 5



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the **Municipality** has invested $194,832,084 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of $4,596,695 or 2.4% more than prior year.

The **Municipality** acquired a total of $8,080,465 of capital assets during the fiscal year 2012-2013 as follows:

Governmental Activities

- Land – $3,106
- Construction in progress of buildings and facilities – $7,962,989 ($4,816,303 was terminated and presented as addition to buildings). Principal investment corresponded to Real Marina and "Las Cascadas" Hotel projects.
- Acquisition of Machinery and Equipment – $114,370

Prior year adjustment was presented for motor vehicles and machinery and equipment for a total amount of $87,388.

Others important repair and maintenance of infrastructure (not capitalized) was realized during the past year.

During the year, motor vehicles, and machinery and equipment was retired resulting in a loss of ($21,249).

continue

Business-Type Activities

- Construction in progress of buildings – $357,892 ($238,141 was terminated and presented as addition to buildings)
- Acquisition of Equipment – $12,454

Prior year adjustment was presented for equipment for a total amount of $63,819.

Table 6 and **Figures 6** present the components of capital assets during the fiscal year 2012-2013:

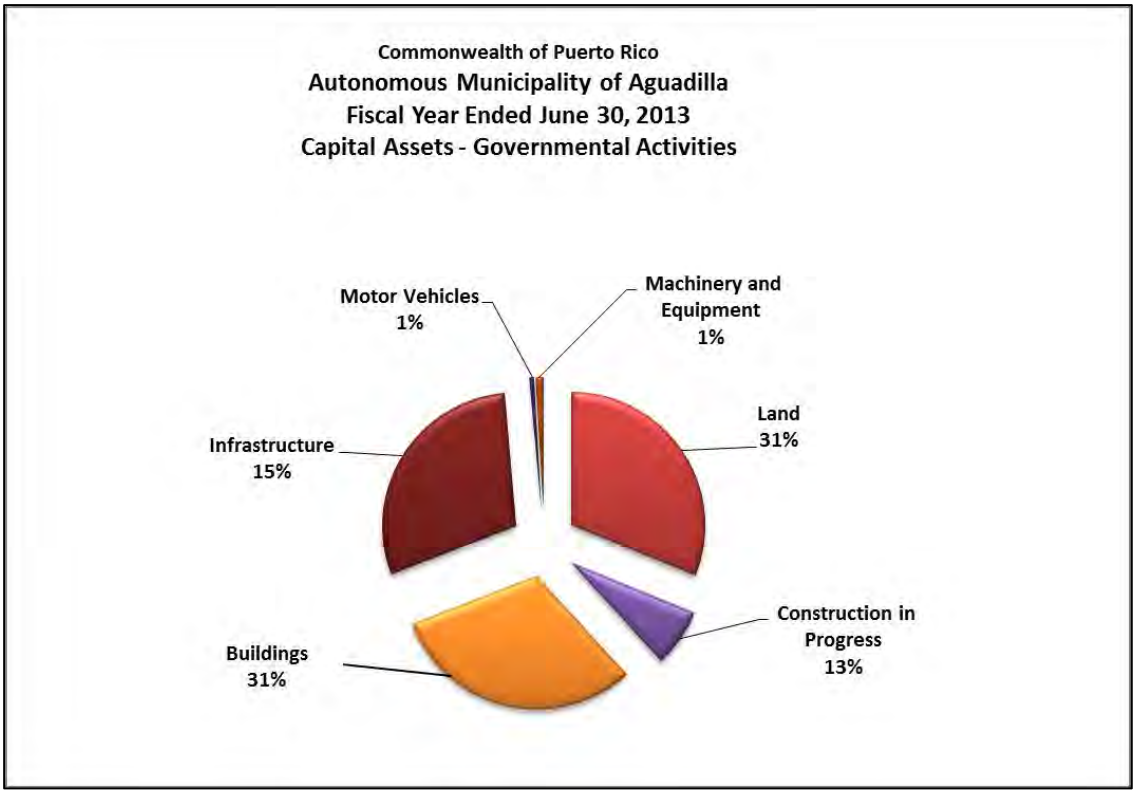
Table 6

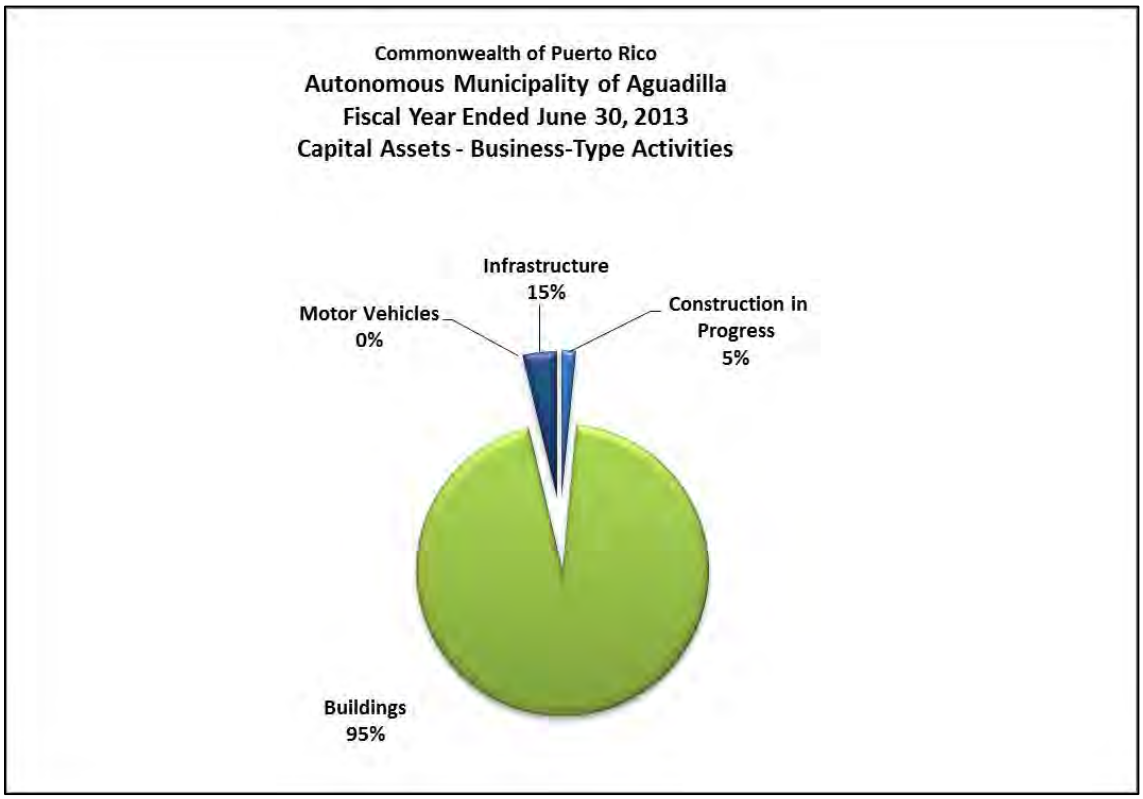
Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Capital Assets, Net
As of June 30,

Description	2013	2012
Governmental Activities:		
Non-Depreciable Capital Assets:		
Land	$ 60,700,758	$ 60,697,652
Construction in Progress	13,714,519	10,605,833
Depreciable Capital Assets (Net):		
Buildings	60,269,752	56,863,797
Infrastructure	57,457,692	58,562,607
Motor Vehicles	1,053,327	1,509,850
Machinery and Equipment	1,636,036	1,995,650
Total Governmental Capital Assets	194,832,084	190,235,389
Business-Type Activities:		
Non-Depreciable Capital Assets:		
Construction in Progress	143,330	23,579
Depreciable Capital Assets (Net):		
Buildings	9,108,971	9,105,600
Motor Vehicles	7,348	10,497
Equipment	348,769	448,305
Total Business-Type Capital Assets	9,608,418	9,587,981
Total	**$ 204,440,502**	**$ 199,823,370**

continue

FIGURES 6





Additional information on the **Municipality**'s capital assets can be found in Note 10 to the financial statements on pages 61-62 of this report.

continue

Noncurrent Liabilities

New general and special obligations bonds were issued for new capital projects in the amount of $8,530,000. Important projects for our communities should be constructed with the funds available in the capital project fund. Also, the Municipality refinance a $1,850,000 general obligation bonds and a $1,930,000 special obligation bonds, including the bond issue costs, to reduce the interest costs.

At year-end, the **Municipality** had $86,094,829 in general and special obligations bonds, an increase of 5.8% with respect to prior year. Following is a summary of the **Municipality**'s outstanding debt as of June 30, 2013 and 2012:

Table 7

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Outstanding Long-Term Debts
As of June 30,

	2013	2012
Governmental Activities:		
General and Special Obligation Bonds	$ 86,094,829	$ 81,345,929
Law Number 146 - MRCC	180,519	190,019
MRCC Liquidation	905,074	920,732
Deferred Credits	36,819	36,819
Landfill Obligation	3,054,578	1,470,469
Claims and Judgments	35,574	266,095
Compensated Absences	4,574,670	4,723,690
Total	$ 94,882,063	$ 88,953,753
Business-Type Activities:		
Compensated Absences	$ 37,332	$ 61,007

More detailed information about the **Municipality**'s noncurrent liabilities is presented in Note 11 to the financial statements on pages 63-67 of this report.

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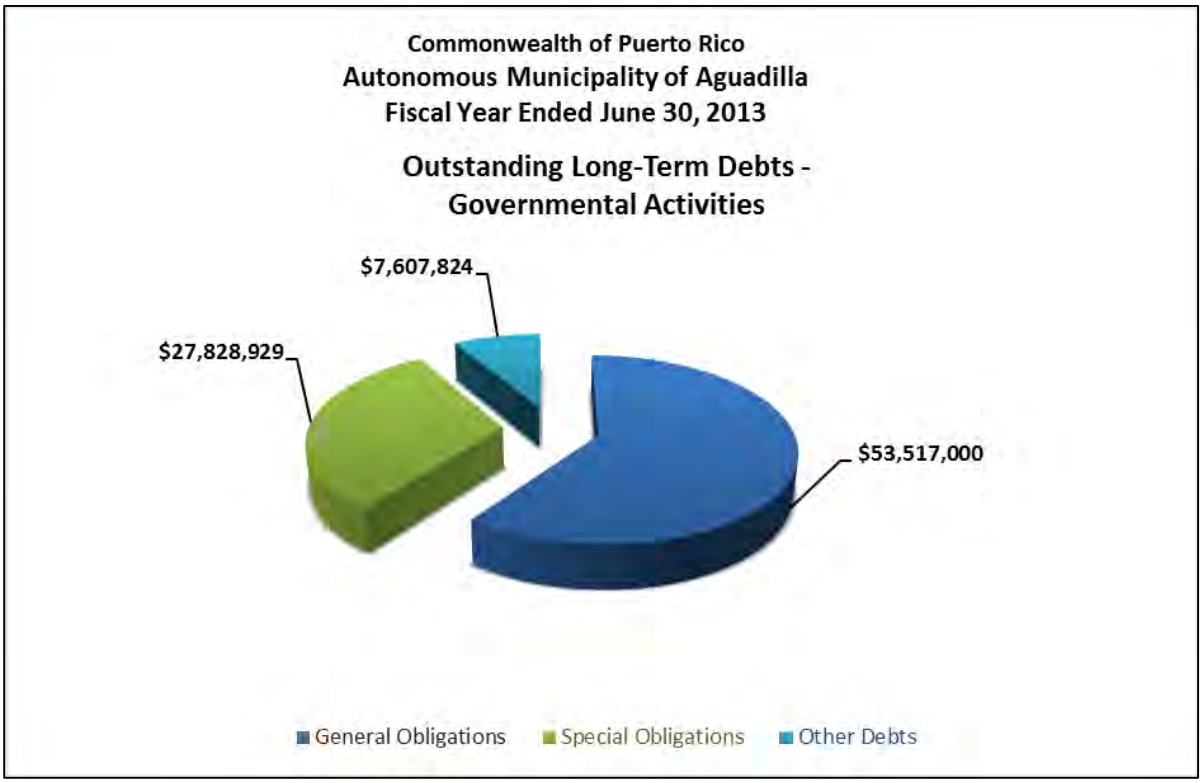
Figure 7 presents the components of long-term debts during the fiscal year 2012-2013:

FIGURE 7



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

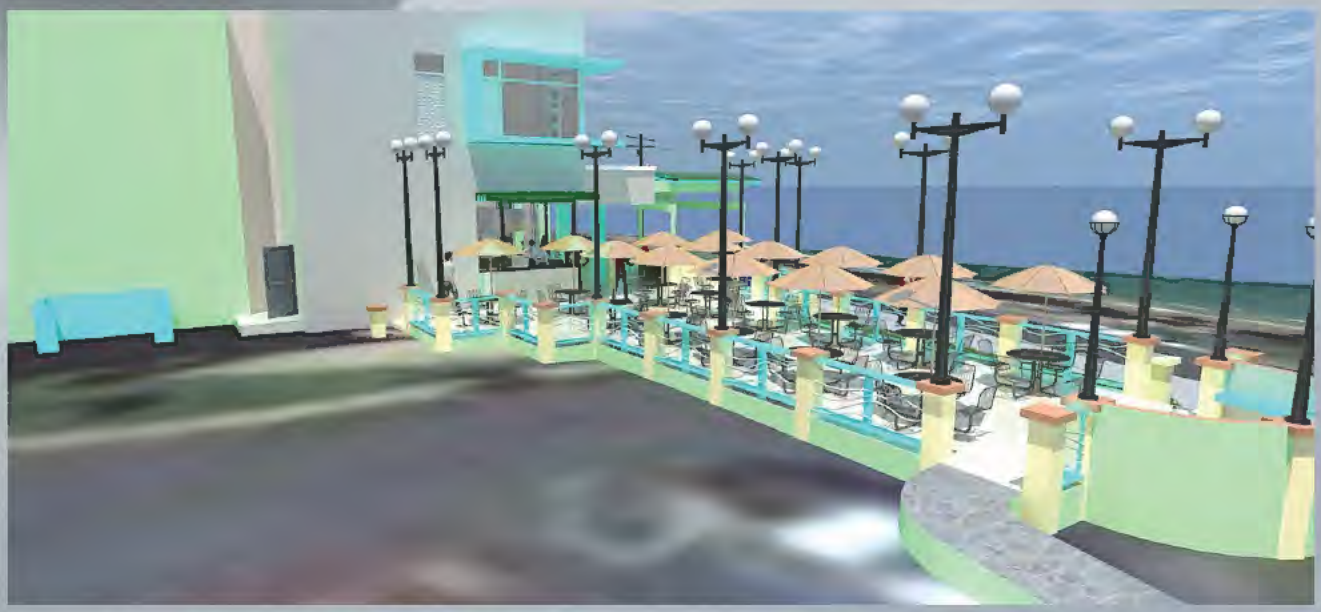
The **Municipality**'s selected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The **Municipality**'s unemployment rate now stands at 14.55%, which compares with the Commonwealth of Puerto Rico rate of 13.2%.

The **Municipality** applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2013-2014 are $28.3 million, approximately $1.2 million less than the fiscal year 2012-2013. The **Municipality** expects limited changes in revenues for the next year due to Puerto Rico economic rescission. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the **Municipality** and others private projects were develop during the year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the **Municipality**'s finances and to demonstrate the **Municipality**'s accountability for the money it receives. If you have questions about this report or need additional information, contact the **Municipality**'s Finance Department at [(787) 891-1005] or P.O. Box 1008, Aguadilla, Puerto Rico 00605.

BASIC FINANCIAL STATEMENTS



BBQ Patio Grill Restaurant

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	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and Investments	$ 32,549,852	$ 1,931,805	$ 34,481,657
Cash with Fiscal Agent	22,678,230	-	22,678,230
Receivables (Net):			
Federal Grants	5,455,371	-	5,455,371
Sales and Usage Taxes	274,425	-	274,425
Others	80,069	-	80,069
Internal Balances	(84,167)	84,167	-
Capital Assets:			
Land, Improvements and Construction in Progress	74,415,277	143,330	74,558,607
Other Capital Assets [Net of Depreciation]	120,416,807	9,465,088	129,881,895
Total Capital Assets	194,832,084	9,608,418	204,440,502
TOTAL ASSETS	**255,785,864**	**11,624,390**	**267,410,254**
LIABILITIES:			
Accounts Payable and Accrued Expenses	3,771,121	161,439	3,932,560
Accrued Interest	1,104,218	-	1,104,218
Due to Governmental Units	246,329	-	246,329
Deposits and Bonds	484,957	-	484,957
Unearned Revenues	9,376,437	-	9,376,437
Noncurrent Liabilities:			
Due within One Year	8,011,076	34,059	8,045,135
Due in more than One Year	86,870,987	3,273	86,874,260
TOTAL LIABILITIES	**109,865,125**	**198,771**	**110,063,896**
NET POSITION:			
Net Investment in Capital Assets	123,136,358	9,608,418	132,744,776
Restricted for:			
Capital Projects	7,036,484	-	7,036,484
Head Start Program	3,698,564	-	3,698,564
Debt Service	5,167,722	-	5,167,722
Community Development Projects	1,210,544	-	1,210,544
Other Purposes	3,549,401	-	3,549,401
Unrestricted	2,121,666	1,817,201	3,938,867
TOTAL NET POSITION	**$145,920,739**	**$ 11,425,619**	**$157,346,358**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
Mayor and Municipal Legislature	$ 1,420,810	$ -	$ -	$ -	($ 1,420,810)	$ -	($ 1,420,810)
General Government	18,240,673	1,112,638	-	-	(17,128,035)	-	(17,128,035)
Public Safety	1,979,991	-	102,667	-	(1,877,324)	-	(1,877,324)
Public Works	3,202,954	-	-	-	(3,202,954)	-	(3,202,954)
Culture and Recreation	1,327,961	17,641	-	-	(1,310,320)	-	(1,310,320)
Health and Sanitation	4,520,704	724,414	-	-	(3,796,290)	-	(3,796,290)
Landfill Post-Closure Care Costs	1,675,885	-	-	-	(1,675,885)	-	(1,675,885)
Public Instruction	6,130,946	-	5,501,477	-	(629,469)	-	(629,469)
Human Services and Welfare	7,743,953	-	2,358,899	-	(5,385,054)	-	(5,234,959)
Urban Development	6,251,920	-	944,656	72,305	(5,234,959)	-	(5,234,959)
Loss on Disposition of Assets	21,249	-	-	-	(21,249)	-	(21,249)
Interest on Long-Term Debts	3,755,996	-	-	-	(3,755,996)	-	(3,755,996)
Total Governmental Activities	**56,273,042**	**1,854,693**	**8,907,699**	**72,305**	**(45,438,345)**	**-**	**(45,438,345)**
BUSINESS-TYPE ACTIVITIES:							
Aguadilla City Enterprises	2,075,427	2,179,690	-	-	-	104,263	104,263
Total Business-Type Activities	2,075,427	2,179,690	-	-	-	104,263	104,263
Total Activities	**$ 58,348,469**	**$ 4,034,383**	**$ 8,907,699**	**$ 72,305**	**(45,438,345)**	104,263	**(45,334,082)**
	GENERAL REVENUES:						
	Taxes:						
	Property Taxes, levied for General Purposes				9,026,096	-	9,026,096
	Property Taxes, levied for Debt Service				4,660,281	-	4,660,281
	Volume of Business Taxes				10,816,480	-	10,816,480
	Sales and Usage Taxes				4,408,603	-	4,408,603
	Construction Excise Taxes				2,039,815	-	2,039,815
	Intergovernmental				10,873,228	-	10,873,228
	Interests				405,120	-	405,120
	Miscellaneous				409,439	-	409,439
	Capital Contributions				(357,892)	357,892	-
	Total General Revenues and Capital Contributions				42,281,170	357,892	42,639,062
	Change in Net Position				**(3,157,175)**	**462,155**	**(2,695,020)**
	Net Position – Beginning of Year, As Restated				149,077,914	10,963,464	160,041,378
	NET POSITION – ENDING OF YEAR				**$145,920,739**	**$ 11,425,619**	**$157,346,358**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2013

	GENERAL FUND	HEAD START FUND	CONSTRUCTION & IMPROVEMENT OF RECREATIONAL FACILITIES FUND	REAL MARINA FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and Cash Equivalents	$ 15,169,053	$ 270,285	$ 841,865	$ 9,131,888	$ -	$ 7,136,761	$ 32,549,852
Cash with Fiscal Agent	27,711	-	8,582,015	-	11,591,940	2,476,564	22,678,230
Receivables:							
Sales and Usage Taxes	106,597	-	-	-	-	167,828	274,425
Federal Grants	-	4,841,415	-	-	-	613,956	5,455,371
Due from Other Funds	5,370,603	-	3,000	-	-	72,456	5,446,059
Others Receivables	-	-	-	-	-	80,069	80,069
TOTAL ASSETS	**$ 20 673 964**	**$ 5 111 700**	**$ 9 426 880**	**$ 9 131 888**	**$ 11 591 940**	**$ 10 547 634**	**$ 66 484 006**
LIABILITIES:							
Accounts Payable	$ 343,332	$ 19,837	$ 561,140	$ 32,472	$ 2,660,000	$ 2,814,340	$ 6,431,121
Accrued Interest	-	-	-	-	1,104,218	-	1,104,218
Due to Governmental Units	246,329	-	-	-	-	-	246,329
Due to Other Funds	-	855,952	610,414	3,731	-	4,060,129	5,530,226
Deposits and Bonds	484,957	-	-	-	-	-	484,957
Unearned Revenues – Volume of Business Taxes	9,227,793	-	-	-	-	148,644	9,376,437
Total Liabilities	**10,302,411**	**875,789**	**1,171,554**	**36,203**	**3,764,218**	**7,023,113**	**23,173,288**
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenues – Federal Grants	-	4,235,911	-	-	-	208,899	4,444,810
Total Deferred Inflows of Resources	**-**	**4,235,911**	**-**	**-**	**-**	**208,899**	**4,444,810**
FUND BALANCES:							
Restricted	181	-	8,363,916	9,095,685	7,827,722	3,101,396	28,388,900
Committed	728,714	-	3,726	-	-	2,350,756	3,083,196
Assigned	338,696	-	-	-	-	-	338,696
Unassigned (Deficit)	9,303,962	-	(112,316)	-	-	(2,136,530)	7,055,116
Total Fund Balances	**10,371,553**	**-**	**8,255,326**	**9,095,685**	**7,827,722**	**3,315,622**	**38,865,908**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 20,673,964**	**$ 5,111,700**	**$ 9,426,880**	**$ 9,131,888**	**$ 11,591,940**	**$ 10,547,634**	**$ 66,484,006**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

Total Fund Balances – Governmental Funds (Page 26)		**$ 38,865,908**
Amounts reported for Governmental Activities in the Statement of Net Position (Page 24) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 74,415,277	
Depreciable Capital Assets	177,984,189	
Accumulated Depreciation	(57,567,382)	
Total Capital Assets		194,832,084
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
Head Start Program	4,235,911	
Community Development Block Grant Program	208,899	
Total Unavailable Revenues		4,444,810
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds	(57,199,250)	
Special Obligation Bonds	(26,235,579)	
Other Obligations	(8,787,234)	
Total Noncurrent Liabilities		(92,222,063)
Total Net Position of Governmental Activities (Page 24)		**$145,920,739**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Head Start Fund	Construction & Improvement of Recreational Facilities Fund	Real Marina Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Property Taxes	$ 9,026,096	$ -	$ -	$ -	$ 4,660,281	$ -	$ 13,686,377
Volume of Business Taxes	10,816,480	-	-	-	-	-	10,816,480
Sales and Usage Taxes	1,385,764	-	-	-	1,031,107	1,991,732	4,408,603
Federal Grants	-	6,228,077	26	-	-	5,320,318	11,548,421
Intergovernmental	6,853,262	-	232,905	-	-	3,787,061	10,873,228
Construction Excise Taxes	2,039,815	-	-	-	-	-	2,039,815
Interests	337,591	-	66	65,098	-	2,365	405,120
Charges for Service	332,489	-	-	-	-	1,522,204	1,854,693
Miscellaneous	374,515	-	3,000	-	-	31,924	409,439
Total Revenues	31,166,012	6,228,077	235,997	65,098	5,691,388	12,655,604	56,042,176
EXPENDITURES:							
Current:							
Mayor and Municipal Assembly	1,282,309	-	-	-	-	-	1,282,309
General Government	15,491,856	-	5,910	15	-	754,841	16,252,622
Public Safety	1,791,429	-	-	-	-	29,286	1,820,715
Public Works	2,891,327	-	-	-	-	-	2,891,327
Culture and Recreation	1,161,364	-	-	-	-	97,347	1,258,711
Health and Sanitation	2,823,870	-	-	-	-	1,315,957	4,139,827
Public Instruction	-	6,228,077	-	-	-	-	6,228,077
Landfill Post-Closure Care Costs	192,797	-	-	-	-	-	192,797
Human Services and Welfare	3,234,571	-	-	-	-	4,423,137	7,657,708
Urban Development	519,239	-	296,614	-	-	5,354,961	6,170,814
Capital Outlay	40,156	-	2,935,858	983,585	-	4,120,866	8,080,465
Debt Service:							
Principal	-	-	-	-	4,129,500	-	4,129,500
Interest and Other Charges	-	-	-	-	3,654,975	-	3,654,975
Bond Issue Costs	-	-	-	-	50,480	-	50,480
Total Expenditures	29,428,918	6,228,077	3,238,382	983,600	7,834,955	16,096,395	63,810,327
Excess of Revenues Over (Under) Expenditures	**1,737,094**	**-**	**(3,002,385)**	**(918,502)**	**(2,143,567)**	**(3,440,791)**	**(7,768,151)**

continue

	General Fund	Head Start Fund	Construction & Improvement of Recreational Facilities Fund	Real Marina Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES):							
Proceed of Bonds	$ -	$ -	$ 8,530,000	$ -	$ -	$ -	$ 8,530,000
Refinancing of Bond	-	-	-	-	3,798,900	-	3,798,900
Refinancing of Bond	-	-	-	-	(3,780,000)	-	(3,780,000)
Transfers – In	-	-	181,584	996,979	2,686,889	340,261	4,205,713
Transfers – Out	(1,557,443)	-	(170,610)	(1,040,897)	-	(1,794,655)	(4,563,605)
Total Other Financing Sources and (Uses)	(1,557,443)	-	8,540,974	(43,918)	2,705,789	(1,454,394)	8,191,008
Net Change in Fund Balances	**179,651**	**-**	**5,538,589**	**(962,420)**	**562,222**	**(4,895,185)**	**422,857**
Fund Balances – Beginning, As Restated	10,191,902	-	2,716,737	10,058,105	7,265,500	8,210,807	38,443,051
FUND BALANCES – ENDING	**$ 10,371,553**	**$ -**	**$ 8,255,326**	**$ 9,095,685**	**$ 7,827,722**	**$ 3,315,622**	**$ 38,865,908**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

Net Change in Fund Balances – Total Governmental Funds (Page 29)		**$ 422,857**
Amounts reported for Governmental Activities in the Statement of Activities (Page 25) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Assets	$ 8,080,465	
Depreciation Expense	(3,462,521)	
Excess of Capital Assets over Depreciation Expense		4,617,944
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset		(21,249)
Revenues that provide current financial resources received in advance in prior fiscal year and recognized in the Statement of Activities, are reported as revenues in the governmental funds in current period:		
Community Development Block Grant	(1,001,645)	
Head Start Program	(1,566,772)	
Total of Revenues		(2,568,417)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long–Term Liabilities in the Statement of Net Position. In the current period, proceeds received was		(8,548,900)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Noncurrent Liabilities in the Statement of Net Position. In the current year the repayments were.		4,129,500
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Landfill Post-Closure Care Costs	(1,584,109)	
Decrease in MRCC	15,658	
Decrease in Claims and Judgments	230,521	
Decrease in Compensated Absences	149,020	
Total Additional Expenditures		(1,188,910)
Change in Net Position of Governmental Activities (Page 25)		**($ 3,157,175)**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual Amounts (Budgetary Basis)		Budget to GAAP Differences Over (Under)	Actual Amounts (GAAP Basis)
	Original	Final				
REVENUES:						
Property Taxes	$ 8,936,335	$ 8,964,635	$ 9,026,096		$ -	$ 9,026,096
Volume of Business Taxes	10,127,063	10,865,588	10,816,480		-	10,816,480
Sales and Usage Taxes	1,535,000	1,357,417	1,385,764		-	1,385,764
Intergovernmental Revenues	6,818,725	6,958,678	6,853,262		-	6,853,262
Construction Excise Taxes	2,468,000	1,995,439	2,039,815		-	2,039,815
Interests	330,000	305,458	337,591		-	337,591
Miscellaneous	755,000	668,624	707,004		-	707,004
Total Revenues	30,970,123	31,115,839	31,166,012		-	31,166,012
EXPENDITURES:						
Current:						
Mayor and Municipal Legislature	1,511,293	1,333,827	1,320,302	(A)	37,993	1,282,309
General Government	14,641,917	15,288,300	15,283,546	(A)	(208,310)	15,491,856
Public Safety	1,904,880	1,796,890	1,795,395	(A)	3,966	1,791,429
Public Works	3,819,733	3,461,187	3,428,558	(A)	537,231	2,891,327
Culture and Recreation	1,211,804	1,210,928	1,210,738	(A)	49,374	1,161,364
Health and Sanitation	2,988,179	2,882,452	2,827,039	(A)	3,169	2,823,870
Landfill Post-Closure Care Costs	-	-	-	(B)	(192,797)	192,797
Human Services and Welfare	3,449,686	3,270,020	3,260,429	(A)	25,858	3,234,571
Urban Development	537,484	579,358	561,884	(A)	42,645	519,239
Capital Outlays	28,435	55,305	52,140	(A)	11,984	40,156
Total Expenditures	30,093,411	29,878,267	29,740,031		311,113	29,428,918
Excess (Deficiency) of Revenues Over (Under) Expenditures	876,712	1,237,572	1,425,981		311,113	1,737,094
OTHER FINANCING SOURCES (USES):						
Transfers to Other Funds	(876,712)	(1,237,572)	(1,237,572)	(B)	(319,871)	(1,557,443)
Total Other Financing Sources (Uses)	(876,712)	(1,237,572)	(1,237,572)		(319,871)	(1,557,443)
Net Change in Fund Balance	**-**	**-**	**188,409**		**(8,758)**	**179,651**
Budgetary Fund Balance, As Restated July 1, 2012	5,988,378	4,812,541	4,812,541	(C)	5,379,361	10,191,902
BUDGETARY FUND BALANCE, JUNE 30, 2013	**$ 5,988,378**	**$ 4,812,541**	**$ 5,000,950**		**$ 5,370,603**	**$ 10,371,553**

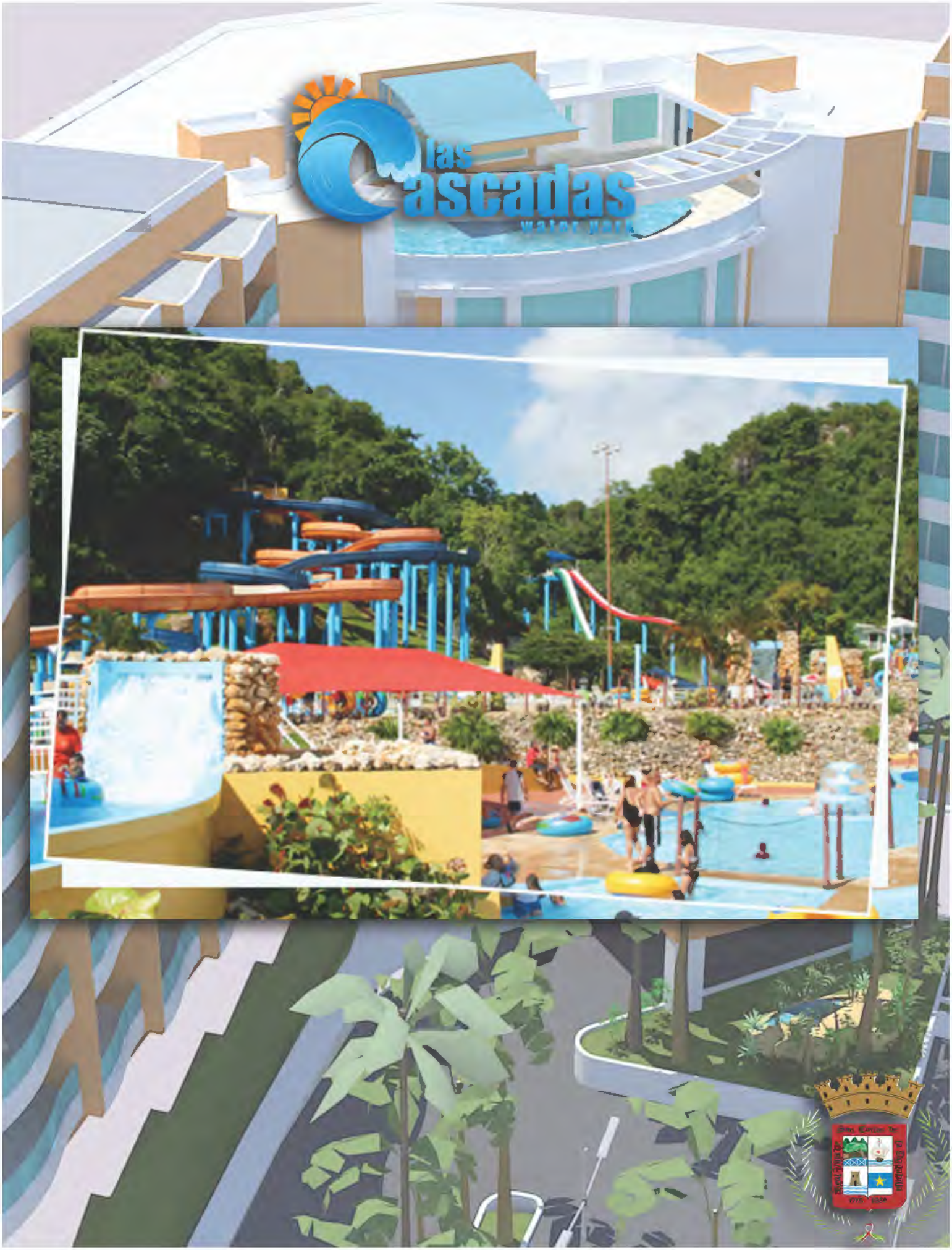
Explanation of Differences:

(A) Encumbrances for equipment and supplies ordered but not received are reported in the year. The orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes.

(B) Non-Budgetary Items.

(C) The amount reported as "Fund Balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the **Municipality**'s budget. (See Note 2.C. for the description of the **Municipality**'s budgetary accounting method.) This amount differs from the fund balance reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balance* because of the cumulative effect of transactions such as those described above.

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.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	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
ASSETS:	
Current Assets:	
Cash	$ 1,931,805
Due from/(to) Other Funds	84,167
Total Current Assets	**2,015,972**
Noncurrent Assets:	
Capital Assets:	
Construction in Progress	143,330
Buildings and Equipment	14,424,593
Less Accumulated Depreciation	(4,959,505)
Total Noncurrent Assets	**9,608,418**
TOTAL ASSETS	**11,624,390**
LIABILITIES:	
Current Liabilities:	
Accounts Payable and Accrued Expenses	161,439
Compensated Absences	34,059
Total Current Liabilities	**195,498**
Noncurrent Liabilities:	
Compensated Absences	3,273
TOTAL LIABILITIES	**198,771**
NET POSITION:	
Net Invested in Capital Assets	9,608,418
Unrestricted	1,817,201
TOTAL NET POSITION	**$11,425,619**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
OPERATING REVENUES:	
Charges for Services	$ 2,085,268
Sales	94,422
Total Operating Revenues	2,179,690
OPERATING EXPENSES:	
Contractual Services	56,011
Payroll Expenses	918,724
Fringes Benefits	201,180
Utilities	183,512
Repair and Maintenance	51,415
Supplies and Other Expenses	314,676
Depreciation	349,909
Total Operating Expenses	2,075,427
Operating Income	104,263
NONOPERATING REVENUES (EXPENSES):	-
Income (Loss) Before Capital Contribution	104,263
Capital Contributions	357,892
Changes in Net Position	**462,155**
Net Position, Beginning, As Restated	10,963,464
NET POSITION, Ending	**$11,425,619**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers and Users	$ 2,179,690
Payments to Suppliers	(522,712)
Payments to Employees	(1,143,579)
Net Cash Provided (Used) by Operating Activities	513,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Internal Activities – Payments to Other Funds	21,182
Net Cash Provided by Noncapital Financing Activities	21,182
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Purchase of Capital Assets	(12,454)
Net Cash Provided (Used) by Capital and Related Financing Activities	(12,454)
CASH FLOWS FROM INVESTING ACTIVITIES	-
Net Increase (Decrease) in Cash and Cash Equivalents	**522,127**
Cash, Beginning	1,409,678
Cash, Ending	**$ 1,931,805**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	$ 104,263
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	349,909
(Increase) Decrease in Current Assets and Liabilities:	
Accounts and Others Payable	82,902
Accrued Expenses	(23,675)
Net Cash Provided (Used) by Operating Activities	**$ 513,399**
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Capital Contributions from Governmental Funds	**$ 357,892**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

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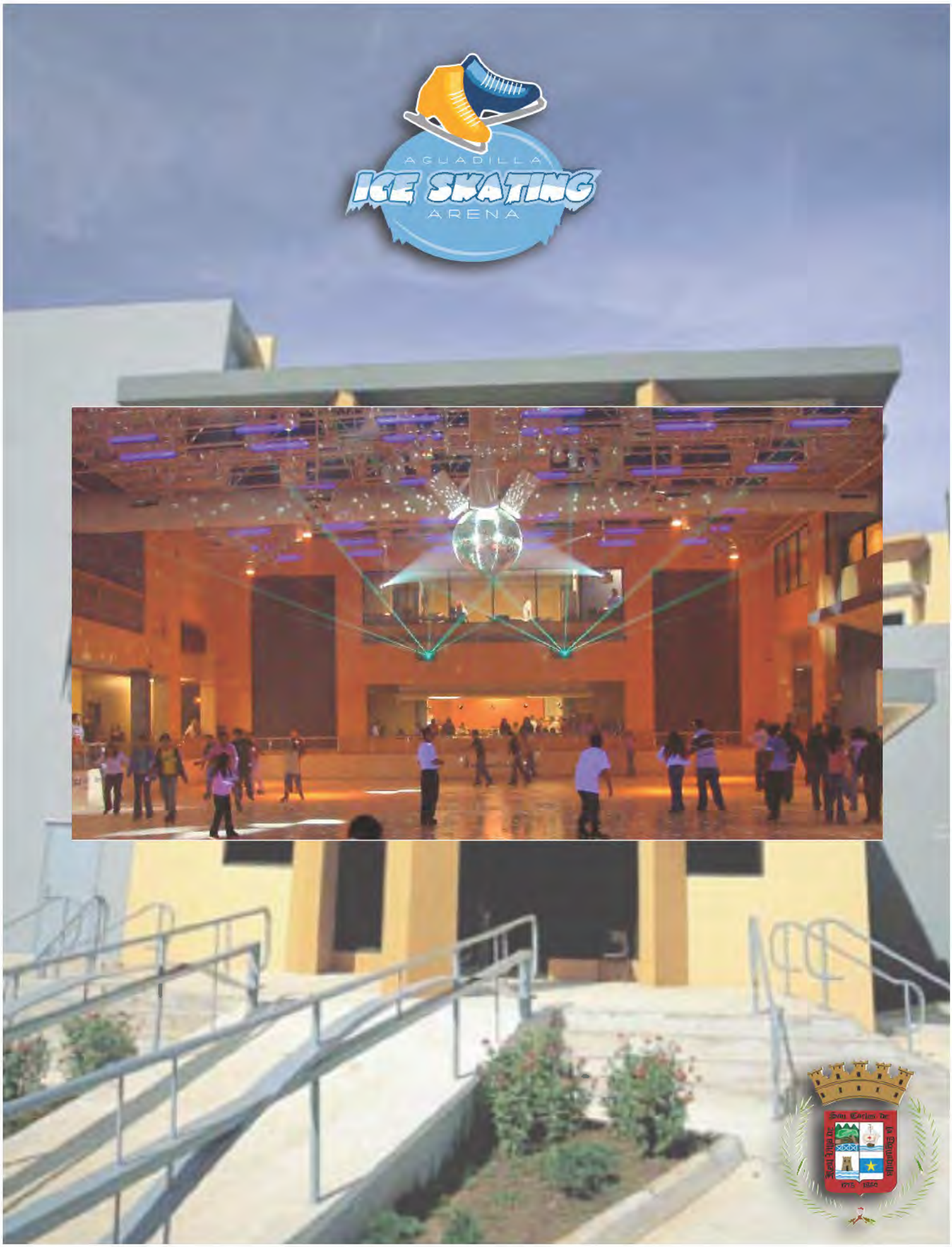
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1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the **Autonomous Municipality of Aguadilla, Puerto Rico (Municipality)** over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The **Municipality** was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico (Commonwealth), under the Act Number 81 of August 30, 1991, known as "Autonomy Municipalities Act of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The **Municipality** is governed by a Mayor and is elected every four years in the general elections of the Commonwealth. The legislative body (Municipal Legislature) consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the **Municipality** is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the **Municipalit**y and for which the **Municipality** is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the **Municipality** for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the **Municipality**'s ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the **Municipality**. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Municipality**'s balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the **Municipality**'s balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

These financial statements present the respective financial position of the governmental and business type activities, each major fund, and the aggregate remaining fund information of the **Municipality**, as of June 30, 2013, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the **Municipality** have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units. The basic financial statements include both government-wide (based on the **Municipality** as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

The financial information of the **Municipality** is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the **Municipality**'s financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the **Municipality**. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the **Municipality**'s governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the **Municipality**'s management are not presented as restricted net position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different business-type activities of the **Municipality** and for each function of the **Municipality**'s governmental activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds and Proprietary Fund Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] provide information about the **Municipality**'s funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Non-major funds are summarized into a single column.

This presentation deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the **Municipality**'s actual experience conforms to the budgeted fiscal plan.

The **Municipality** reports the following major governmental funds:

General Fund – This is the general operating fund of the **Municipality**. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness. It is used to account for all financial resources from the Federal Government (US Department of Health and Human Services) and the corresponding matching funds.

Construction & Improvement of Recreational Facilities Fund – Account for the construction and improvement of parks, centers and other recreational facilities. These projects are financed by bond issued and other state appropriations.

Real Marina Fund – This is the fund used to account for all financial resources and transactions related to the loan for the construction of the Paseo Real Marina Project, which is financed by a Section 108 Loan from the US Department of Housing and Urban Development (HUD).

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interests.

The proprietary funds – enterprise – are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation) be financed or recovered primarily through user charges, or where the **Municipality** has decided that periodic determination of revenues earned and expenses incurred is appropriate.

The **Municipality** includes as operating transactions in the enterprise funds any activity undertaken in the course of ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from, these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The proprietary fund financial statements provide separate information of Aguadilla City Enterprises, which are considered to be major proprietary funds of the **Municipality**. In prior years, the Aguadilla's Waterfalls Aquatic Park and Aguadilla's Ice Skating Arena were considered and reported as major enterprise funds. However, by GAAP criteria, those enterprises need not be considered major enterprises, because for 2013 the **Municipality** created the Aguadilla City Enterprises as new enterprise to group and combined the administration and operation of all enterprise funds. Accordingly, the **Municipality** reports the following major enterprise fund:

Aguadilla City Enterprises – This is the fund used to account for the operations of all of the enterprises facilities that combined the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others enterprises.

The non-major funds are combined in a single column in the GFFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

The financial statements of the proprietary funds are the following:

Statement of Net Position – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities.

Statement of Revenues, Expenses and Changes in Net Position – Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

Statement of Cash Flows – The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and disbursements of the **Municipality** during the fiscal year. The information of the *Statement of Cash Flows* should help financial report users assess (a) the **Municipality**'s ability to generate future net cash flows; (b) ability to meet its obligation as they come due; (c) its needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the **Municipality** has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The **Municipality** reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to Basic Financial Statements

The notes to basic financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Required Supplementary Information

The basic financial statements includes a *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund* as part of the GFFS, instead of the *Budgetary Comparison Schedule – General Fund*, which includes as part of the Notes to the Basic Financial Statements, reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide and Proprietary Financial Statements

The government-wide and proprietary financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the **Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

The enterprise funds follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, respectively. The enterprise funds also distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the **Municipality** considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the **Municipality** earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2013, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the **Municipality**.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2013, which are recorded as governmental fund liabilities of June 30, 2013 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds.

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.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The **Municipality**'s annually adopts the Budget Resolution for all operating funds of the **Municipality** except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The **Municipality**'s Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the **Municipality** (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the **Municipality**; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. **Municipality**'s Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from GAAP, actual amounts for the General Fund in the accompanying *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund*, is presented on the budgetary basis to enhance comparability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Final Budget

The final budgetary data presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

   The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

D. Assets, Liabilities, and Net Position

1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The **Municipality**'s cash are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The **Municipality** has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the **Municipality**, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the **Municipality** and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund and in Real Marina Fund in accordance with amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained by the GDB, deposit in the GDB and restricted for the payment of the **Municipality**'s debt service, as established by law. Cash with Fiscal Agent in other governmental funds consists of undisbursed proceeds of certain bonds issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the **Municipality**'s bonds issued in accordance with law.

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

Advance between funds, as reported in the fund financial statements, if any, 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.

Receivables consist of all revenues earned but not collected at June 30, 2013. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2013. Intergovernmental receivables in the other governmental funds represent amounts owed to the **Municipality** for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The **Municipality** used the purchase method to account for the purchases of office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

4) Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the **Municipality** as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than $10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The **Municipality** reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the GWFS regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the **Municipality** chose to include all such items regardless of their acquisition date or amount.

The **Municipality** was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the **Municipality** constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the **Municipality** values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the **Municipality** capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset acquired. Depreciation and amortization expense is recorded only in the GWFS. No depreciation is recorded for land and construction in progress. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Motor Vehicles	5
Machinery and Equipments	5-10
Work of Art (Inexhaustible)	N/A

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 function/programs but reported as direct expense of the public works and urban development functions.

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2013, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the **Municipality**, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the **Municipality** are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) Deferred Outflows/Inflows of Resources

In addition to assets, the *Statement of Financial Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The **Municipality** has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Financial Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The -**Municipality** has no items that qualify for reporting in this category.

The **Municipality** has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds **B**alance Sheet. The governmental funds report *unavailable revenues* from Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

6) Unearned Revenues

In the GWFS, unearned revenues arise only when the **Municipality** receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts, if any, as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The **Municipality** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The **Municipality**'s employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrued a liability for compensated absences, which meet the following criteria: (1) the **Municipality**'s obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by **Municipality**'s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2013. All vacation pay is accrued when incurred in the GWFS and PFFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Noncurrent Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

10) Accounting for Pension Costs

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.

For the purpose of applying the requirements of GASBS No, 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the **Municipality** participate. 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 and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 18).

Also, the Head Start Program of the **Municipality** participates in a contributory defined contribution plan named Pension Plan of Defined Contributions of the Head Start Project of the Autonomous Municipality of Aguadilla.

11) Landfill

As per requirements of State and Federal laws and regulations the **Municipality** should be obligated to place a final cover on its closed landfill and perform certain maintenance and monitoring functions at the landfill site for the next thirty years. The landfill has been closed and approved by the U.S. Environmental Protection Agency (EPA) (See Note 11). The estimated liability for municipal solid waste landfill post-closure care costs (including monitoring and maintenance) include an estimate of all post-closure care costs to be incurred in the **Municipality**'s closed solid waste landfill, and is recorded as a liability in the accompanying GWFS, *Statement of Net Position*, under the provisions of GASB Accounting Standards Codification Section L 10, *Landfill Closure and Post-Closure Care Costs.*

The estimates post-closing costs are made using current costs. The liability should be adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

At the governmental funds' level, landfill post-closure care costs do not constitute an outflow of current financial resources and should not result in the recognition of a governmental fund liability or expenditures. Post-closure care costs are recorded in the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* as expenditures in the accounting period in which the payments are made.

12) Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the **Municipality**'s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

13) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS and Proprietary Funds Financial Statements utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

  For Governmental Activities, net investment in capital assets is comprised of the following:

Capital Assets, Net of Accumulated Depreciation.....	$194,832,084
Outstanding Balance on Related Debt.....	(84,579,829)
Unspent Capital Debt Proceeds.....	12,884,103
Total Invested in Capital Assets, Net of Related Debt	$123,136,358

  For Business-Type Activities, net investment in capital assets is comprised only on Capital Assets, Net of Accumulated Depreciation ($9,608,418). No Outstanding Balance on Related Debt or Unspent Capital Debt Proceeds exists.

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Unrestricted Net Position* – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the **Municipality** will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the **Municipality**'s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the **Municipality** honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the **Municipality**'s highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the **Municipality** will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the **Municipality**'s policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The **Municipality** believes that sound financial management principles require that sufficient funds be retained by the **Municipality** to provide a stable financial base at all times. To retain this stable financial base, the **Municipality** needs to maintain a General Fund balance sufficient to fund all cash flows of the **Municipality**, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the **Municipality**'s financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Committing Funds

It is the policy of the **Municipality** that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the **Municipality** that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the **Municipality** that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the **Municipality** that Mayor shall have the authority to assign fund balance of the **Municipality** based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the **Municipality**, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the **Municipality** to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The **Municipality** considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the **Municipality** shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The **Municipality** has met its GASB 54 fund balance targets at June 30, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	HEAD START FUND	CONSTRUCTION & IMPROVEMENT OF RECREATIONAL FACILITIES FUND	REAL MARINA FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable:	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted For:							
Improvement of Streets and Sidewalks	-	-	-	-	-	240,679	240,679
Improvement and Construction of Facilities	-	-	8,251,600	-	-	2,056,301	10,307,901
Capital Outlay	-	-	-	-	-	13,789	13,789
Welfare	-	-	-	-	-	790,627	790,627
Construction of Real Marina	-	-	-	9,095,685	-	-	9,095,685
Debt Repayment	-	-	-	-	7,827,722	-	7,827,722
Solid Waste and Landill	181	-	-	-	-	-	181
Total Restricted	**181**	**-**	**8,251,600**	**9,095,685**	**7,827,722**	**3,101,396**	**28,276,584**
Committed To:							
Improvement of Streets and Sidewalks	508,558	-	-	-	-	549	509,107
Improvement and Construction of Facilities	70,606	-	3,726	-	-	831,991	906,323
Construction of Real Marina	-	-	-	-	-	345,825	345,825
Sanitation - Post Closure Care Costs	-	-	-	-	-	1,151,493	1,151,493
Recreation	-	-	-	-	-	20,898	20,898
General Government	149,550	-	-	-	-	-	149,550
Total Committed	**728,714**	**-**	**3,726**	**-**	**-**	**2,350,756**	**3,083,196**
Assigned To:							
General Government	338,696	-	-	-	-	-	338,696
Total Assigned	**338,696**	**-**	**-**	**-**	**-**	**-**	**338,696**
Unassigned:	**9,303,962**	**-**	**-**	**-**	**-**	**(2,136,530)**	**7,167,432**
Total Fund Balances	**$ 10,371,553**	**$ -**	**$ 8,255,326**	**$ 9,095,685**	**$ 7,827,722**	**$ 3,315,622**	**$ 38,865,908**

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The **Municipality** has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

F. Risk Financing

The **Municipality** carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the **Municipality** are covered under various surety bonds. Cost of insurance allocated to the **Municipality** and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2013 amounted to approximately $1,148,858. The current insurance policies have not been cancelled or terminated. In addition, MRCC deducted approximately $859,409 for workers compensation insurance covering all municipal employees for the same period. There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks.

G. Cash Flows

Statement of Cash Flows is presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. As of June 30, 2013, there are not investments or cash equivalents reported, only cash in commercial banks.

H. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

I. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

J. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2013:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

The **Municipality**'s basic financial statements were not affected by the implementation of this Statement.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013 (FY 2014-2015). Earlier application is encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013 (FY 2013-2014). Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2014-2015).

The **Municipality** has not yet determined the effect these statements will have on the **Municipality**'s basic financial statements.

3. RECONCILIATION OF GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

Total fund balances of the **Municipality**'s governmental funds, ***$38,865,908***, differ from net position of governmental activities, ***$145,920,739***, reported in the *Statement of Net Position*. The difference primarily results from the long-term economic focus in the *Statement of Net Position* versus the current financial resources focus in the government fund *Balance Sheet*.

(A) When capital assets (land, construction in progress, buildings, infrastructures, motor vehicles, and machinery and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the *Statement of Net Position* includes those capital assets, net of accumulated depreciation, among the assets of the **Municipality** as a whole.

Cost of Capital Assets	$252,399,466
Accumulated Depreciation	(57,567,382)
Net adjustment to increase *Fund Balance – Governmental Funds* to arrive at *Net Position – Governmental Activities*	$194,832,084

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.

Unavailable Revenues – Federal Grants	$ 4,444.810

3. RECONCILIATION OF GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS – continuation

	Total Governmental Funds	Noncurrent Assets, Liabilities (A)	Reclassi-fications and Eliminations	Statement of Net Position Totals
Assets:				
Cash	$ 32,549,852	$ -	$ -	$ 32,549,852
Cash with Fiscal Agent	22,678,230	-	-	22,678,230
Receivables, net:				
Federal Grants	5,455,371	-	-	5,455,371
Sales and Usage Taxes	274,425	-	-	274,425
Due from Other Funds/Internal Balances(*)	5,446,059	-	(5,530,226)	(84,167)
Others	80,069	-	-	80,069
Capital Assets, Net	-	194,832,084	-	194,832,084
Total Assets	**$ 66,484,006**	**$ 194,832,084**	**$ (5,530,226)**	**$ 255,785,864**
Liabilities:				
Accounts Payable	$ 6,431,121	$ (2,660,000)	$ -	$ 3,771,121
Accrued Interests	1,104,218	-	-	1,104,218
Due to Governmental Units	246,329	-	-	246,329
Deposits and Bonds	484,957	-	-	484,957
Due to Other Funds	5,530,226	-	(5,530,226)	-
Unearned Revenues	9,376,437		-	9,376,437
Noncurrent Liabilites	-	94,882,063	-	94,882,063
Total Liabilities	23,173,288	92,222,063	(5,530,226)	109,865,125
Deferred Inflows of Resources:				
Unavailable Revenues - Federal Grants	4,444,810	-	(4,444,810)	-
Total Deferred Inflows of Resources	4,444,810	-	(4,444,810)	-
Fund Balances/Net Position:				
Total Fund Balances/Net Position	***38,865,908***	102,610,021	4,444,810	***145,920,739***
Total Liabilities, Deferred Inflows of Resources and Fund Balances / Net Position	**$ 66,484,006**	**$ 194,832,084**	**$ (5,530,226)**	**$ 255,785,864**

* The internal balance ($84,167) is reported negative asset in the *Statement of Net Position* for elimination.

3. RECONCILIATION OF GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS – continuation

Noncurrent liabilities applicable to the **Municipality**'s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and noncurrent, are reported in the *Statement of Net Position*.

Law Number 146 – MRCC	$ 180,519
Deferred Credit	36,819
Claims and Judgments	35,574
Landfill Post-Closure Care Costs	3,054,578
Compensated Absences	4,574,670
MRCC Liquidation	905,074
General Obligations Bonds	59,539,250
Special Obligations Bonds	26,555,579
	94,882,063
Escrow Funds for General Obligations Bonds (Short-Term)	(2,660,000)
Net adjustment to increase *Fund Balance – Governmental Funds* to arrive at *Net Position – Governmental Activities*	$ 92,222,063

Also, an elimination of the Due from/to Other Funds of $5,530,226 was excluded in the *Statement of Net Position*, maintaining an internal balance receivable with the Proprietary Funds of $84,167.

Explanation of certain differences between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities

The net change in fund balances for governmental funds, ***$422,857***, differs from the change in net position for governmental activities ***($3,157,175)***. The differences arise primarily from the long-term economic focus in the *Statement of Activities* versus the current financial resources focus in the governmental funds. The differences are presented and explained follow.

(B) Some other revenues that provide current financial resources received in advance in prior fiscal year and recognized in the *Statement of Activities* are reported as revenue in the governmental funds in the current period.

Federal Grants	($ 2,568,417)

(C) When capital assets that are to be used in governmental activities are purchased or constructed; the resources expended for those assets are reported as expenditures in governmental funds. However, in the *Statement of Activities*, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result fund balance decreases by the amount of financial resources expended, whereas net position decrease by the amount of depreciation expense and loss on disposition of assets charged for the year. In addition, donated capital assets are recognized in GWFS full accrual.

Capital Outlays of Governmental Activities	$ 8,080,465
Loss on Disposition of Assets	(21,249)
Depreciation Expenses	(3,462,521)
Net adjustment to increase *Net Changes in Fund Balance – Total Governmental Funds* to arrive at *Changes in Net Position – Governmental Activities*	$ 4,596,695

3. RECONCILIATION OF GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS – continuation

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

	Total Governmental Funds	Noncurrent Revenues/ Expenses (B)	Capital-Related Items (C)	Noncurrent Debt Transactions (D)	Statement of Activities Totals
Revenues:					
Property Taxes	$ 13,686,377	$ -	$ -	$ -	$ 13,686,377
Volume of Business Taxes	10,816,480	-	-	-	10,816,480
Sales and Usage Taxes	4,408,603	-	-	-	4,408,603
Federal Grants	11,548,421	(2,568,417)	-	-	8,980,004
Intergovernmental	10,873,228	-	-	-	10,873,228
Construction Excise Taxes	2,039,815	-	-	-	2,039,815
Interests	405,120	-	-	-	405,120
Charges for Services	1,854,693	-	-	-	1,854,693
Miscellaneous	409,439	-	-	-	409,439
Total Revenues	56,042,176	(2,568,417)	-	-	53,473,759
Expenditures/Expenses:					
Current:					
Mayor and Municipal Legislature	1,282,309	-	138,501	-	1,420,810
General Government	16,252,622	-	2,235,639	(247,588)	18,240,673
Public Safety	1,820,715	-	159,276	-	1,979,991
Public Works	2,891,327	-	311,627	-	3,202,954
Culture and Recreation	1,258,711	-	69,250	-	1,327,961
Health and Sanitation	4,139,827	-	380,877	-	4,520,704
Public Instruction	6,228,077	-	-	(97,131)	6,130,946
Landfill Post-Closure Care Costs	192,797	-	-	1,483,088	1,675,885
Human Services and Welfare	7,657,708	-	86,245	-	7,743,953
Urban Development	6,170,814	-	81,106	-	6,251,920
Loss on Disposition of Assets	-	-	21,249	-	21,249
Capital Outlay	8,080,465	-	(8,080,465)	-	-
Debt Service:					
Bond Issue Costs	50,480	-	-	(50,480)	-
Principal	4,129,500	-	-	(4,129,500)	-
Interest and Other Charges	3,654,975	-	-	101,021	3,755,996
Total Expenditures/Expenses	63,810,327	-	(4,596,695)	(2,940,590)	56,273,042
Other Financing Sources (Uses)					
Proceed of Bonds	8,530,000	-	-	(8,530,000)	-
Refinancing of Bond	3,798,900	-	-	(3,798,900)	-
Refinancing of Bond	(3,780,000)	-	-	3,780,000	-
Net Transfers (to) from Other Funds	(357,892)	-	-	-	(357,892)
Total Other Financing Sources (Uses)	8,191,008	-	-	(8,548,900)	(357,892)
Net Change in Fund Balances / Change in Net Position	***$ 422,857***	**$ (2,568,417)**	**$ 4,596,695**	**$ (5,608,310)**	***$ (3,157,175)***

3. RECONCILIATION OF GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS – continuation

(D) Repayment of bond principal is reported as expenditures in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the **Municipality** as a whole, however, the principal payments reduce the liabilities in the *Statement of Net Position* and do not result in expenses in the *Statement of Activities*. The **Municipality**'s bonded debt was reduced because principal payments were made to bond holders.

Principal Payment Made	($ 4,129,500)

Certain noncurrent liabilities reported in the prior year Statement of Net Position were paid during the current period resulting in expenditures in the governmental funds. Also, bond issue cost ($50,480) were reclassified from other financing uses to general government expense. This is the amount by which the decrease in noncurrent liabilities exceeded expenses reported in the Statement of Activities that do not require the use of current financial resources:

Landfill Post-Closure Care Costs (including interest expense of $101,021)	1,584,109
MRCC Liquidation	(15,658)
Claims and Judgments	(230,521)
Compensated Absences	(149,020)
	(395,199)
Net adjustment to decrease *Net Changes in Fund Balance – Total Governmental Funds* to arrive at *Changes in Net Position – Governmental Activities*	($ 2,940,590)

Bond proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increase long-term liabilities in the *Statement of Net Position* and do not affect the *Statement of Activities*. Proceeds were received from:

General Obligation Bonds	($ 8,530,000)
General Obligation Bonds [Net of Refinancing – ($1,850,000 - $1,859,250)]	(9,250)
Special Obligation Bonds [Net of Refinancing – ($1,930,000 - $1,939,650)]	(9,650)
Net adjustment to decrease *Net Changes in Fund Balance – Total Governmental Funds* to arrive at *Changes in Net Position – Governmental Activities*	($ 8,548,900)

4. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2013 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of $21.3 million are certificates of deposits and interest bearing account, and are recorded at cost, which approximates fair value.

4. CASH AND INVESTMENTS – continuation

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. 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 Deposit Insurance Corporation (FDIC) coverage. 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.

Municipality follows the practice of pooling cash. At June 30, 2013, the pool cash account in commercial banks had a balance of $32.5 million of which $15.2 million in the General Fund, $270,285 in Head Start Fund, $841,865 in Constructions & Improvement of Recreational Facilities Fund, $9.1 million in Real Marina Fund, and $7.1 million in Other Governmental Funds. For the Proprietary Funds, the Aguadilla's City Enterprises has cash in commercial bank in the amount of $1.9 million. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Cash with Fiscal Agent in the debt service fund consists principally of property tax collections amounting to $11.6 million that are restricted for the payment of the **Municipality**'s debt service, as required by law. Cash with Fiscal Agent of $27,711 in the General Fund are restricted for future expenditures, $8.6 million in the Constructions & Improvement of Recreational Facilities Fund restricted to improvement of recreational facilities, and $2.5 million in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the **Municipality** at June 30, 2013:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the **Municipality** has invested only in cash equivalents of $21.3 million consisting of certificate of deposit and interest bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2013. 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, 2013.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **Municipality** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the **Municipality** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2013, the **Municipality** has balances deposited in commercial banks amounting to $32.5 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $22.7 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the **Municipality** through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the **Municipality**'s management has concluded that at June 30, 2013, the custodial credit risk associated with the **Municipality**'s cash and cash equivalents is considered low.

4. CASH AND INVESTMENTS – continuation

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: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2013, the interest risk associated with the **Municipality**'s cash and cash equivalent 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, 2013.

5. RECEIVABLES

As of June 30, 2013, amount are aggregated into account receivables line for certain funds and aggregated columns. Below is the detail of receivables for the Nonmajor Governmental Funds in the in the aggregate is as follows:

Federal Grants	AMOUNT
Office of the Governor-Elderly Office	$ 47,548
U.S. Department of Housing and Urban Development	566,408
Total	$ 613,956

6. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

Governmental Funds:	
Volume of Business Taxes	$ 9,227,793
Federal Grants	148,644
Total Unearned Revenues	$ 9,376,437

7. DEFERRED INFLOWS OF RESOURCES

Governmental funds balance sheet report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Funds:	
Federal Grants:	
Head Start Program	$ 4,235,911
Other Governmental Funds	208,899
Total Deferred Inflows of Resources	$ 4,444,810

8. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

During the course of operations, numerous transactions occur between the **Municipality**'s funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "Due from Other Funds" and "Due to Other Funds" on the Balance Sheet and Statement of Net Position and will be settled within one year. Due to/from Other Funds at June 30, 2013 are summarized as follows:

	Due From						
Due to	General Fund	Head Start Fund	Const. & Improv. of Recreational Facilities Fund	Real Marina Fund	Other Governmental Funds	Aguadilla City Enterprises	Assets Total
General Fund	$ -	$ 855,952	$ 610,414	$ 3,731	$ 3,864,668	*$ 35,838*	$ 5,370,603
Head Start Fund	-	-	-	-	-	-	-
Const. & Improv. of Recreational Facilities Fund	-	-	-	-	3,000	-	3,000
Other Governmental Funds	-	-	-	-	72,456	-	72,456
*Aguadilla City Enterprises **	-	-	-	-	*120,005*	-	*120,005*
Liability Total	**$ -**	**$ 855,952**	**$ 610,414**	**$ 3,731**	**$ 4,060,129**	**$ 35,838**	**$ 5,566,064**

[Net Due from Local Government - $84,167]*

B. Interfund Transfers

During the course of the fiscal year, transactions occur between the **Municipality**'s funds for operating subsidies. Related interfund receipts and disbursements are classified as "Transfers In" and "Transfers Out" on the Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position. The transfers are routine and consistent with the activities of the funds. Principality, transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

	Transfers Out					
Transfers In	General Fund	Const. & Improv. of Recreational Facilities Fund	Real Marina Fund	Debt Service Fund	Other Governmental Funds	Total
General Fund	$ -	$ -	$ -	$ -	$ -	$ -
Const. & Improv. Of Recreational Facilities Fund	181,584	-	-	-	-	181,584
Real Marina Fund	-	-	-	-	996,979	996,979
Debt Service Fund	1,237,662	31,580	1,040,897	-	376,750	2,686,889
Other Governmental Funds	138,197	-	-	-	202,064	340,261
Aguadilla City Enterprises	-	*139,030*	-	-	*218,862*	*357,892*
Total	**$ 1,557,443**	**$ 170,610**	**$ 1,040,897**	**$ -**	**$ 1,794,655**	**$ 4,563,605**

9. DUE TO GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	AMOUNT
Retirement System Administration	$ 150,544
PR General Services Administration	88,950
Puerto Rico Department of Labor	6,835
Total Due to Governmental Units	$ 246,329

10. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2013 was as follows:

DESCRIPTION	BALANCE JULY 1, 2012	ADJUSTMENT	INCREASE	DECREASE	BALANCE JUNE 30, 2013
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	$ 60,697,652	$ -	$ 3,106	$ -	$ 60,700,758
Construction in Progress	10,605,833	(4,854,303)	7,962,989	-	13,714,519
Total Non-Depreciable Capital Assets	71,303,485	(4,854,303)	7,966,095	-	74,415,277
Depreciable Capital Assets:					
Buildings	83,320,792	4,816,303	-	-	88,137,095
Infraestructure	73,643,909	-	-	-	73,643,909
Motor Vehicles	11,968,221	87,388	-	(1,634,230)	10,421,379
Machinery and Equipment	6,973,255	(87,388)	114,370	(1,218,431)	5,781,806
Total Depreciable Capital Assets	175,906,177	4,816,303	114,370	(2,852,661)	177,984,189
Less Accumulated Depreciation:					
Buildings	(26,456,995)	38,000	(1,448,348)	-	(27,867,343)
Infraestructure	(15,081,302)	-	(1,104,915)	-	(16,186,217)
Motor Vehicles	(10,458,371)	-	(522,662)	1,612,981	(9,368,052)
Machinery and Equipment	(4,977,605)	-	(386,596)	1,218,431	(4,145,770)
Total Accumulated Depreciation	(56,974,273)	38,000	(3,462,521)	2,831,412	(57,567,382)
Total Depreciable Capital Assets (Net)	118,931,904	4,854,303	(3,348,151)	(21,249)	120,416,807
CAPITAL ASSETS, NET	$190,235,389	$ -	$ 4,617,944	$ (21,249)	$ 194,832,084

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10. CAPITAL ASSETS – continuation

DESCRIPTION	BALANCE JULY 1, 2012	ADJUSTMENT	INCREASE	DECREASE	BALANCE JUNE 30, 2013
Business-Type Activities:					
Non-Depreciable Capital Assets:					
Construction in Progress	$ 23,579	$ (238,141)	$ 357,892	$ -	$ 143,330
Total Non-Depreciable Capital Assets	23,579	(238,141)	357,892	-	143,330
Depreciable Capital Assets:					
Buildings	13,064,992	238,141	-	-	13,303,133
Motor Vehicles	83,385	-	-	-	83,385
Equipment	1,025,621	-	12,454	-	1,038,075
Total Depreciable Capital Assets	14,173,998	238,141	12,454	-	14,424,593
Less Accumulated Depreciation:					
Buildings	(3,959,392)	-	(234,770)	-	(4,194,162)
Motor Vehicles	(72,888)	-	(3,149)	-	(76,037)
Equipment	(513,497)	(63,819)	(111,990)	-	(689,306)
Total Accumulated Depreciation	(4,545,777)	(63,819)	(349,909)	-	(4,959,505)
Total Depreciable Capital Assets (Net)	9,628,221	174,322	(337,455)	-	9,465,088
CAPITAL ASSETS, NET	$ 9,651,800	$ (63,819)	$ 20,437	$ -	$ 9,608,418

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Governmental Activities:	
Major and Municipal Legislature	$ 138,501
General Government	2,235,639
Public Safety	159,276
Public Works	311,627
Culture and Recreation	380,877
Health and Sanitation	69,250
Human Services and Welfare	86,245
Urban Development	81,106
Total Depreciation Expenses	$ 3,462,521
Business-Type Activities:	
Aguadilla City Enterprises	$ 349,909

11. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the **Municipality** are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The **Municipality**'s obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 12).

The following is a summary of general and special obligation bonds of the **Municipality** as of June 30, 2013:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1999	$ 590,000	2013	4.86 to 6.11%	$ 70,000
General Construction	1999	2,840,000	2013	4.86 to 6.11%	300,000
General Construction	1999	5,065,000	2023	4.86 to 6.56%	3,325,000
General Construction	1999	3,210,000	2023	2.70 to 5.60%	2,105,000
General Construction	1999	805,000	2023	2.70 to 5.60%	530,000
General Construction	2000	3,520,000	2014	2.70 to 4.73%	715,000
General Construction	2000	1,340,000	2024	2.70 to 5.60%	955,000
General Construction	2000	3,015,000	2020	2.70 to 5.29%	1,770,000
General Construction	2001	2,165,000	2025	2.70 to 5.60%	1,610,000
General Construction	2003	1,255,000	2008	4.37 to 6.00%	995,000
General Construction	2005	1,795,000	2029	4.37 to 5.00%	1,435,000
General Construction	2005	1,795,000	2029	3.27 to 5.00%	1,435,000
General Construction	2005	1,935,000	2029	4.27 to 6.50%	1,560,000
General Construction	2005	1,010,000	2019	4.27 to 5.00%	570,000
General Construction	2006	3,130,000	2030	6.00 to 6.50%	2,675,000
General Construction	2006	3,286,000	2036	3.75%	3,128,000
General Construction	2006	690,000	2036	3.75%	657,000
General Construction	2007	2,330,000	2032	3.93 to 7.50%	2,130,000
General Construction	2008	4,385,000	2032	3.93 to 7.50%	4,015,000
General Construction	2008	1,160,000	2033	7.00%	1,080,000
General Construction	2008	1,000,000	2036	3.75%	953,000
General Construction	2009	260,000	2033	5.40 to 7.50%	240,000
General Construction	2009	185,000	2033	5.40 to 7.50%	165,000
General Construction	2009	1,475,000	2033	4.75 to 7.50%	1,380,000
General Construction	2009	220,000	2033	4.75 to 7.50%	200,000
General Construction	2009	1,100,000	2036	3.75%	1,052,000
General Construction	2010	3,040,000	2034	6.00 to 7.50%	2,895,000
General Construction	2010	725,000	2034	6.00 to 7.30%	690,000
General Construction	2011	1,705,000	2035	6.00 to 7.50%	1,655,000
Interest Expenditure	2012	1,570,000	2026	6.00 to 7.50%	1,515,000
General Construction	2013	8,530,000	2037	6.00 to 7.50%	8,530,000
General Construction (Refinancing)	2013	1,859,250	2024	3.9527 to 5.00%	1,859,250
Subtotal					**52,194,250**
Rental Income:					
General Construction	2004	9,340,000	2028	5.00%	7,345,000
Total General Obligations Bonds					**59,539,250**

continue

11. NONCURRENT LIABILITIES – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Amount
Special Obligations Bonds:					
General Revenues:					
General Construction	2003	$ 4,795,000	2027	5.00 to 6.00%	$ 3,550,000
Purchase of Equipment	2005	250,000	2029	5.00%	200,000
General Construction	2006	1,940,000	2036	3.75%	1,853,000
General Construction	2006	2,105,000	2036	3.75%	2,005,000
General Construction	2006	3,180,000	2036	3.75%	3,027,000
General Construction	2006	1,080,628	Undetermined[1]	4.25%	980,929
Subtotal					**11,615,929**
Community Development Block Grant:					
General Construction	2002	12,995,000	2022	5.00%	**6,495,000**
Sales & Usage Taxes:					
General Construction	2008	555,000	2032	7.50%	515,000
General Construction	2008	6,410,000	2032	7.50%	5,990,000
General Construction (Refinancing)	2013	1,939,650	2020	3.9527 to 5.00%	1,939,650
Subtotal					**8,444,650**
Total Special Obligations Bonds					**26,555,579**
Total General and Special Obligations Bonds					**$ 86,094,829**

[1] These terms will be determined by the loan grantor upon completion of the construction activities.

During December 2012, the **Municipality** issued general obligation bonds, Series of 2013 in the amount of $8,530,000 for construction purpose. The principal and variable interest from 6.00% to 7.5%, are payable semiannually in installments ranging from $120,000 to $710,000 on the 1st day of January and July of each year through July 2037.

Current Refunding

During current year the **Municipality** issued $1,859,250 in new loan for a current refunding of previous outstanding loan amounting to $1,850,000 with the Government Development Bank (GDB). Also, issued $1,939,650 in new loan for a current refunding of previous outstanding loan amounting to $1,930,000 with the GDB. The costs associated with these transactions, amounting to $18,900, were financed within the new debts issued. This transaction contemplate interest expense savings. The refinanced debt was originally issued to cover general constructions.

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the **Municipality**'s tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2013, the **Municipality** had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

11. NONCURRENT LIABILITIES – continuation

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The legal debt margin of the **Municipality** is equal to 10% of the total property assessment located within the **Municipality**'s jurisdiction.

Accordingly, as of June 30, 2013, the **Municipality** debt limits (10% of valuation of property subject to taxation) increase to $353,437,818, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. The total amount of debt applicable to the debt limit was $49,051,807, net of certain assets in the Debt Service Fund. After considered the payments of July 1, 2013, the resulting legal debt margin was $304,386,011. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the **Municipality**.

C. Other Noncurrent Liabilities

Following are the other long-term liabilities as of June 30, 2013 and corresponding change during the fiscal year:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law Number 146-MRCC	$ 190,019	$ -	$ (9,500)	$ 180,519	$ 9,501	$ 171,018
Deferred Credits	36,819	-	-	36,819	-	36,819
Landfill Obligation	1,470,469	1,675,885	(91,776)	3,054,578	52,302	3,002,276
MRCC Liquidation	920,732	-	(15,658)	905,074	905,074	-
Claims and Judgments	266,095	-	(230,521)	35,574	-	35,574
Compensated Absences	4,723,690	503,813	(652,833)	4,574,670	3,222,199	1,352,471
TOTAL	**$ 7,607,824**	**$ 2,179,698**	**$ (1,000,288)**	**$ 8,787,234**	**$ 4,189,076**	**$ 4,598,158**
Proprietary Funds:						
Compensated Absences	**$ 61,007**	**$ -**	**$ (23,675)**	**$ 37,332**	**$ 34,059**	**$ 3,273**

Borrowing from MRCC

On July 1, 2010, the **Municipality** entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original debt is $237,524 to be paid during 25 years plus annual interest of 6.22%.

Landfill Obligation

The **Municipality** is the current owner of a closed municipal solid waste landfill consisting of approximately 10 acres, and accounts for certain costs associated with its landfill in accordance with GASB Accounting Standards Codification, Section L10, *Landfill Closure and Post-Closure Care Costs*. Accordingly, the **Municipality** is required to recognize a liability equal to the estimated total current cost of post-closure care for its landfill. Post-closure care of the **Municipality**'s landfill after its closure is mandated by state and federal laws and consists of various maintenance and monitoring functions at the landfill site. The landfill has been closed and approved by the U.S. Environmental Protection Agency (EPA) on July 2010. The estimated liability for municipal solid waste landfill post-closure care costs (including monitoring and maintenance) include an estimate of all post-closure care costs to be incurred in the **Municipality**'s closed solid waste landfill, and is recorded as a liability in the accompanying GWFS, *Statement of Net Position.*

11. NONCURRENT LIABILITIES – continuation

The **Municipality** commenced the post-closure care procedures required by the administrative order for a time period of no less than 30 years, as required by the administrative order and federal regulations. After two year of final closure, the **Municipality** has actualized the estimated maximum future post-closure care costs for the next 28 years at $3,054,578 as of June 30, 2013 using actual contract cost with a private company. However, due to the nature of post-closure care of municipal landfills, the estimated future costs are subject to annual revision due to changes in applicable regulations, market prices and conditions, and other unforeseeable events.

The **Municipality** is required to provide financial assurance for the post-closure care activities in accordance with federal regulations, and has identified current and future resources to cover costs relating to the closure of the landfill as of June 30, 2013. The **Municipality** has demonstrates financial assurance to comply with such requirements from EPA.

Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the **Municipality**'s attorneys and classified as due after one year. Only claims is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Compensated Absences

The GWFS, *Statement of Net Position*, includes approximately $4.6 million in the governmental funds and $37,000 in proprietary funds for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the **Municipality**'s commitment to fund such costs from future operations. The General Fund and the corresponding Proprietary Fund have been used to liquidate the liability for this concept.

D. Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2013:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 53,517,000	$ 10,389,250	$ (4,367,000)	$ 59,539,250	$ 2,494,000	$ 57,045,250
Special Obligations Bonds	27,828,929	1,939,650	(3,213,000)	26,555,579	1,328,000	25,227,579
Other Obligations	7,607,824	2,179,698	(1,000,288)	8,787,234	4,189,076	4,598,158
TOTAL	**$ 88,953,753**	**$ 14,508,598**	**$ (8,580,288)**	**$ 94,882,063**	**$ 8,011,076**	**$ 86,870,987**
Proprietary Funds:						
Other Obligations	**$ 61,007**	**$ -**	**$ (23,675)**	**$ 37,332**	**$ 34,059**	**$ 3,273**

11. NONCURRENT LIABILITIES – continuation

E. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The **Municipality** believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2013 are as follows:

	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations			
YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PRINCIPAL	TOTAL INTEREST
Governmental Funds:								
2014	$ 2,494,000	$ 2,570,159	$ 1,328,000	$ 1,008,069	$ 4,189,076	$ 4,520	$ 8,011,076	$ 3,582,748
2015	2,620,000	2,983,247	1,376,000	1,162,265	9,501	4,282	4,005,501	4,149,794
2016	2,381,000	3,039,629	1,433,000	1,137,301	9,501	4,044	3,823,501	4,180,974
2016	2,534,000	2,994,825	1,477,000	1,105,414	9,501	3,806	4,020,501	4,104,045
2018	2,722,000	2,863,614	1,531,000	1,040,347	9,501	3,568	4,262,501	3,907,529
2019-2023	15,532,000	11,981,483	7,919,650	3,930,170	47,505	14,270	23,499,155	15,925,923
2024-2028	14,675,250	7,615,533	4,735,000	2,170,714	47,505	8,328	19,457,755	9,794,575
2029-2033	11,086,000	3,567,424	4,465,000	895,211	38,004	2,380	15,589,004	4,465,015
2034-2035	5,495,000	800,548	1,310,000	95,659	-	-	6,805,000	896,207
Unmatured	-	-	980,929	-	4,427,140	-	5,408,069	-
TOTAL	**$ 59,539,250**	**$ 38,416,462**	**$ 26,555,579**	**$ 12,545,150**	**$ 8,787,234**	**$ 45,198**	**$ 94,882,063**	**$ 51,006,810**
Proprietary Funds:								
2014	$ -	$ -	$ -	$ -	$ 34,059	$ -	$ 34,059	$ -
2015	-	-	-	-	3,273	-	3,273	-
TOTAL	**$ -**	**$ -**	**$ -**	**$ -**	**$ 37,332**	**$ -**	**$ 37,332**	**$ -**

12. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC to the **Municipality** (See Note 13).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the **Municipality** (See Note 11). Payments are made to the GDB from such accumulated funds by the MRCC.

13. PROPERTY TAXES

The **Municipality** is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of $15,000 (at 1957 market price).

The MRCC is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

13. PROPERTY TAXES – continuation

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the **Municipality** of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the **Municipality** based on the initial estimated collections. The MRCC is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the **Municipality** and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the **Municipality** property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. At the time of the preparation of the financial statement, the difference between the advances and the final settlement is pending of final determination.

The tax rate for fiscal year 2013 is 10.53% for real property and 8.53% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.50% and 7.50%, respectively, belongs to the **Municipality**. Taxpayers pay 10.33% for real property and 8.33% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the **Municipality** was frozen as of January 1, 1992.The remaining percentages are distributed as follows: (1) 6.00% and 4.00%, respectively, represents the **Municipality**'s basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth. The remaining portion belonging to the **Municipality** of 3.50% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

In addition, the Act grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with an annual net sales volume of less than $150,000. The MRCC advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the **Municipality**'s management.

14. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of $3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2013, the tax rates were as follows:

a. 1.50% for financial institutions and savings and loan associations.

b. 0.40% for all other organizations.

14. VOLUME OF BUSINESS TAXES – continuation

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2013. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as deferred revenues in the General Fund.

As per Ordinance No. 66, Series 2008-2009, the **Municipality** imposed to the entities with sales volume in excess of $5,000, to pay $25 to cover the cost associated with the supplies and administrative procedures for the expedition of the Patent Certificate.

15. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the **Municipality** and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a “Municipal Development Fund” to finance costs as restricted by the Act;

b. 0.2% will be deposited in a “Municipal Redemption Fund” to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% will be deposited in a “Municipal Improvement Fund” to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth’s Legislature.

Sales and Usage Taxes Receivable represents filed sales tax returns that were collected subsequent to June 30, 2013, but pertaining to the current year period.

As per Act Number 138 of 2013, an amendment to Act Number 40 of 2013, the municipal tax rate will be reduced to 1.0% (from 1.5%) effective February 1, 2014. This Act contemplate the elimination of the 0.5% collected by the Puerto Rico Secretary of Treasury.

16. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the **Municipality**. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise taxes generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project. The activities covers by this tax and the exemption granted are as follows:

16. CONSTRUCTION EXCISE TAXES – continuation

a. All construction, repair, addition, demolition or improvement to a single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, with a total cost up to $80,000, will pay 2.5% of construction excise taxes. This project is exempt of the construction excise taxes for the first $5,000 of the project construction costs.

b. All construction projects in excess of $80,000, but equal or less than $300,000, will pay 3.5%. In excess of $300,000 the construction excise tax will be 4.00%. Both types of construction projects do not qualify for the exemption of $5,000 granted to the single-family residential projects.

c. All construction projects carried out by civic Non-for-Profit Organization, affiliated to councils and associations of their representative institutions, registered with the Commonwealth's State Department, have full exemption to the construction excise taxes.

Municipality issued Resolution Number 103, Series 2009-2010, granted a 50% exemption of construction excise taxes for a single-family residential project for low-income families in Ceiba Baja, Aguadilla.

17. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority (PREPA), and federal financial assistance received from federal and state governments.

Grants and subsidies received from the Commonwealth and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenues and the Capital Project Funds. Federal Financial Awards is recorded in the Special Revenue Fund.

18. PENSION PLAN

A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

Description of the Plan

Employees of the **Municipality** participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

18. PENSION PLAN – continuation

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013. The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

18. PENSION PLAN – continuation

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars ($500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars ($500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars ($500).

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

(1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

18. PENSION PLAN – continuation

(2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 3 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

(i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.

(ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

(iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

18. PENSION PLAN – continuation

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

(i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

(ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447.

18. PENSION PLAN – continuation

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

Complete supplementation plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	8.275% of gross salary
Coordination plan between ERS and the Federal Social Security	
Hired on or before March 31, 1990	5.775% of gross salary up to $6,600 8.275% of gross salary over $6,600
Mayors and members of the Police Corps	8.275% of gross salary

18. PENSION PLAN – continuation

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

(1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Hybrid Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

Every employer shall mandatorily contribute to the System the following:

July 1, 2011	Ten point two hundred seventy-five percent (10.275%) of the salary of each participant
July 1, 2012	Eleven point two hundred seventy-five percent (11.275%) of the salary of each participant

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant

18. PENSION PLAN – continuation

July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013 and 2013-2014, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

18. PENSION PLAN – continuation

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred ($100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars ($200), which shall be paid no later than December 20 of each year; and

(c) A Commonwealth contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars ($100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars ($2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

The persons who retire under the provisions of Act 305-1999, known as “Retirement Savings Accounts Program”, and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

18. PENSION PLAN – continuation

Annual Contribution

The **Municipality**'s contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	DEFINED BENEFIT	HYBRID PROGRAM
2013	$ 323,227	$ 605,438
2012	352,339	531,309
2011	350,801	423,178

Total employee contributions to the above-mentioned plans during the year ended June 30, 2013, 2012 and 2011 amounted to approximately $2,381,191.

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

B. Pension Plan of Defined Contributions of the Head Start Project of the Municipality of Aguadilla

The Pension Plan of Defined Contributions of the Head Start Project of the Municipality of Aguadilla (the Plan) is a non-contributory defined contribution plan in which all employees of the Head Start Project (the Sponsor) are eligible to participate on or after the date in which the employee completes one year of continued service, at June 30, 2012 (the last available financial information) the Plan has 197 active participants. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994, as amended. Participants can make contributions up to 10 percent of their gross annual compensation, as defined in the Plan, not to exceed the limit established by law. The deposit administration contract is maintained with "Cooperativa de Seguros de Vida de Puerto Rico". The Sponsor contributes 3 percent of the gross compensation per participant. Total contributions to the Plan for fiscal year ended June 30, 2012 were $229,922 (Sponsor and participants) and benefits paid were $244,314. Interest revenues were $98,137, for a net increase in Plan Assets of $83,745. As June 30, 2012 the Net Fund Assets of the Plan is $2,416,150.

Participants are vested in accordance with the following vesting schedule:

Years of Services	Vested Percentage
Less than 1	0
At least 1	0
At least 2	20
At least 3	40
At least 4	60
At least 5	80
At least 6	100

A participant will be fully vested and may retire after reaching the age of 55 with 10 years of service.

The Plan provides additional information in their financial report that may be obtained by writing to the Administrator at PO Box 363428, San Juan, PR 00936-3428.

19. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the **Municipality** amounted to approximately $1,385,500 for the fiscal year ended June 30, 2013.

20. CONTINGENCIES

A. Claims and Judgments

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality**'s activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits that on opinion cannot be formed as to the probable outcome, with the exception of various uninsured lawsuits for which our legal counsel estimate in $35,574 the probable unfavorable outcome.

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the **Municipality**'s experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the **Municipality** may be required to reimburse the grantor or pass-through agencies. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

21. COMMITMENTS

A. Operating Leases

The **Municipality** leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2013, amounted to approximately $90,000. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

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21. COMMITMENTS – continuation

B. Construction and Improvement Commitments

The **Municipality** had encumbrances at June 30, 2013 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	Encumbered For	Amount	Reported within Fund Balance Classification
General Fund	Resurfacing of Streets	$ 508,558	Committed Improvement of Streets and Sidewalks
	Consulting Services	149,550	Committed to General Government
Construction & Improvement of Recreational Facilities Fund	Improvement of Plácido Acevedo Plaza	$ 1,064,100	Restricted to Improvement and Construction of Facilities
	Remodeling of 6th Floor of City Hall	146,704	Restricted to Improvement and Construction of Facilities
	Construction of Deli Cafeteria	133,646	Restricted to Improvement and Construction of Facilities
	Construction of Jogging Trail	361,143	Restricted to Improvement and Construction of Facilities
	Construction of Facilities	184,595	Restricted to Improvement and Construction of Facilities
Real Marina Fund	Construction of Real Marina	$ 8,641,337	Restricted to Construction of Real Marina
Non Major Funds	Construction of Arts Center	$ 900,000	Restricted to Improvement and Construction of Facilities
	Resurfacing of Streets	108,013	Restricted to Improvement of Streets and Sidewalks
	Construction of Real Marina	345,825	Committed to Construction of Real Marina
	Post-Closure Care Costs	132,551	Committed to Sanitation

C. Solid Waste Disposal Contract

The **Municipality** has a solid waste disposition contract with Moca ECO-PARK Corp. until June 30, 2014, to provide the service for the disposal of solid waste. In the contract it was established that the **Municipality** is committed to pay Moca ECO-PARK Corp. $30.00 per ton of material deposited up to $800,000 during fiscal year 2013-2014. Expenditure for the year ended June 30, 2013 for this service amount to $800,000.

Future commitments are scheduled as follows:

Year	Amount
2014	$ 720,000

D. Other Commitments

At June 30, 2013, the non-major Special Revenue Funds had a deficit of $278,095 as follows: Building Rent Fund $9,015, Municipal Police Fund $12,135, State Department of Labor Fund $158,000, Literacy Activities Fund $57,909, and Child Care Fund $41,036; and non-major Capital Projects Funds had a deficit of $1,858,435 belonging to Las Cascadas Hotel fund $1,609,411, Roads Construction & Improvement Fund $169,181, and Anthropologic Museum Construction Fund $79,843. The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures and other to be covered with a construction loan. As required by current standards, the **Municipality** recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

22. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

During the year, the **Municipality** adjusted the governmental net position for capital assets not previously recognized, and adjustment for the implementation of GASB No. 65. The following schedule reconciles the June 30, 2012 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2012, for Governmental Activities.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Net Position, as Previously Reported, At June 30, 2012	$ 149,360,007	$ 11,027,283
Adjustments to Deferred Charges	(282,093)	-
Adjustments to Capital Assets	-	(63,819)
Beginning Net Position, as Restated, At July 1, 2012	**$ 149,077,914**	**$ 10,963,464**

B. Fund Balances

The following reconciles the June 30, 2012 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2012 for the following funds:

	GENERAL FUND	ROADS CONSTRUCTION & IMPROVEMENT FUND	CONSTRUCTION & IMPROVEMENT OF RECREATIONAL FACILITIES FUNDS	OTHER GOVERNMENTAL FUNDS
Fund Balance, as Previously Reported, At June 30, 2012	$ 10,220,728	$ 2,425,178	$ -	$ 8,473,540
Reclassification of Fund Balances	(28,826)	(2,425,178)	2,716,737	(262,733)
Beginning Fund Balance, as Restated, At July 1, 2012	**$ 10,191,902**	**$ -**	**$ 2,716,737**	**$ 8,210,807**

This reclassification did not constitute a change in accounting principle.

23. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

23. NEW ACCOUNTING STANDARDS – continuation

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as revenues and expenses. The adoption of this statement require that debt issuance costs be recognized as an expenses in the period incurred.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

24. SUBSEQUENT EVENTS

On December 18, 2013 was enacted Act No. 145 that provided an amnesty for the payment of interest and penalties on taxpayer's property taxes (real and personal) debts. The amnesty will be in effect from December 18, 2013 through March 27, 2014 (100 days period) and include all debts from fiscal year 2012-2013 and prior years.

Municipality has evaluated subsequent events through December 20, 2013, the date which the financial statements were available to be issued. Except for the subsequent events mentioned above, no additional events were identified that should be disclosed or adjusted in the Financial Statements or its Notes.

END OF NOTES

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COMBINING FINANCIAL STATEMENTS AND SCHEDULES

Paseo Real Marina

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SPECIAL REVENUES FUNDS

Special Revenues Funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

State Assignments Fund – Accounts for all the transactions of the State Assignments by Legislature Resolutions. The primarily objectives of these assignments is the development of projects on communities, not-for profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

FEMA Fund – Accounts for the grant awards of the Public Assistance Grants from the US Department of Homeland Security. These awards are used for the rehabilitation of housing and infrastructure of the **Municipality** in the event of a natural disaster.

Edward Byrne Formula Fund – Accounts for the grant award to reduce and prevent illegal drug activity, crime and violence and to improve the funding of the criminal justice system.

Building Rent Fund – Accounts for the income received from the rent of building, facilities and parking property of the **Municipality**. The income is used to finance the operational expenditures of each facility, such as the salary of the employees, maintenance and other related expenditures.

Municipal Police Fund – Accounts for the revenue and related expenditures of the Municipal Police Department that are assigned by the Government and Federal Awards.

State Department of Labor Fund – Accounts for the administration of funds awarded by the Department of Labor of Puerto Rico. These funds are used mainly for salaries. An award was granted to improve the physical health of the citizens.

Scrap Removal & Recycling Fund – Accounts for the collection of scrap and recycling material of the residents of Aguadilla. The fees charged to the citizens are used to finance the related operational expenditures.

Literacy Activities Fund – Accounts for recreational activities provided to the citizens.

Sports Activities Income Fund – Accounts for state appropriations related to sport activities.

Urban Development Action Grant Fund – Accounts for the funds of this federal award. This program provides for the improvement of urban areas within the **Municipality**.

HOME Program Fund – Accounts for the funds of this federal award. These funds are granted for the rehabilitation of houses of those eligible participants.

Centers for the Elderly Fund – Accounts for the revenue and expenditures of the Elderly Centers of the **Municipality**. State and Local funds are obtained in order to operate these centers.

Child Care Fund – Accounts for the revenue and expenditures related to the Child and Adult Care Food Program.

Sales Tax Revenue Fund – Accounts for the sales tax revenue imposed of 1%. The revenues obtained are used to finance the solid waste disposal, purchase of equipment and other operational expenditures related to waste disposal.

Section 8 Fund – Accounts for the funds of the Section 8 Rental Housing Choice Vouchers and other State appropriations related to housing and welfare.

SPECIAL REVENUES FUNDS
(continued)

CDBG Fund – This is the fund used to account for all the transactions of the Community Development Block Grant Program. The primarily objectives of this program is to development of viable communities by providing decent housing, a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

Emergency Shelter Grant Fund – Accounts for the funds of this federal award. These funds are used to improve the quality of homeless shelters.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for capital projects.

Roads Construction and Improvement Fund – This is the fund used to account for major improvements in some roads that are property of the **Municipality** of as well as property that belong to the Commonwealth of Puerto Rico.

Emergency Center Construction Fund – Account for the construction of an Emergency Center, which will be used in case of a natural disaster to coordinate the required protocol.

Ramey Skate Park Project Fund – Accounts for the construction of the facilities of the Skate Park in the Ramey Military Base Area. This fund will generate its own income to finance the maintenance of the area.

Municipal Libraries Fund – Accounts for the construction of some public libraries, one of them is the Electronic Library.

Fountain of Youth Project Fund – Accounts for the construction of the Fountain of the Youth Plaza located in the Parterre Area.

Vehicles and Property Acquisition Fund – Accounts for the purchase of vehicles and equipment from a bond issued.

Streets and Sidewalks Improvement Projects Fund – Accounts for the construction and improvement of infrastructure property of the **Municipality** and some which are property of the Commonwealth.

Municipal Courthouse Construction Fund – Accounts for the construction of the new Municipal Courthouse. This project is new and is financed through the issuance of the special obligation bond of $6,410,000.

Clock Tower Construction Fund – Accounts for the remodeling of the third floor of the old City Hall. This project is new and is financed through the issuance of the special obligation bond of $6,410,000.

Activity Center Construction Fund – Accounts for the construction of an Activity Center in the Aguadilla Ice Skate Arena. This project is new and is financed through the issuance of the special obligation bond of $6,410,000.

Commercial Property Acquisition Fund – Accounts for the acquisition of a commercial property in order to construct a new Arts Center.

Las Cascadas Hotel Fund – Accounts for the construction of the new Las Cascadas Hotel, which will be located in the Aguadilla's Waterfall Aquatic Park area.

CAPITAL PROJECTS FUNDS:
(continued)

Ramey Skate Park Gazebo Rent Income Fund – Accounts for construction of a Gazebo in the Ramey Skate Park. This project was completed during the year. The income from the rent of this Gazebo will be used to finance the maintenance of it.

City Hall Annex Construction Fund – Accounts for the construction of the new City Hall. This project is new and is financed through the issuance of the special obligation bond of $555,000.

Convention Center Construction Fund – Accounts for the construction of the new Convention Center. This project is new and is financed through the issuance of the special obligation bond of $1,160,000.

Arts Center Construction Fund – Accounts for the construction of the new Arts Center. This project is new and is financed through the issuance of two special obligation bonds, one of $260,000, and other of $1,475,000.

Anthropologic Museum Construction Fund – Accounts for the construction of the new Convention Center. This project is new and is financed through the issuance of the special obligation bond of $1,100,000.

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	SPECIAL REVENUES FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR FUNDS
ASSETS:			
Cash and Investments	$ 4,689,612	$ 2,447,149	$ 7,136,761
Cash with Fiscal Agent	-	2,476,564	2,476,564
Receivables:			
Sales and Usage Taxes	167,828	-	167,828
Federal Grants	613,956	-	613,956
Due from Other Funds	12,911	59,545	72,456
Others Receivables	80,069	-	80,069
TOTAL ASSETS	**$ 5,564,376**	**$ 4,983,258**	**$ 10,547,634**
LIABILITIES:			
Accounts Payable	$ 586,155	$ 2,228,185	$ 2,814,340
Accrued Interest	-	-	-
Due to Governmental Units	-	-	-
Due to Other Funds	2,379,291	1,680,838	4,060,129
Deposits and Bonds	-	-	-
Unearned Revenues	-	-	-
Total Liabilities	2,965,446	3,909,023	6,874,469
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenues – Federal Grants	357,543	-	357,543
Total Deferred Inflows of Resources	357,543	-	357,543
FUND BALANCES:			
Restricted	790,627	2,310,769	3,101,396
Committed	1,728,855	621,901	2,350,756
Assigned	-	-	-
Unassigned (Deficit)	(278,095)	(1,858,435)	(2,136,530)
Total Fund Balances	2,241,387	1,074,235	3,315,622
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 5,564,376**	**$ 4,983,258**	**$ 10,547,634**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUES FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR FUNDS
REVENUES:			
Property Taxes	$ -	$ -	$ -
Volume of Business Taxes	-	-	-
Sales and Usage Taxes	1,991,732	-	1,991,732
Federal Grants	5,316,665	3,653	5,320,318
Intergovernmental	472,053	3,315,008	3,787,061
Construction Excise Taxes	-	-	-
Interests	167	2,198	2,365
Charges for Services	1,522,204	-	1,522,204
Miscellaneous	31,924	-	31,924
Total Revenues	9,334,745	3,320,859	12,655,604
EXPENDITURES:			
Current:			
Mayor and Municipal Assembly	-	-	-
General Government	734,888	19,953	754,841
Public Safety	29,286	-	29,286
Public Works	-	-	-
Culture and Recreation	97,347	-	97,347
Health and Sanitation	1,315,957	-	1,315,957
Public Instruction	-	-	-
Landfill Post-Closure Care Costs	-	-	-
Human Services and Welfare	4,423,137	-	4,423,137
Urban Development	631,818	4,723,143	5,354,961
Capital Outlay	994,055	3,126,811	4,120,866
Debt Service:			
Principal	-	-	-
Interest and Other Charges	-	-	-
Bond Issue Costs	-	-	-
Total Expenditures	8,226,488	7,869,907	16,096,395
Excess of Revenues Over (Under) Expenditures	1,108,257	(4,549,048)	(3,440,791)
OTHER FINANCING SOURCES (USES):			
Proceed of Bonds	-	-	-
Transfers – In	25,444	314,817	340,261
Transfers – Out	(1,373,999)	(420,656)	(1,794,655)
Total Other Financing Sources and Uses	(1,348,555)	(105,839)	(1,454,394)
Net Change in Fund Balances	**(240,298)**	**(4,654,887)**	**(4,895,185)**
Fund Balance – Beginning, as Restated	2,481,685	5,729,122	8,210,807
FUND BALANCES – ENDING	**$ 2,241,387**	**$ 1,074,235**	**$ 3,315,622**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING BALANCE SHEET – NON–MAJOR GOVERNMENTAL FUNDS – *SPECIAL REVENUES*

JUNE 30, 2013

	STATE ASSIGNMENTS FUND	FEMA FUND	EDWARD BYRNE FORMULA FUND	BUILDING RENT FUND	MUNICIPAL POLICE FUND	STATE DEPARTMENT OF LABOR FUND
ASSETS:						
Cash and Investments	$ 563,072	$ -	$ -	$ 670,986	$ 326,387	$ 62,726
Cash with Fiscal Agent	-	-	-	-	-	-
Receivables:						
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Due from Other Funds	-	-	-	4,834	-	-
Others Receivables	-	-	-	-	-	-
TOTAL ASSETS	**$ 563,072**	**$ -**	**$ -**	**$ 675,820**	**$ 326,387**	**$ 62,726**
LIABILITIES:						
Accounts Payable	$ 33,531	$ -	$ -	$ 23,009	$ -	$ 1,472
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	37,212	-	-	661,826	338,522	219,254
Deposits and Bonds	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	70,743	-	-	684,835	338,522	220,726
DERERRED INFLOWS OF RESOURCES:						
Unavailable Revenues – Federal Grants.	-	-	-	-	-	-
Total Deferred Inflows of Resources.	-	-	-	-	-	-
FUND BALANCES:						
Restricted	492,329	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned (Deficits)	-	-	-	(9,015)	(12,135)	(158,000)
Total Fund Balances (Deficits)	492,329	-	-	(9,015)	(12,135)	(158,000)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 563,072**	**$ -**	**$ -**	**$ 675,820**	**$ 326,387**	**$ 62,726**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

	SCRAP REMOVAL & RECYCLING FUND	LITERACY ACTIVITIES FUND	SPORTS ACTIVITIES INCOME FUND	URBAN DEVELOPMENT ACTION GRANT FUND	HOME PROGRAM FUND	CENTERS FOR THE ELDERLY FUND
ASSETS:						
Cash and Investments	$ 306,647	$ 21,187	$ 13,544	$ 6,934	$ 700	$ 257,233
Cash with Fiscal Agent	-	-	-	-	-	-
Receivables:						
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	958	57,708	47,548
Due from Other Funds	-	-	8,077	-	-	-
Others Receivables	-	-	-	-	-	80,069
TOTAL ASSETS	**$ 306,647**	**$ 21,187**	**$ 21,621**	**$ 7,892**	**$ 58,408**	**$ 384,850**
LIABILITIES:						
Accounts Payable	$ 28,990	$ 753	$ 648	$ 7,892	$ 53,219	$ 47,285
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	2,874	78,343	75	-	5,189	287,399
Deposits and Bonds			-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	31,864	79,096	723	7,892	58,408	334,684
DERERRED INFLOWS OF RESOURCES:						
Unavailable Revenues – Federal Grants	-	-	-	-	-	50,166
Total Deferred Inflows of Resources	-	-	-	-	-	50,166
FUND BALANCES:						
Restricted	-	-	-	-	-	-
Committed	274,783	-	20,898	-	-	-
Assigned	-	-	-	-	-	-
Unassigned (Deficits)	-	(57,909)	-	-	-	-
Total Fund Balances (Deficits)	274,783	(57,909)	20,898	-	-	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 306 647**	**$ 21 187**	**$ 21 621**	**$ 7 892**	**$ 58 408**	**$ 384 850**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING BALANCE SHEET – NON–MAJOR GOVERNMENTAL FUNDS – *SPECIAL REVENUES* – CONTINUE

JUNE 30, 2013

	CHILD CARE FUND	SALES TAX REVENUE FUND	SECTION 8 FUND	CDBG FUND	EMERGENCY SHELTER GRANT FUND	TOTAL NON-MAJOR GOVERNMENTAL FUND
ASSETS:						
Cash and Investments	$ 164,740	$ 1,991,439	$ 280,418	$ 21,247	$ 2,352	$ 4,689,612
Cash with Fiscal Agent	-	-	-	-	-	-
Receivables:						
Sales and Usage Taxes	-	167,828	-	-	-	167,828
Federal Grants	-	-	-	430,605	77,137	613,956
Due from Other Funds	-	-	-	-	-	12,911
Others Receivables	-	-	-	-	-	80,069
TOTAL ASSETS	**$ 164,740**	**$ 2,159,267**	**$ 280,418**	**$ 451,852**	**$ 79,489**	**$ 5,564,376**
LIABILITIES:						
Accounts Payable	$ 97,338	$ 58,321	$ 1,129	$ 229,664	$ 2,904	$ 586,155
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	45,014	667,772	21,693	13,289	829	2,379,291
Deposits and Bonds	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	142,352	726,093	22,822	242,953	3,733	2,965,446
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues – Federal Grants	63,424	-	-	208,899	35,054	357,543
Total Deferred Inflows of Resources	63,424	-	-	208,899	35,054	357,543
FUND BALANCES:						
Restricted	-	-	257,596	-	40,702	790,627
Committed	-	1,433,174	-	-	-	1,728,855
Assigned	-	-	-	-	-	-
Unassigned (Deficits)	(41,036)	-	-	-	-	(278,095)
Total Fund Balances (Deficits)	(41,036)	1,433,174	257,596	-	40,702	2,241,387
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 164,740**	**$ 2,159,267**	**$ 280,418**	**$ 451,852**	**$ 79,489**	**$ 5,564,376**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *SPECIAL REVENUES*

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	STATE ASSIGNMENTS FUND	FEMA FUND	EDWARD BYRNE FORMULA FUND	BUILDING RENT FUND	MUNICIPAL POLICE FUND	STATE DEPARTMENT OF LABOR FUND
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	37,500	-	-	102,667	-
Intergovernmental	156,000	14,400	-	-	13,276	189,460
Construction Excise Taxes	-	-	-	-	-	-
Interests	-	-	130	6	-	11
Charges for Services	-	-	-	780,149	-	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	156,000	51,900	130	780,155	115,943	189,471
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	1,032	35	739	290,900	-	317,468
Public Safety	-	-	-	-	29,286	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Health and Sanitation	-	-	-	-	-	-
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	151,000	-	-	-	-	-
Urban Development	-	-	-	-	-	-
Capital Outlay	3,400	-	-	40,449	1,268	1,739
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	155,432	35	739	331,349	30,554	319,207
Excess of Revenues Over (Under) Expenditures	568	51,865	(609)	448,806	85,389	(129,736)
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	-	-	-	-	-	25,444
Transfers – Out	-	-	-	(376,750)	-	-
Total Other Financing Sources and Uses	-	-	-	(376,750)	-	25,444
Net Change in Fund Balances	**568**	**51,865**	**(609)**	**72,056**	**85,389**	**(104,292)**
Fund Balance (Deficits) – Beginning, as Restated	491,761	(51,865)	609	(81,071)	(97,524)	(53,708)
FUND BALANCES (DEFICITS) – ENDING	**$ 492,329**	**$ -**	**$ -**	**($ 9,015)**	**($ 12,135)**	**($ 158,000)**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF AGUADILLA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *SPECIAL REVENUES* – CONTINUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Scrap Removal & Recycling Fund	Literacy Activities Fund	Sports Activities Income Fund	Urban Development Action Grant Fund	Home Program Fund	Centers for The Elderly Fund
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	139,213	-	6,887	588,319	273,135
Intergovernmental	-	-	-	-	-	98,917
Construction Excise Taxes	-	-	-	-	-	-
Interests	-	20	-	-	-	-
Charges for Services	724,414	-	17,641	-	-	-
Miscellaneous	-	-	-	-	-	25,128
Total Revenues	724,414	139,233	17,641	6,887	588,319	397,180
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	92,729	4,618	-	-	-
Health and Sanitation	507,007	-	-	-	-	-
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	-	-	-	24,586	588,319	397,180
Urban Development	-	-	-	-	-	-
Capital Outlay	96,324	27,959	-	-	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	603,331	120,688	4,618	24,586	588,319	397,180
Excess of Revenues Over (Under) Expenditures	121,083	18,545	13,023	(17,699)	-	-
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	-	-	-	-	-	-
Transfers – Out	-	-	-	-	-	-
Total Other Financing Sources and Uses	-	-	-	-	-	-
Net Change in Fund Balances	**121,083**	**18,545**	**13,023**	**(17,699)**	**-**	**-**
Fund Balance (Deficits) – Beginning, as Restated	153,700	(76,454)	7,875	17,699	-	-
FUND BALANCES (DEFICITS) – ENDING	**$ 274,783**	**($ 57,909)**	**$ 20,898**	**$ -**	**$ -**	**$ -**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *SPECIAL REVENUES* – CONTINUE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	CHILD CARE FUND	SALES TAX REVENUE FUND	SECTION 8 FUND	CDBG FUND	EMERGENCY SHELTER GRANT FUND	TOTAL NON-MAJOR GOVERNMENTAL FUND
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	1,991,732	-	-	-	1,991,732
Federal Grants	700,959	-	1,314,865	2,008,066	145,054	5,316,665
Intergovernmental	-	-	-	-	-	472,053
Construction Excise Taxes	-	-	-	-	-	-
Interests	-	-	-	-	-	167
Charges for Services	-	-	-	-	-	1,522,204
Miscellaneous	-	-	6,796	-	-	31,924
Total Revenues	700,959	1,991,732	1,321,661	2,008,066	145,054	9,334,745
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	-	124,714	-	-	-	734,888
Public Safety	-	-	-	-	-	29,286
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	97,347
Health and Sanitation	-	808,950	-	-	-	1,315,957
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	733,108	-	1,366,899	1,021,917	140,128	4,423,137
Urban Development	-	631,818	-	-	-	631,818
Capital Outlay	-	822,916	-	-	-	994,055
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	733,108	2,388,398	1,366,899	1,021,917	140,128	8,226,488
Excess of Revenues Over (Under) Expenditures	(32,149)	(396,666)	(45,238)	986,149	4,926	1,108,257
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	-	-	-	-	-	25,444
Transfers – Out	-	(270)	-	(996,979)	-	(1,373,999)
Total Other Financing Sources and Uses	-	(270)	-	(996,979)	-	(1,348,555)
Net Change in Fund Balances	**(32,149)**	**(396,936)**	**(45,238)**	**(10,830)**	**4,926**	**(240,298)**
Fund Balance (Deficits) – Beginning, as Restated	(8,887)	1,830,110	302,834	10,830	35,776	2,481,685
FUND BALANCES (DEFICITS) – ENDING	**($ 41,036)**	**$ 1,433,174**	**$ 257,596**	**$ -**	**$ 40,702**	**$ 2,241,387**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING BALANCE SHEET – NON–MAJOR GOVERNMENTAL FUNDS – *CAPITAL PROJECTS*

JUNE 30, 2013

	Road Construction and Improvement Fund	Emergency Center Construction Fund	Ramey Skate Park Project Fund	Municipal Libraries Fund	Fountain of Youth Project Fund	Vehicles And Property Acquisition Fund
ASSETS:						
Cash and Investments	$ 710,672	$ 549,221	$ 50,479	$ 9,198	$ -	$ 6,628
Cash with Fiscal Agent	19,300	-	1,256	34,651	527,095	16,895
Receivables:						
Property Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
Others Receivables	-	-	-	-	-	-
TOTAL ASSETS	**$ 729,972**	**$ 549,221**	**$ 51,735**	**$ 43,849**	**$ 527,095**	**$ 23,523**
LIABILITIES:						
Accounts Payable	$ 188,441	$ -	$ 796	$ 21	$ 12,774	$ 2,280
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	710,712	-	3,500	2,003	103,279	7,454
Deposits and Bonds	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	899,153	-	4,296	2,024	116,053	9,734
DEFERRED INFLOWS OF RESOURCES:						
Unearned Revenues – Federal Grants	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-
FUND BALANCES:						
Restricted	-	-	-	35,202	411,042	13,789
Committed	-	549,221	47,439	6,623	-	-
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	(169,181)	-	-	-	-	-
Total Fund Balances (Deficit)	(169,181)	549,221	47,439	41,825	411,042	13,789
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 729,972**	**$ 549,221**	**$ 51,735**	**$ 43,849**	**$ 527,095**	**$ 23,523**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

	STREETS AND SIDEWALKS IMPROVEMENT FUND	MUNICIPAL COURTHOUSE CONSTRUCTION FUND	CLOCK TOWER CONSTRUCTION FUND	ACTIVITY CENTER CONSTRUCTION FUND	COMMERCIAL PROPERTY ACQUISITION FUND	LAS CASCADAS HOTEL FUND
ASSETS:						
Cash and Investments	$ 200,540	$ -	$ -	$ -	$ -	$ -
Cash with Fiscal Agent	650,254	5,132	76,670	212,967	8,009	26,962
Receivables:						
Property Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Due from Other Funds	59,545	-	-	-	-	-
Others Receivables	-	-	-	-	-	-
TOTAL ASSETS	**$ 910,339**	**$ 5,132**	**$ 76,670**	**$ 212,967**	**$ 8,009**	**$ 26,962**
LIABILITIES:						
Accounts Payable	$ 132,802	$ -	$ -	$ -	$ -	$ 1,477,717
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	536,309	-	-	-	-	158,656
Deposits and Bonds	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	669,111	-	-	-	-	1,636,373
DEFERRED INFLOWS OF RESOURCES:						
Unearned Revenues – Federal Grants	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-
FUND BALANCES:						
Restricted	240,679	5,132	76,670	212,967	8,009	-
Committed	549	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	-	-	-	-	-	(1,609,411)
Total Fund Balances (Deficit)	241,228	5,132	76,670	212,967	8,009	(1,609,411)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 910,339**	**$ 5,132**	**$ 76,670**	**$ 212,967**	**$ 8,009**	**$ 26,962**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING BALANCE SHEET – NON–MAJOR GOVERNMENTAL FUNDS – *CAPITAL PROJECTS* – CONTINUE

JUNE 30, 2013

	RAMEY SKATE PARK GAZEBO RENT INCOME FUND	CITY HALL ANNEX CONSTRUCTION FUND	CONVENTION CENTER CONSTRUCTION FUND	ART CENTER CONSTRUCTION FUND	ANTHROPOLOGIC MUSEUM CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENTAL FUND
ASSETS:						
Cash and Investments	$ 20,411	$ -	$ -	$ 900,000	$ -	$ 2,447,149
Cash with Fiscal Agent	-	889,159	3,655	4,559	-	2,476,564
Receivables:						
Property Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	59,545
Others Receivables	-	-	-	-	-	-
TOTAL ASSETS	**$ 20 411**	**$ 889 159**	**$ 3 655**	**$ 904 559**	**$ -**	**$ 4 983 258**
LIABILITIES:						
Accounts Payable	$ -	$ 393,056	$ -	$ -	$ 20,298	$ 2,228,185
Accrued Interest	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-
Due to Other Funds	2,342	97,038	-	-	59,545	1,680,838
Deposits and Bonds	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-
Total Liabilities	2,342	490,094	-	-	79,843	3,909,023
DEFERRED INFLOWS OF RESOURCES:						
Unearned Revenues – Federal Grants	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-
FUND BALANCES:						
Restricted	-	399,065	3,655	904,559	-	2,310,769
Committed	18,069	-	-	-	-	621,901
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	-	-	-	-	(79,843)	(1,858,435)
Total Fund Balances (Deficit)	18,069	399,065	3,655	904,559	(79,843)	1,074,235
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	**$ 20 411**	**$ 889 159**	**$ 3 655**	**$ 904 559**	**$ -**	**$ 4 983 258**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *CAPITAL PROJECTS*

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Road Construction and Improvement Fund	Emergency Center Construction Fund	Ramey Skate Park Project Fund	Municipal Libraries Fund	Fountain of Youth Project Fund	Vehicles And Property Acquisition Fund
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Intergovernmental	3,246,709	-	-	-	-	-
Construction Excise Taxes	-	-	-	-	-	-
Interests	-	184	-	-	-	-
Charges for Services	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	3,246,709	184	-	-	-	-
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	7,650	-	-	73	-	-
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Health and Sanitation	-	-	-	-	-	-
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	-	-	-	-	-	-
Urban Development	4,514,527	-	-	-	-	-
Capital Outlay	1,319,931	-	850	913	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	5,842,108	-	850	986	-	-
Excess of Revenues Over (Under) Expenditures	(2,595,399)	184	(850)	(986)	-	-
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	1,040	-	270	-	-	6,628
Transfers – Out	-	-	-	-	-	-
Total Other Financing Sources and Uses	1,040	-	270	-	-	6,628
Net Change in Fund Balances	**(2,594,359)**	**184**	**(580)**	**(986)**	**-**	**6,628**
Fund Balance (Deficits) – Beginning, as Restated	2,425,178	549,037	48,019	42,811	411,042	7,161
FUND BALANCES (DEFICITS) – ENDING	**($ 169,181)**	**$ 549,221**	**$ 47,439**	**$ 41,825**	**$ 411,042**	**$ 13,789**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *CAPITAL PROJECTS* – CONTINUE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Streets and Sidewalks Improvement Fund	Municipal Courthouse Construction Fund	Clock Tower Construction Fund	Activity Center Construction Fund	Commercial Property Acquisition Fund	Las Cascadas Hotel Fund
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-
Intergovernmental	68,299	-	-	-	-	-
Construction Excise Taxes	-	-	-	-	-	-
Interests	2,014	-	-	-	-	-
Charges for Services	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	70,313	-	-	-	-	-
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	-	-	-	-	-	12,230
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Health and Sanitation	-	-	-	-	-	-
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	-	-	-	-	-	-
Urban Development	208,616	-	-	-	-	-
Capital Outlay	-	-	-	-	-	1,477,717
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	208,616	-	-	-	-	1,489,947
Excess of Revenues Over (Under) Expenditures	(138,303)	-	-	-	-	(1,489,947)
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	112,753	-	-	-	-	194,126
Transfers – Out	(200,754)	-	-	-	(1,040)	-
Total Other Financing Sources and Uses	(88,001)	-	-	-	(1,040)	194,126
Net Change in Fund Balances	**(226,304)**	**-**	**-**	**-**	**(1,040)**	**(1,295,821)**
Fund Balance (Deficits) – Beginning, as Restated	467,532	5,132	76,670	212,967	9,049	(313,590)
FUND BALANCES (DEFICITS) – ENDING	**$ 241,228**	**$ 5,132**	**$ 76,670**	**$ 212,967**	**$ 8,009**	**($ 1,609,411)**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

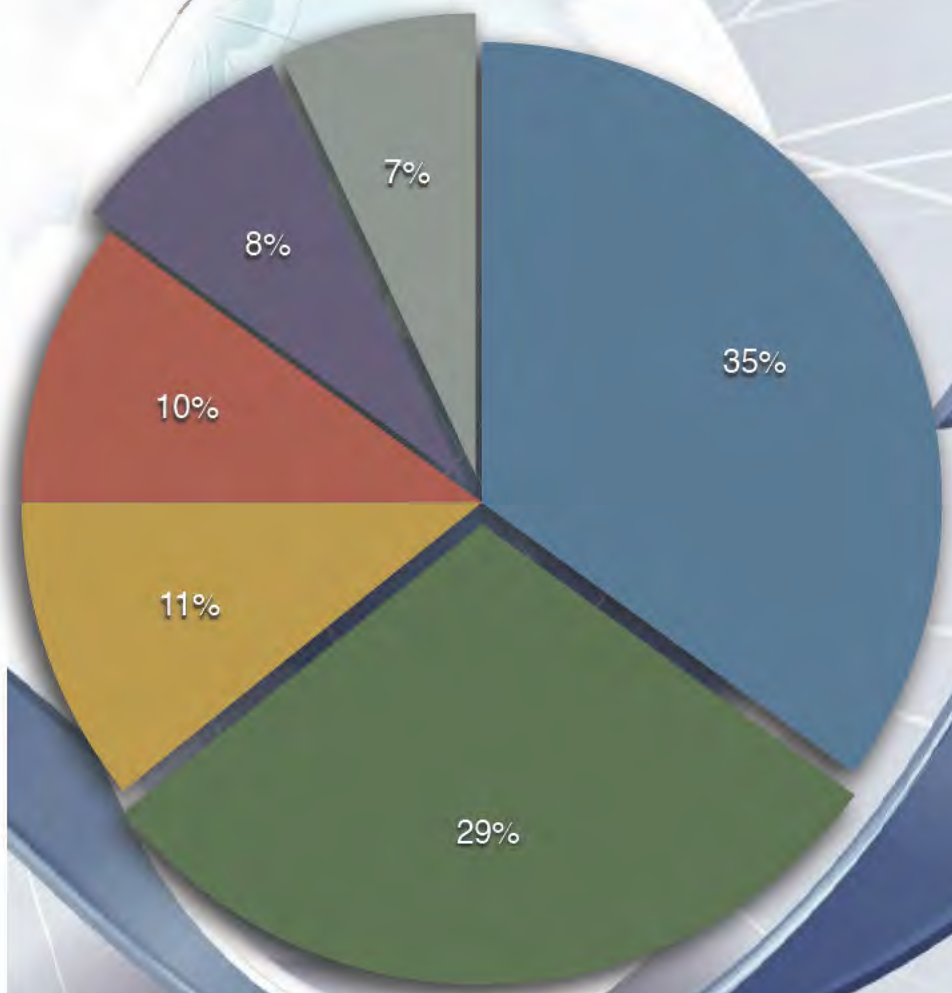
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON–MAJOR GOVERNMENTAL FUNDS – *CAPITAL PROJECTS* – CONTINUE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Ramey Skate Park Gazebo Rent Income Fund	City Hall Annex Construction Fund	Convention Center Construction Fund	Art Center Construction Fund	Anthropologic Museum Construction Fund	Total Non-Major Governmental Fund
REVENUES:						
Property Taxes	$ -	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-	-
Federal Grants	-	-	-	-	3,653	3,653
Intergovernmental	-	-	-	-	-	3,315,008
Construction Excise Taxes	-	-	-	-	-	-
Interests	-	-	-	-	-	2,198
Charges for Services	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	-	-	-	-	3,653	3,320,859
EXPENDITURES:						
Current:						
Mayor and Municipal Assembly	-	-	-	-	-	-
General Government	-	-	-	-	-	19,953
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Health and Sanitation	-	-	-	-	-	-
Public Instruction	-	-	-	-	-	-
Landfill Post-Closure Care Costs	-	-	-	-	-	-
Human Services and Welfare	-	-	-	-	-	-
Urban Development	-	-	-	-	-	4,723,143
Capital Outlay	1,305	7,266	-	-	318,829	3,126,811
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Total Expenditures	1,305	7,266	-	-	318,829	7,869,907
Excess of Revenues Over (Under) Expenditures	(1,305)	(7,266)	-	-	(315,176)	(4,549,048)
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	-	-	-
Transfers – In	-	-	-	-	-	314,817
Transfers – Out	-	-	-	-	(218,862)	(420,656)
Total Other Financing Sources and Uses	-	-	-	-	(218,862)	(105,839)
Net Change in Fund Balances	**(1,305)**	**(7,266)**	**-**	**-**	**(534,038)**	**(4,654,887)**
Fund Balance (Deficits) – Beginning, as Restated	19,374	406,331	3,655	904,559	454,195	5,729,122
FUND BALANCES (DEFICITS) – ENDING	**$ 18,069**	**$ 399,065**	**$ 3,655**	**$ 904,559**	**($ 79,843)**	**$ 1,074,235**

The accompanying *Notes to Basic Financial Statements* are an integral part of this statement.

STATISTICAL SECTION



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STATISTICAL SECTION

This part of the **Autonomous Municipality of Aguadilla's Comprehensive Annual Financial Report** presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the **Municipality**'s overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the **Municipality**'s financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective only include Fiscal year 2003 and forward, coinciding with the implementation of GASB Statement No. 34. During Fiscal Year 2012-2013, the **Municipality** implemented the requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. Some of the presentation required prior year adjustments. Accordingly, some figures are adjusted to consider such restatements. For the Business – Type Activities, schedules are presented for Fiscal Yaar 2006 and forward. During fiscal year 2012-2013 the **Municipality** created the Aguadilla City Enterprises as new enterprise to group and combined the administration and oparation of all enterprise funds. Fund perspective schedules are presented for the last ten years, except where noted. Schedules included are:

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REVENUE CAPACITY

This schedule contains information to help the reader assess the **Municipality**'s most significant revenue sources: property tax and volume and business tax. Schedules included are:

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DEBT CAPACITY

This schedule presents information to help the reader assess the affordability of the **Municipality**'s current levels of outstanding debt and the **Municipality**'s ability to issue additional debt in the future. Schedule included is:

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Ratios of Net Bonded Debt Outstanding for the Last Ten Fiscal Years 126

Computation of Legal Debt Margin for the Fiscal Year Ended June 30, 2013 127

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DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment in which the **Municipality**'s financial activities take place. Schedules included are:

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OPERATING INFORMATION

These schedules offer operating data to help the reader understand how the information in **Municipality**'s financial report relates to the services it provides and the activities it performs. Schedules included are:

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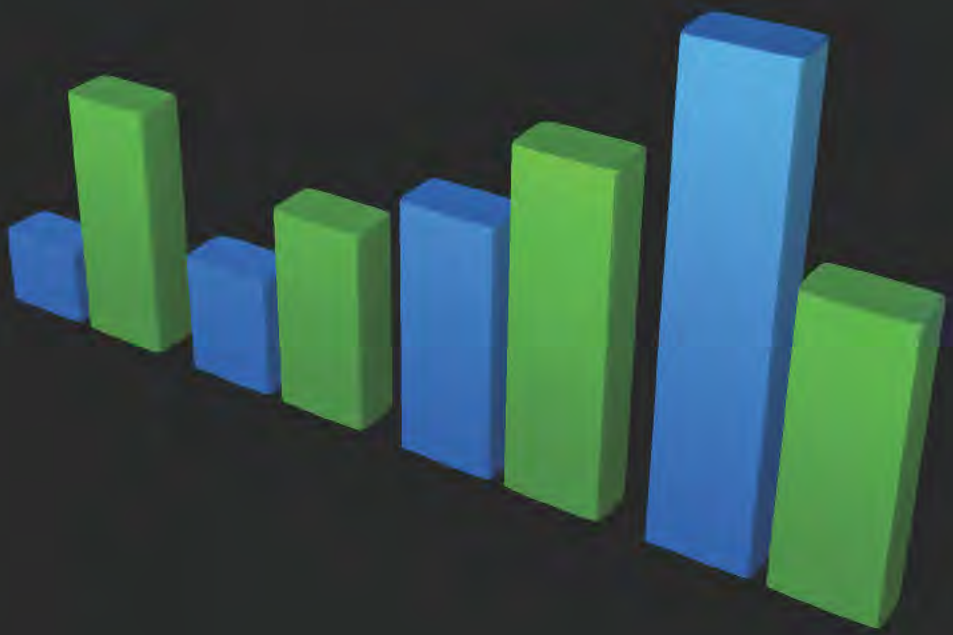
FINANCIAL TRENDS



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NET POSITION TREND BY COMPONENT FOR THE LAST TEN FISCAL YEARS

PRIMARY GOVERNMENT

	2013	2012 [c]	2011	2010	2009 [b]	2008 [a]	2007 [a]	2006	2005	2004
NET POSITION:										
Net Investment in Capital Assets	$ 132,744,776	$ 129,488,689	$ 113,415,490	$ 108,650,733	$ 108,994,704	$ 99,290,451	$ 105,675,025	$ 80,151,494	$ 45,180,649	$ 48,840,015
Restricted	20,662,715	25,663,862	19,217,368	20,725,293	23,283,794	25,557,280	17,932,162	18,251,736	42,823,268	30,418,744
Unrestricted	3,938,867	4,952,646	5,166,838	7,807,493	1,974,089	7,400,958	6,010,803	5,261,097	1,965,950	5,658,968
TOTAL NET POSITION	**$ 157,346,358**	**$ 160,105,197**	**$ 137,799,696**	**$ 137,183,519**	**$ 134,252,587**	**$ 132,248,689**	**$ 129,617,990**	**$ 103,664,327**	**$ 89,969,867**	**$ 84,917,727**

Note: The **Municipality** implemented the GASB Statement 63 on the fiscal year ended June 30, 2013.

[a] Increase in Total Net Position due to recognition of infrastructure, and the construction in progress of new projects.

[b] Decrease in Unrestricted Net Position due to the recognition of Landfill Closure and Post-Closure Costs Liability.

[c] Increase in Net Investment in Capital Assets is due to a transfer of an infraestructure project made by the US Army Corps of Engineers and US Department of Defense to the **Municipality**.

NET POSITION TREND BY COMPONENT FOR THE LAST TEN FISCAL YEARS

GOVERNMENTAL ACTIVITIES

	2013	2012 [c]	2011	2010	2009 [b]	2008 [a]	2007 [a]	2006	2005	2004
NET POSITION:										
Net Investment in Capital Assets	$ 123,136,358	$ 119,836,889	$ 103,675,911	$ 98,761,484	$ 98,858,466	$ 89,487,550	$ 95,839,734	$ 70,068,980	$ 45,180,649	$ 48,840,015
Restricted	20,662,715	25,663,862	19,217,368	20,725,293	23,283,794	25,557,280	17,932,162	18,251,736	42,823,268	30,418,744
Unrestricted	2,121,666	3,577,163	3,645,589	6,918,122	1,514,047	5,845,906	5,090,366	3,766,767	1,965,950	5,658,968
TOTAL NET POSITION	**$ 145,920,739**	**$ 149,077,914**	**$ 126,538,868**	**$ 126,404,899**	**$ 123,656,307**	**$ 120,890,736**	**$ 118,862,262**	**$ 92,087,483**	**$ 89,969,867**	**$ 84,917,727**

Note: The **Municipality** implemented the GASB Statement 63 on the fiscal year ended June 30, 2013.

[a] Increase in Total Net Position due to recognition of infrastructure, and the construction in progress of new projects.

[b] Decrease in Unrestricted Net Position due to the recognition of Landfill Post-Closure Costs Liability.

[c] Increase in Net Investment in Capital Assets is due to a transfer of an infraestructure project made by the US Army Corps of Engineers and US Department of Defense to the **Municipality**.

NET POSITION TREND BY COMPONENT FOR THE LAST EIGHT FISCAL YEARS

BUSINESS – TYPE ACTIVITIES

	2013 [c]	2012			2011			2010		2009		2008		2007		2006	
	AGUADILLA CITY ENTERPRISES	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	OTHER PROPRIETARY FUNDS	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	OTHER PROPRIETARY FUNDS [b]	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	AGUADILLA'S WATERFALLS AQUATIC PARK [a]	AGUADILLA ICE SKATING ARENA	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	AGUADILLA'S WATERFALLS AQUATIC PARK [a]	AGUADILLA ICE SKATING ARENA	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA
NET POSITION:																	
Net Investment in Capital Assets	$ 9,608,418	$ 3,385,324	$ 5,777,741	$ 424,916	$ 3,321,300	$ 5,935,921	$ 482,358	$ 3,839,842	$ 6,049,407	$ 3,943,828	$ 6,192,410	$ 4,052,196	$ 5,750,705	$ 4,080,048	$ 5,755,243	$ 4,211,713	$ 5,870,801
Unrestricted	1,817,201	860,289	282,374	232,820	897,345	196,562	427,342	643,657	245,714	366,765	93,277	1,445,284	109,768	829,119	91,318	1,413,131	81,199
TOTAL NET POSITION	**$ 11,425,619**	**$ 4,245,613**	**$ 6,060,115**	**$ 657,736**	**$ 4,218,645**	**$ 6,132,483**	**$ 909,700**	**$ 4,483,499**	**$ 6,295,121**	**$ 4,310,593**	**$ 6,285,687**	**$ 5,497,480**	**$ 5,860,473**	**$ 4,909,167**	**$ 5,846,561**	**$ 5,624,844**	**$ 5,952,000**

Note: The **Municipality** created the Enterprise Funds for Fiscal Year 2006.

(a) Decrease in Unrestricted Net Position due to an Operating Equity Transfer made to the General Fund.

(b) During Fiscal Year 2011, the General Fund made a Capital Contribution for the creation of the Franchise Division Fund.
Fiscal Year 2011 presents a restatement for the incorporation of a new enterprise fund, the Aguadilla Bowling Alley.

GOVERNMENT OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

NET POSITION'S CHANGE TREND FOR THE LAST TEN FISCAL YEARS
PRIMARY GOVERNMENT

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental Activities:										
Mayor and Municipal Legislature	$ 1,420,810	$ 1,374,184	$ 1,263,729	$ 1,353,353	$ 2,243,847	$ 1,514,767	$ 1,549,319	$ 1,455,224	$ 1,572,271	$ 2,588,597
General Government	18,240,673	17,811,106	16,991,843	17,319,708	17,416,165	18,759,422	18,433,566	17,639,130	18,691,822	12,285,179
Public Safety	1,979,991	2,029,544	1,885,212	1,826,605	1,845,635	1,763,964	1,666,842	1,776,161	1,712,299	1,626,191
Public Works	3,202,954	2,741,210	1,472,237	1,697,101	1,821,141	1,858,104	1,874,964	1,800,400	1,858,805	1,679,448
Culture and Recreation	1,327,961	1,322,936	998,967	1,260,932	1,063,943	1,105,616	979,368	1,361,111	3,214,666 [a]	2,571,398 [a]
Health and Sanitation	4,520,704	4,610,810	4,309,372	4,387,430	7,517,663 [c]	4,046,193	3,057,282	2,135,284	3,434,882	3,670,056
Public Instruction	6,130,946	5,975,579	6,534,940	5,717,719	5,371,819	6,046,261	5,381,175	7,057,884	5,509,806	5,831,190
Land ill Post-Closure Care Costs	1,675,885	-	-	-	-	-	-	-	-	-
Human Services and Welfare	7,743,953	7,087,321	6,724,421	7,259,936	5,090,701	4,792,506	5,582,451	4,780,771	4,991,988	4,426,804
Urban Development	6,251,920	7,944,350	9,165,696	4,421,722	13,031,468	4,222,382	4,826,215	4,905,990	1,897,109	5,274,018
Reimbursement to Grantor Agency	-	230,542	-	-	-	-	-	-	-	-
Loss on disposition of Asset	21,249	50,034	-	-	57,393	-	135,122	-	-	-
Interest on Long-Term Debt	3,755,996	5,446,920	2,634,339	2,812,231	3,804,291	2,572,880	2,544,588	2,359,767	2,065,212	1,341,702
Total Governmental Activities	56,273,042	56,624,536	51,980,756	48,056,737	59,264,066	46,682,095	46,030,892	45,271,722	44,948,860	41,294,583
Business Type Activities:										
Aguadilla City Enterprises [g]	2,075,427	-	-	-	-	-	-	-	-	-
Aguadilla's Waterfalls Aquatic Park	-	1,814,125	2,021,368	1,375,249	1,955,310	1,396,436	1,373,748	1,182,640	-	-
Aguadilla's Ice Skating Arena	-	604,460	760,657	661,247	787,478	733,245	1,072,889	1,163,757	-	-
Other Non-Major Enterprise Funds	-	890,658	305,187	-	-	-	-	-	-	-
Total Business-Type Activities	2,075,427	3,309,243	3,087,212	2,036,496	2,742,788	2,129,681	2,446,637	2,346,397	-	-
Total primary government expenses	**58,348,469**	**59,933,779**	**55,067,968**	**50,093,233**	**62,006,854**	**48,811,776**	**48,477,529**	**47,618,119**	**44,948,860**	**41,294,583**
Program Revenues										
Governmental Activities:										
Charges for Services										
General Government	1,112,638	223,638	52,030	248,430	127,598	228,803	228,940	176,743	160,444	148,552
Culture and Recreation	17,641	-	-	-	-	-	-	-	-	1,060,071 [a]
Health and Sanitation	724,414	880,178	1,796,421	1,275,358	919,991	547,949	362,794	236,586	258,976	230,148
Operating Grants and Contributions	8,907,699	14,071,839	10,019,002	12,352,994	12,047,401	10,428,588	10,435,747	9,921,342	10,655,352	11,251,174
Capital Grants and Contributions	72,305	102,123	137,956	143,179	108,064	114,567	124,280	280,850	144,868	208,654
Total Governmental Activities	10,834 697	15,277,778	12,005,409	14,019 961	13,203 054	11,319 907	11,151,761	10,615,521	11,219,640	12,898,599
Business Type Activities:										
Charges for Services										
Aguadilla City Enterprises [g]	2,179,690	-	-	-	-	-	-	-	-	-
Aguadilla's Waterfalls Aquatic Park	-	1,798,724	1,816,609	1,593,627	1,769,445	2,298,276	2,107,900	1,961,850	-	-
Aguadilla's Ice Skating Arena	-	659,730	598,019	670,681	642,211	655,224	967,450	1,306,567	-	-
Other Non-Major Enterprise Funds	-	511,056	376,831	-	-	-	-	-	-	-
Total Business-Type Activities	2,179,690	2,969,510	2,791,459	2,264,308	2,411,656	2,953,500	3,075,350	3,268,417	-	-
Total primary government program revenues	**13,014,387**	**18,247,288**	**14,796,868**	**16,284,269**	**15,614,710**	**14,273,407**	**14,227,111**	**13,883,938**	**11,219,640**	**12,898,599**

NET POSITION CHANGE TREND FOR THE LAST TEN FISCAL YEARS

PRIMARY GOVERNMENT

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net (Expense)/Revenue										
Governmental Activities	(45,438,345)	(41,346,758)	(39,975,347)	(34,036,776)	(46,061,012)	(35,362,188)	(34,879,131)	(34,656,201)	(33,729,220)	(28,395,984)
Business-Type Activities	104,263	(339,733)	(295,753)	227,812	(331,132)	823,819	628,713	922,020	-	-
Total primary government net expense	(45,334,082)	(41,686,491)	(40,271,100)	(33,808,964)	(46,392,144)	(34,538,369)	(34,250,418)	(33,734,181)	(33,729,220)	(28,395,984)
General Revenues										
Governmental Activities:										
Taxes:										
Property Taxes, levied for General Purposes	9,026,096	9,258,446	9,449,710	9,890,862	9,511,364	9,625,207	8,670,371	8,723,643	9,567,779	9,838,949
Property Taxes, levied for Debt Service	4,660,281	4,655,199	4,945,665	3,872,149	2,844,609	3,745,245	3,794,815	3,533,617	2,617,520	2,884,125
Volume of Business Taxes	10,816,480	7,802,098	7,272,001	8,335,598	9,486,385	9,490,510	9,132,473	10,016,589	7,557,843	7,393,246
Sales and UsageTaxes	4,408,603	3,508,085	3,044,714	3,670,110	3,360,924	2,611,633 (b)	-	-	-	-
Construction Excise Taxes	2,039,815	2,359,751	2,320,597	1,737,351	1,523,864	1,824,688	1,853,366	2,632,322	1,382,664	2,002,950
Intergovernmental	10,873,228	18,599,336	12,378,779	7,474,784	13,761,021	6,825,969	9,641,505	8,470,360	4,873,731	5,600,351
Interests	405,120	538,139	517,942	565,888	1,288,693	2,407,359	2,319,098	1,469,993	659,993	-
Miscellaneous	409,439	776,279	816,445	1,004,529	1,248,887	877,000	865,837	1,255,593	1,342,439	2,572,745
Special Item	-	16,430,840 (e)	-	-	-	-	-	869,000 (f)	-	-
Transfers	-	100,543	60,005	45,472	1,001,022	313,527	1,499,420	216,785	-	-
Capital Contributions	(357,892)	(142,912)	(696,632)	1,671,582 (d)	(570,481)	(91,933)	-	-	-	-
Total Governmental Activities	42,281,170	63,885,804	40,109,226	38,268,325	43,456,288	37,629,205	37,776,885	37,187,902	28,001,969	30,292,366
Business-Type Activities										
Miscellaneous	-	-	-	-	-	-	49,591	-	-	-
Transfers	-	(100,543)	(60,005)	(45,472)	(1,001,022)	(313,527)	(1,499,420)	(216,785)	-	-
Capital Contributions	357,892	142,912	696,632	-	570,481	91,933	-	-	-	-
Total Business-Type Activities	357,892	42,369	636,627	(45,472)	(430,541)	(221,594)	(1,449,829)	(216,785)	-	-
TOTAL PRIMARY GOVERNMENT	42,639,062	63,928,173	40,745,853	38,222,853	43,025,747	37,407,611	36,327,056	36,971,117	28,001,969	30,292,366
CHANGE IN NET POSITION										
Governmental Activities	(3,157,175)	22,539,046	133,879	4,231,549	(2,604,724)	2,267,017	2,897,754	2,531,701	(5,727,251)	1,896,382
Business-Type Activities	462,155	(297,364)	340,874	182,340	(761,673)	602,225	(821,116)	705,235	-	-
CHANGE IN NET POSITION	**$ (2,695,020)**	**$ 22,241,682**	**$ 474,753**	**$ 4,413,889**	**$ (3,366,397)**	**$ 2,869,242**	**$ 2,076,638**	**$ 3,236,936**	**$ (5,727,251)**	**$ 1,896,382**

(a) These amounts included the Funds that on Fiscal Year 2006 were reclassified as Enterprise Funds.

(b) A Sales and Usage Tax was enacted effective Fiscal Year 2008.

(c) Increase in Health and Sanitation due to the recognition of Landfill Post-Closure Care Costs Liability.

(d) This was a contribution made by the Puerto Rico Infrastructure Financing Authority for improvements made to buildings property of the **Municipality**.

(e) This was a transfer of an infraestructure project made by the US Army Corps of Engineers and US Department of Defense to the **Municipality**.

(f) Special Item corresponded to Sale of a Building.

(g) DuringFiscal Year 2012-2013, the **Municipality** created the Aguadilla City Enterprises to account for all Business-Type Activities.

FUND BALANCES FOR THE LAST TEN FISCAL YEARS
GOVERNMENTAL FUNDS

	2013	2012	2011 [a]	2010 [a]	2009	2008	2007	2006	2005	2004
General Fund										
Reserved					$ 645,059	$ 5,352,209	$ 1,183,645	$ 3,656,857	$ 2,249,745	$ 1,864,064
Unreserved (Deficit)					9,854,931	5,130,875	8,409,827	4,630,366	1,706,644	1,884,212
Restricted	$ 181	$ 192,978	$ 387,953	$ 1,015,996						
Committed	728,714	517,621	1,052,576	481,080						
Assigned	338,696	259,667	553,787	70,755						
Unassigned (Deficit)	9,303,962	9,250,462	8,899,485	10,070,584						
Total General Fund	**$ 10,371,553**	**$ 10,220,728**	**$ 10,893,801**	**$ 11,638,415**	**$ 10,499,990**	**$ 10,483,084**	**$ 9,593,472**	**$ 8,287,223**	**$ 3,956,389**	**$ 3,748,276**
All Other Governmental Funds										
Reserved					$ 36,518,175	$ 39,363,319	$ 32,722,895	$ 38,307,420	$ 37,382,909	$ 29,350,576
Unreserved (Deficit):										
Special Revenue Fund					(27,438)	(56,517)	-	-	-	144,701
Capital Project Fund					(252,785)	(146,426)	-	-	-	-
Restricted	$ 28,276,403	$ 26,612,151	$ 27,031,598	$ 27,265,468						
Committed	2,354,482	2,619,013	3,287,843 [b]	4,114,734						
Assigned	-	-	-	-						
Unassigned (Deficit)	(2,136,530)	(1,008,841)	(1,430,021)	(2,214,248)						
Total All Other Governmental Funds	**$ 28,494,355**	**$ 28,222,323**	**$ 28,889,420**	**$ 29,165,954**	**$ 36,237,952**	**$ 39,160,376**	**$ 32,722,895**	**$ 38,307,420**	**$ 37,382,909**	**$ 29,495,277**

[a] The **Municipality** implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* , in fiscal year 2010-2011.

[b] These amounts were adjusted according to a restatement of fund balance due to a reclassification of a Special Revenue Fund as Enterprise Fund in fiscal year 2011-2012.

GOVERNMENT OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

CHANGES IN FUND BALANCES FOR THE LAST TEN FISCAL YEARS
GOVERNMENTAL FUNDS

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
REVENUES										
Property Taxes	$ 13,686,377	$ 13,913,645	$ 14,395,375	$ 13,763,011	$ 12,355,973	$ 13,612,115	$ 12,223,523	$ 12,257,260	$ 14,916,518	$ 11,826,181
Volume of Business Taxes	10,816,480	7,802,098	7,272,001	8,335,598	9,486,385	9,490,510	9,132,473	10,016,589	7,557,843	7,393,246
Sales and Usage Taxes	4,408,603	3,508,085	3,044,714	3,670,110	3,360,924	2,611,633	-	-	-	-
Federal Grants	11,548,421	11,634,274	11,814,442	12,342,379	12,209,978	10,950,356	11,148,041	10,392,610	10,556,191	11,056,456
Intergovernmental	10,873,228	18,599,336 (c)	12,378,779 (c)	7,474,784	13,761,021	6,825,969	9,641,505	8,470,360	3,575,404	7,159,352
Construction Excise Taxes	2,039,815	2,359,751	2,320,597	1,737,351	1,523,864	1,824,688	1,853,366	2,632,322	1,382,664	2,002,950
Interest	405,120	538,139	517,942	565,888	1,288,693	2,407,359	2,269,507	1,432,080	989,435	1,135,891
Charges for Services	1,854,693	1,103,816	1,848,451	1,523,788	1,047,589	776,752	591,734	413,579	954,235	920,642
Miscellaneous	409,439	776,279	816,445	1,004,529	1,248,887	877,000	915,428	1,293,256	475,994	1,576,283
Total Revenues	56,042,176	60,235,423	54,408,746	50,417,438	56,283,314	49,376,382	47,775,577	46,908,056	40,408,284	43,071,001
EXPENDITURES										
Current:										
Mayor and Municipal Legislature	1,282,309	1,245,558	1,141,189	1,248,151	2,162,643	1,435,091	1,463,533	1,379,470	1,498,901	2,547,970
General Government	16,252,622	14,367,301	14,852,662	15,382,208	15,399,642	16,734,299	16,449,942	15,253,685	16,553,913	10,721,141
Public Safety	1,820,715	1,881,624	1,744,291	1,721,657	1,759,031	1,700,773	1,574,827	1,694,440	1,633,078	1,528,952
Public Works	2,891,327	2,451,802	1,196,523	1,385,399	1,561,329	1,598,784	1,619,285	1,556,446	1,617,941	1,401,676
Culture and Recreation	1,258,711	1,258,623	937,697	887,764	3,822,624	1,043,183	897,258	1,303,340	1,127,415	2,529,441
Health and Sanitation	4,139,827	4,257,089	3,972,388	4,311,509	1,001,882	3,725,500	2,920,164	2,458,784	3,167,894	3,357,537
Public Instruction	6,228,077	5,907,441	6,597,354	5,715,424	5,596,055	6,078,591	5,534,232	6,021,802	5,509,806	5,831,190
Land ill Closure/Post Closure Care Costs	192,797	194,102	628,043	1,084,877	-	-	-	-	-	-
Human Service and Welfare	7,657,708	7,006,931	6,647,834	7,182,677	5,028,977	4,731,427	5,504,421	4,727,195	4,942,160	4,376,976
Urban Development	6,170,814	7,867,174 (b)	9,092,172 (b)	4,306,118	12,832,305	4,077,698	4,183,065	4,747,862	2,588,779	8,171,020
Reimbursement to Grantor Agency	-	230,542	-	-	-	-	-	-	-	-
Capital Outlay	8,080,465	7,331,016	6,541,192	11,852,805	11,517,613	11,918,942	9,749,437	5,351,016	1,147,440	728,383

	2012	2012	2011	2010	2009	2008	2007	2006	2005	2004
Debt Service:										
Principal Retirement	4,129,500	4,371,082	3,294,377	6,716,664	3,467,334	2,902,364	2,642,233	2,441,000	2,520,000	1,595,000
Interest and Other Charges	3,654,975	5,446,920	2,634,339	2,812,231	3,804,291	2,572,880	2,544,588	2,359,767	2,065,212	1,341,702
Bond Issue Costs	50,480	11,595	28,123	28,615	16,201	51,269	-	35,135	-	-
Total Expenditures	63,810,327	63,828,800	59,308,184	64,636,099	67,969,927	58,570,801	55,082,985	49,329,942	44,372,539	44,130,988
EXCESS (DEFIC ENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(7,768,151)	(3,593,377)	(4,899,438)	(14,218,661)	(11,686,613)	(9,194,419)	(7,307,408)	(2,421,886)	(3,964,255)	(1,059,987)
OTHER FINANCING SOURCES (USES)										
Proceed of Bonds	12,328,900	2,295,576	5,206,379	8,218,075	7,780,073	16,207,985	1,529,712	6,541,446	12,060,000	7,220,000
Refinancing of Bonds	(3,780,000)	-	-	-	-	-	-	-	-	-
Transfer-In	4,205,713	5,789,689	2,076,938	6,089,068	5,376,858	2,441,916	3,534,896	2,994,757	559,168	1,952,768
Transfer-Out	(4,563,605)	(5,832,058)	(2,713,475)	(6,043,596)	(4,375,836)	(2,128,389)	(2,035,476)	(2,777,972)	(559,168)	(1,952,768)
Total Other Financing Sources and Uses	8,191,008	2,253,207	4,569,842	8,263,547	8,781,095	16,521,512	3,029,132	6,758,231	12,060,000	7,220,000
SPECIAL ITEM										
Proceeds from Sale	-	-	-	-	-	-	-	919,000	-	-
NET CHANGE IN FUND BALANCES	**$ 422,857**	**$ (1,340,170)**	**$ (329,596)**	**$ (5,955,114)**	**$ (2,905,518)**	**$ 7,327,093**	**$ (4,278,276)**	**$ 5,255,345**	**$ 8,095,745**	**$ 6,160,013**
Debt service as a percentage of non capital expenditures [a]	16 24%	21.03%	12.66%	22.03%	14.79%	13.30%	12 92%	12.25%	11.87%	7 26%

[a] This calculation was made based on Total Expenditures less Debt Service and Capital Outlay Expenditures divided by Total Expenditures.

[b] Increases in Urban Development Expense and Intergovernmental Revenue are explained in details in the Management's Discussion and Analysis.

REVENUE CAPACITY

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REAL PROPERTY TAX VALUATION

FISCAL YEAR	TAXABLE VALUE	EXEMPT VALUE	GROSS VALUE	EXONERATED VALUE	NET ASSESSED VALUE
2013 [(e)]	$2,160,536,077	$1,366,372,101	$ 794,163,976	$ 551,139,795	$ 243,024,181
2012 [(d)]	2,146,141,915	1,385,242,618	760,899,297	547,847,494	213,051,803
2011 [(c)]	2,109,256,902	1,361,434,923	747,821,979	568,825,693	178,996,286
2010 [(a)]	1,621,210,746	1,046,422,048	574,788,698	437,209,107	137,579,591
2009 [(b)]	182,728,361	11,505,871	171,222,490	83,408,949	87,813,541
2008	182,728,361	11,505,871	171,222,490	83,408,949	87,813,541
2007	175,521,030	12,259,645	163,261,385	82,680,798	80,580,587
2006	172,942,348	14,539,269	158,403,079	79,778,120	78,624,959
2005	171,568,818	12,956,380	158,612,438	79,406,918	79,205,520
2004	167,099,112	12,627,588	154,471,524	77,957,375	76,514,149

PERSONAL PROPERTY TAX VALUATION

FISCAL YEAR	TAXABLE VALUE	EXEMPT VALUE	GROSS VALUE	EXONERATED VALUE	NET ASSESSED VALUE
2013 [(e)]	$ 792,578,891	$ 435,918,390	$ 356,660,501	$ 219,547,881	$ 137,112,620
2012 [(d)]	766,754,023	439,047,873	327,706,150	222,840,182	104,865,968
2011 [(c)]	753,576,081	431,502,106	322,073,975	231,368,998	90,704,977
2010 [(a)]	579,211,399	331,659,861	247,551,538	177,834,149	69,717,389
2009 [(b)]	237,181,937	155,645,466	81,536,471	3,456,438	78,080,033
2008	237,181,937	155,645,466	81,536,471	3,456,438	78,080,033
2007	251,403,170	174,123,584	77,279,586	3,534,443	73,745,143
2006	338,127,158	255,890,622	82,236,536	3,857,992	78,378,544
2005	287,529,031	212,548,173	74,980,858	3,548,164	71,432,694
2004	277,018,351	197,776,537	79,241,814	3,143,278	76,098,536

TOTAL PROPERTY TAX VALUATION

FISCAL YEAR	*TAXABLE VALUE*	*EXEMPT VALUE*	*GROSS VALUE*	*EXONERATED VALUE*	*NET ASSESSED VALUE*	*TAX EFFECTIVE RATE [e]*
2013 [e]	$2,953,114,968	$1,802,290,491	$1,150,824,477	$ 770,687,676	$ 380,136,801	7.66
2012 [d]	2,912,895,938	1,824,290,491	1,088,605,447	770,687,676	317,917,771	7.66
2011 [c]	2,862,832,983	1,792,937,029	1,069,895,954	800,194,691	269,701,263	7.66
2010 [a]	2,200,422,145	1,378,081,909	822,340,236	615,043,256	207,296,980	7.66
2009 [b]	419,910,298	167,151,337	252,758,961	86,865,387	165,893,574	7.66
2008	419,910,298	167,151,337	252,758,961	86,865,387	165,893,574	7.66
2007	426,924,200	186,383,229	240,540,971	86,215,241	154,325,730	7.66
2006	511,069,506	270,429,891	240,639,615	83,636,112	157,003,503	7.66
2005	459,097,849	225,504,553	233,593,296	82,955,082	150,638,214	7.66
2004	444,117,463	210,404,125	233,713,338	81,100,653	152,612,685	7.66

[a] See Note 13 for changes on the Taxable, Exempt and Exonerated Value made by the Municipal Revenue Collection Center for the Fiscal Year 2009-2010.

[b] No revisions on the Taxable, Exempt nor Exonerated Value were made by the Municipal Revenue Collection Center for the Fiscal Year 2008-2009.

[c] No revisions on the Taxable, Exempt nor Exonerated Value were made by the Municipal Revenue Collection Center for the Fiscal Year 2010-2011.

[d] No revisions on the Taxable, Exempt nor Exonerated Value were made by the Municipal Revenue Collection Center for the Fiscal Year 2011-2012.

[e] No revisions on the Taxable, Exempt nor Exonerated Value were made by the Municipal Revenue Collection Center for the Fiscal Year 2012-2013.

REAL PROPERTY

FISCAL YEAR	MUNICIPALITY GENERAL PURPOSES	MUNICIPALITY DEBT SERVICES	TOTAL	COMMONWEALTH OF PUERTO RICO	DISCOUNT	TOTAL
2013	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2012	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2011	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2010	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2009	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2008	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2007	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2006	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2005	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%
2004	6.00%	1.50%	7.50%	1.03%	0.20%	8.33%

PERSONAL PROPERTY

FISCAL YEAR	MUNICIPALITY GENERAL PURPOSES	MUNICIPALITY DEBT SERVICES	TOTAL	COMMONWEALTH OF PUERTO RICO	DISCOUNT	TOTAL
2013	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2012	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2011	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2010	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2009	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2008	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2007	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2006	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2005	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%
2004	4.00%	1.50%	5.50%	1.03%	0.20%	6.33%

	2013		2004	
Taxpayer	***Total Business***	***Percentage of Total Business***	***Total Business***	***Percentage of Total Business***
PR Telephone Co.	$ 90,798,440	0.239	N/AV	N/AV
AT&T Mobility Puerto Rico, Inc.	67,285,452	0.177	N/AV	N/AV
Fomento Industrial	61,623,262	0.162	N/AV	N/AV
PR Wireless, Inc	47,328,000	0.125	N/AV	N/AV
Lifescan Products, LLC	33,257,639	0.087	N/AV	N/AV
Sprintcom, Inc.	31,170,000	0.082	N/AV	N/AV
Centennial, Cable TV	7,981,941	0.021	N/AV	N/AV
Hewlett Packard	4,921,894	0.013	N/AV	N/AV
Luan Investment	4,884,728	0.013	N/AV	N/AV
Sensormatic Electronic, Corp	2,308,441	0.006	N/AV	N/AV
Ten largest taxpayers	351,559,797	0.925		
All other taxpayers	28,577,005	0.075		
Total assessed valuation-all taxplayers	$ 380,136,802	1.000		

Note: Information for the Fiscal Year 2004 was not available.

PROPERTY TAXES LEVIED AND COLLECTIONS
FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR	TAX LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENTAGE OF LEVY		AMOUNT	PERCENTAGE OF LEVY
2013	$ 13,358,413	$ 12,579,047	94.17%	-	$ 12,579,047	94.17%
2012	13,502,638	12,649,814	93.68%	591,903	13,241,717	98.07%
2011	15,645,205	14,773,406	94.43%	382,875	15,156,281	96.87%
2010	15,106,409	14,415,455	95.43%	773,232	15,188,687	100.54%
2009	15,435,522	14,702,014	95.25%	254,698	14,956,712	96.90%
2008	14,703,927	14,228,893	96.77%	154,090	14,382,983	97.82%
2007	13,734,824	12,318,562	89.69%	769,887	13,088,449	95.29%
2006	14,408,482	12,902,919	89.55%	565,486	13,468,405	93.48%
2005	14,243,801	13,601,173	95.49%	545,659	14,146,832	99.32%
2004	12,788,535	11,391,023	89.07%	435,158	11,826,181	92.47%

SOURCE: Department of Finance of the **Municipality**.

2013

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,822	96.76%	258,822	12.11%
$1,000 - $100,000	58	3.08%	774,926	36.25%
Over $100,000	3	0.16%	1,104,244	51.65%
	1,883	**100%**	**$ 2,137,992**	**100%**

2012

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,700	96.87%	240,290	8.78%
$1,000 - $100,000	52	2.96%	723,263	26.44%
Over $100,000	3	0.17%	1,771,789	64.77%
	1,755	**100%**	**$ 2,735,342**	**100%**

2011

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,720	96.90%	141,553	4.94%
$1,000 - $100,000	52	2.93%	529,915	18.48%
Over $100,000	3	0.17%	2,195,616	76.58%
	1,775	**100%**	**$ 2,867,084**	**100%**

2010

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,563	96.18%	118,870	4.23%
$1,000 - $100,000	59	3.63%	530,148	18.88%
Over $100,000	3	0.18%	2,159,015	76.89%
	1,625	**100%**	**$ 2,808,033**	**100%**

2009

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,458	94.86%	118,870	4.23%
$1,000 - $100,000	75	4.88%	530,148	18.88%
Over $100,000	4	0.26%	2,159,015	76.89%
	1,537	**100%**	**$ 2,808,033**	**100%**

2008

INCOME (IN THOUSANDS)	NUMBER OF FILERS	PERCENTAGE OF TOTAL	TOTAL INCOME (IN THOUSANDS)	PERCENTAGE OF TOTAL
$5 - $1,000	1,354	95.82%	98,456	3.93%
$1,000 - $100,000	57	4.03%	231,738	9.25%
Over $100,000	2	0.14%	2,173,759	86.81%
	1,413	**100%**	**$ 2,503,953**	**100%**

2007

INCOME (IN THOUSANDS)	*NUMBER OF FILERS*	*PERCENTAGE OF TOTAL*	*TOTAL INCOME (IN THOUSANDS)*	*PERCENTAGE OF TOTAL*
$5 - $1,000	1,458	97.46%	105,774	4.63%
$1,000 - $100,000	36	2.41%	193,251	8.46%
Over $100,000	2	0.13%	1,984,780	86.91%
	1,496	**100%**	**$ 2,283,805**	**100%**

2006

INCOME (IN THOUSANDS)	*NUMBER OF FILERS*	*PERCENTAGE OF TOTAL*	*TOTAL INCOME (IN THOUSANDS)*	*PERCENTAGE OF TOTAL*
$5 - $1,000	1,544	94.72%	98,456	3.90%
$1,000 - $100,000	84	5.15%	231,738	9.18%
Over $100,000	2	0.12%	2,195,487	86.93%
	1,630	**100%**	**$ 2,525,681**	**100%**

2005

INCOME (IN THOUSANDS)	*NUMBER OF FILERS*	*PERCENTAGE OF TOTAL*	*TOTAL INCOME (IN THOUSANDS)*	*PERCENTAGE OF TOTAL*
$5 - $1,000	1,325	95.05%	189,514	15.31%
$1,000 - $100,000	68	4.88%	25,470	2.06%
Over $100,000	1	0.07%	1,023,103	82.64%
	1,394	**100%**	**$ 1,238,087**	**100%**

2004

INCOME (IN THOUSANDS)	*NUMBER OF FILERS*	*PERCENTAGE OF TOTAL*	*TOTAL INCOME (IN THOUSANDS)*	*PERCENTAGE OF TOTAL*
$5 - $1,000	1,320	95.17%	180,446	14.77%
$1,000 - $100,000	66	4.76%	28,541	2.34%
Over $100,000	1	0.07%	1,012,547	82.89%
	1,387	**100%**	**$ 1,221,534**	**100%**

FISCAL YEAR	FINANCIAL INSTITUTIONS [a]		OTHER ORGANIZATIONS	
	RATE	DISCOUNT [b]	RATE	DISCOUNT [b]
2013	1.50%	5.00%	0.40%	5.00%
2012	1.50%	5.00%	0.40%	5.00%
2011	1.50%	5.00%	0.40%	5.00%
2010	1.50%	5.00%	0.40%	5.00%
2009	1.50%	5.00%	0.40%	5.00%
2008	1.50%	5.00%	0.40%	5.00%
2007	1.50%	5.00%	0.40%	5.00%
2006	1.50%	5.00%	0.40%	5.00%
2005	1.50%	5.00%	0.40%	5.00%
2004	1.50%	5.00%	0.40%	5.00%

[a] This rate applies to Financial Institutions and Savings and Loan Associations.

[b] See *Notes to the Basic Financial Statements*.

DEBT CAPACITY

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FISCAL YEAR	SPECIAL OBLIGATION BONDS	GENERAL OBLIGATION BONDS	TOTAL OBLIGATION BONDS
2013	$ 26,555,579	$ 59,539,250	$ 86,094,829
2012	27,828,929	53,517,000	81,345,929
2011	34,363,453	48,791,900	83,155,353
2010	31,159,291	48,700,000	79,859,291
2009	33,042,216	45,135,000	78,177,216
2008	30,055,143	43,660,000	73,715,143
2007	30,403,158	29,705,000	60,108,158
2006	31,205,000	29,790,446	60,995,446
2005	27,320,000	29,850,000	57,170,000
2004	22,740,000	23,115,000	45,855,000

Note: Detail regarding the **Municipality** outstanding debt can be found in Note 11 of the Basic Financial Statements.

OUTSTANDING DEBT RATIO - PER PERSONAL INCOME

FISCAL YEAR	TOTAL OUTSTANDING DEBT	PERSONAL INCOME [1]	OUTSTANDING DEBT RATIO
2013	$ 86,094,829	$ 1,246,907,769	6.905%
2012	81,345,929	1,291,556,159	6.298%
2011	83,155,353	1,208,435,823	6.881%
2010	79,859,291	1,198,883,265	6.661%
2009	78,177,216	1,087,710,000	7.187%
2008	73,715,143	952,254,992	7.741%
2007	60,108,158	834,405,389	7.204%
2006	60,995,446	732,521,130	8.327%
2005	57,170,000	702,746,721	8.135%
2004	45,855,000	436,612,937	10.502%

Note: Detail regarding the **Municipality** outstanding debt can be found in Note 11 of the Basic Financial Statements.

Note 1: Personal Income amounts can be found in the Schedule of Demographic and Economic Statistics.

OUTSTANDING DEBT RATIO - PER CAPITA

FISCAL YEAR	*TOTAL OUTSTANDING DEBT*	*PER CAPITA* [1]	*OUTSTANDING DEBT RATIO*
2013	$ 86,094,829	59,453	$ 1,448.12
2012	81,345,929	60,316	1,348.66
2011	83,155,353	60,949	1,364.34
2010	79,859,291	67,745	1,178.82
2009	78,177,216	67,491	1,158.34
2008	73,715,143	67,181	1,097.26
2007	60,108,158	67,167	894.91
2006	60,995,446	66,926	911.39
2005	57,170,000	69,920	817.65
2004	45,855,000	66,363	690.97

Note: Detail regarding the **Municipality** outstanding debt can be found in Note 11 of the Basic Financial Statements.
Note 1: Per Capita data can be found in the Schedule of Demographic and Economic Statistics.

OUTSTANDING DEBT RATIO - PER PROPERTY TAX ASSESSED VALUE

FISCAL YEAR	*TOTAL OUTSTANDING DEBT*	*NET ASSESSED VALUE [1]*	*OUTSTANDING DEBT RATIO*
2013	$ 86,094,829	$ 380,136,802	22.65%
2012	81,345,929	317,917,771	25.59%
2011	83,155,353	269,701,263	30.83%
2010	79,859,291	207,296,980	38.52%
2009	78,177,216	165,893,574	47.12%
2008	73,715,143	165,893,574	44.44%
2007	60,108,158	154,325,730	38.95%
2006	60,995,446	157,003,503	38.85%
2005	57,170,000	150,638,214	37.95%
2004	45,855,000	152,612,685	30.05%

Note: Detail regarding the **Municipality** outstanding debt can be found in Note 11 of the Basic Financial Statements.
Note 1: Net Assessed Value amounts can be found in the Assessed Value of Property Taxes Tables.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR	PRINCIPAL	INTEREST AND FISCAL CHARGES	TOTAL DEBT SERVICE	TOTAL GENERAL GOVERNMENTAL EXPENDITURES	PERCENTAGE OF DEBT SERVICE TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
2013	$ 2,487,000	$ 2,098,053	$ 4,585,053	$ 29,428,918	15.58%
2012	2,184,000	1,743,836	3,927,836	27,363,916	14.35%
2011	1,865,000	1,879,173	3,744,173	26,096,888	14.35%
2010	2,475,000	1,782,747	4,257,747	27,278,859	15.61%
2009	2,260,000	2,644,379	4,904,379	27,460,267	17.86%
2008	1,825,000	1,642,131	3,467,131	29,126,672	11.90%
2007	1,595,000	1,558,753	3,153,753	29,125,072	10.83%
2006	1,500,000	1,476,931	2,976,931	25,870,304	11.51%
2005	1,775,000	1,543,582	3,318,582	24,692,725	13.44%
2004	1,320,000	1,135,450	2,455,450	23,704,670	10.36%

Source: Department of Finance of the **Municipality**.

RATIOS OF NET BONDED DEBT OUTSTANDING
FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION [2]	NET ASSESSED VALUE [1]	GENERAL OBLIGATION BONDS	LESS: AMOUNTS AVAILABLE IN DEBT SERVICE FUND	NET GENERAL OBLIGATION BONDS	PERCENTAGE OF PERSONAL INCOME [2]	PERCENTAGE OF NET ASSESSED VALUE OF TAXABLE PROPERTY	BONDED DEBT PER CAPITA
2013	59,453	$ 380,136,802	$ 59,539,250	$ 7,827,722	$ 51,711,528	4.15%	13.60%	$ 869.79
2012	60,316	317,917,771	53,517,000	7,265,500	46,251,500	3.75%	15.25%	803.85
2011	60,949	269,701,263	48,791,900	6,257,912	42,533,988	3.52%	15.77%	697.86
2010	67,745	207,296,980	48,700,000	4,613,103	44,086,897	4.05%	21.27%	650.78
2009	67,491	165,893,574	45,135,000	3,668,129	41,466,871	4.35%	25.00%	614.41
2008	67,181	165,893,574	43,660,000	3,929,859	39,730,141	4.76%	23.95%	591.39
2007	67,167	154,325,730	29,705,000	3,249,218	26,455,782	3.61%	17.14%	393.88
2006	66,926	157,003,503	29,790,446	2,605,748	27,184,698	3.87%	17.31%	406.19
2005	69,920	150,638,214	29,850,000	1,900,561	27,949,439	6.40%	18.55%	399.73
2004	66,363	152,612,685	23,115,000	2,284,249	20,830,751	5.60%	13.65%	313.89

Source: Department of Finance of the **Municipality**.

Note 1: Net Assessed Value amounts can be found in the Assessed Value of Property Taxes Tables.

Note 2: Population and Personal Income data can be found in the Schedule of Demographic and Economic Statistics.

Value of Taxable Property			$ 3,534,378,176
Percentage of Legal Margin			0.10
Legal Margin			$ 353,437,818
Debt Outstanding and/or Authorized:			
Principal		$ 52,194,250	
Authorized		1,430,000	
Less: Fund Balance of Debt Service			
Fund Balance at June 30, 2013	$ 7,827,722		
Accrued Interests 2012 - 2013	(1,104,218)	6,723,504	
Net Debt			60,347,754
Legal Debt Margin			**$ 293,090,064**

Source: Governmental Development Bank of Puerto Rico

FISCAL YEAR	LEGAL DEBT LIMIT	TOTAL NET DEBT APPLICABLE TO LIMIT	LEGAL DEBT MARGIN (1)	TOTAL NET DEBT APPLICABLE TO THE LIMIT AS A PERCENTAGE OF DEBT LIMIT
2013	$ 353,437,818	$ 58,791,972	$ 294,645,846	16.63%
2012	342,095,875	53,557,025	288,538,850	15.66%
2011	336,216,389	51,368,248	284,848,141	15.28%
2010	220,042,215	44,102,579	175,939,636	20.04%
2009	41,991,030	41,546,765	444,265	98.94%
2008	41,991,030	40,445,123	1,545,907	96.32%
2007	42,692,420	27,932,778	14,759,642	65.43%
2006	51,106,951	35,899,446	15,207,505	70.24%
2005	45,909,785	24,600,721	21,309,064	53.58%
2004	44,411,746	28,467,621	15,944,125	64.10%

Source: Department of Finance of the **Municipality**.

Note 1: This amount is obtained by subtracting the Net Debt Applicable to Limit from the Legal Debt Limit.

DEMOGRAPHIC INFORMATION

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LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION	PERSONAL INCOME	PER CAPITA [1]	INFLATION RATE	LABOR FORCE [2]	EMPLOYMENT [2]	UNEMPLOYMENT RATE
2013	59,453	$ 1,246,907,769	$ 20,973	1.80%	19,069	16,294	14.55%
2012	60,316	1,291,556,159	21,413	1.90%	20,442	17,376	15.00%
2011	60,949	1,208,435,823	19,827	1.75%	20,881	17,415	16.60%
2010	67,745	1,241,359,380	18,324	4.50%	20,985	16,977	19.10%
2009	67,491	1,087,684,956	16,116	2.70%	20,906	17,185	17.80%
2008	67,181	952,223,494	14,174	6.50%	23,400	20,475	12.50%
2007	67,167	834,415,641	12,423	11.90%	23,546	20,720	12.00%
2006	66,926	732,521,130	10,945	8.17%	23,452	20,239	13.70%
2005	69,920	702,746,721	10,051	4.31%	23,362	20,395	12.70%
2004	66,363	436,612,937	9,306	7.66%	22,066	18,955	14.10%

Note 1: Per capita data was computed using US Census Bureau and ZIP Atlas.
Note 2: Labor force data was provided by the Workforce Development Administration of Puerto Rico.

	2013		2004	
Type of Employer - Industry	***Number of Employments***	***Percentage of Total Employment***	***Number of Employments***	***Percentage of Total Employment***
Professional Technical Services	730	4%	N/AV	N/AV
Real State	382	2%	N/AV	N/AV
Manufacturing	2,477	15%	N/AV	N/AV
Retail	1,319	8%	N/AV	N/AV
Wholesale	252	2%	N/AV	N/AV
Construction	999	6%	N/AV	N/AV
Educative Services	2,313	14%	N/AV	N/AV
Transportation & Warehousing	654	4%	N/AV	N/AV
Hotels and Restaurants	893	5%	N/AV	N/AV
Government	2,542	16%	N/AV	N/AV
Ten largest industries	12,561	77%		
All other industries	3,733	23%		
Total employments by industries	16,294	100%		

Note: Information for the Fiscal Year 2004 was not available.

OPERATING INFORMATION

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NUMBER OF REGULAR EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

FUNCTIONS	FISCAL YEARS									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Mayor and Municipal Legislature	51	53	45	64	60	69	50	65	71	72
General Government	178	181	176	183	167	177	143	184	203	185
Public Safety	60	68	64	66	63	66	62	64	61	61
Public Works	58	59	52	56	82	44	34	39	36	39
Culture and Recreation	45	46	46	43	37	36	58	31	30	64
Health and Sanitation	124	124	112	124	136	162	138	139	122	77
Human Services and Welfare	102	109	113	115	100	101	88	90	60	76
Urban Development	43	45	44	53	49	64	55	51	62	53
TOTAL	**661**	**685**	**652**	**704**	**694**	**719**	**628**	**663**	**645**	**627**

Source: Office of Human Resources of the **Municipality**.
Note: A regular employee is scheduled to work seven and a half (7.5) hours per day.

CAPITAL ASSETS STATISTICS BY FUNCTION
FOR THE LAST SEVEN FISCAL YEARS

FUNCTIONS	FISCAL YEARS						
	2013	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*
Public Safety							
Patrol Units	32	31	33	32	33	30	29
Motorcicle	4	10	9	9	9	9	9
Public Works							
Bridges	15	15	15	15	15	15	15
Vehicles	56	56	57	55	57	57	57
Equipment	2,146	2,591	2,508	2,418	2,433	2,407	2,420
Culture and Recreation							
Parks	58	58	58	58	58	58	58
Community Centers	14	14	14	14	14	14	13
Public Instruction							
Head Start Centers	6	6	6	6	6	6	6
Health and Sanitation							
Buildings	2	2	2	2	2	2	2
Human Services and Welfare							
Cemeteries	3	3	3	3	3	3	3
Geriatrics Centers	6	6	6	6	6	5	4
Urban Development							
Buildings	6	6	6	6	6	5	4

Note: Information from prior years was not available. In addition, no capital assets statistics are available for the General Government and Mayor and Municipal Legislature functions.

FUNCTIONS	FISCAL YEARS			
	2013	*2012*	*2011*	*2010*
Public Safety				
Police Officers	46	68	64	66
Public Works				
Collection of Debris - Worked Cases	551	533	670	889
Culture and Recreation				
Rentals of Community Centers	724	375	375	375
Health and Sanitation				
Collected Stray Dogs and Cats	274	320	298	426
Human Services and Welfare				
Donations Made	101	83	55	88

Note: Information from prior years was not available. In addition, the **Municipality** is working to obtain additional relevant data, including the General Government and Mayor and Municipal Legislature functions.

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Financial Statements Report
Autonomous Municipality of Aguadilla
Fiscal Year 2013-2014

Aguadilla City

Hon. Carlos Méndez Martínez - Mayor

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF AGUADILLA, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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

Honorable Mayor and Members of the
Municipal Assembly
Aguadilla, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Aguadilla, Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Aguadilla, Puerto Rico's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Aguadilla, Puerto Rico's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002.

The Municipality of Aguadilla's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality of Aguadilla's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Roman Toro & Co.

ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 – IN FORCE

Yauco, Puerto Rico
December 20, 2013

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

Honorable Mayor and Members of the
Municipal Assembly
Aguadilla, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Aguadilla, Puerto Rico's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Aguadilla, Puerto Rico's major federal programs for the year ended June 30, 2013. Municipality of Aguadilla, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Municipality of Aguadilla, Puerto Rico, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's Response to Findings

Municipality of Aguadilla, Puerto Rico's response to the noncompliance and internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Aguadilla, Puerto Rico's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002, that we consider to be significant deficiencies.

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Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Aguadilla, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Aguadilla, Puerto Rico's basic financial statements. We issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

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

ROMAN TORO & CO., CPA, C.S.P.
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Yauco, Puerto Rico
December 20, 2013

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through: Administration for Childhood Care and Integra Development (ACUDEN):			
Child and Adult Care Food Program	10.558	CCC-239	$ 700,959
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grant/Entitlement Grants (CDBG)	14.218		2,018,896
Urban Development Action Grant	14.221		24,586
Emergency Shelter Grant Program	14.231		140,128
Home Investment Partnership Program (HOME)	14.239		588,319
CDBG Section 108 Loan Guarantee	14.248		983,600
Section 8 Rental Housing Choice Vouchers	14.871		1,366,899
Total U.S. Department of Housing and Urban Development			5,122,428
U.S. Department of Justice:			
ARRA – Edward Byrne Memorial Justice Assistance Grant Program	16.738		739
U.S. Department of Transportation:			
Pass-Through: Puerto Rico Traffic Safety Commission			
State and Community Highway Safety	20.600	12-1679	6,138
U.S. Department of Energy:			
ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)(Recovery Act funded)	81.128		537,691
U.S .Department of Education:			
Pass-Through: Puerto Rico Department of Education:			
Twenty-First Century Community Learning Centers	84.287	12-331	111,348

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:			
Pass-Through: Puerto Rico Office of the Governor – Office for Elderly Persons Affa rs:			
Special Program for Aging, Title III, Part B	93.044	TIII B	168,317
Special Program for Aging, Title III, Part C	93.045	TIII C-1 AND C-2	151,407
Total Aging Cluster			319,724
Pass-Through: Administration for Childhood Care and Integral Development (ACUDEN):			
Head Start Program	93.600	O2CH9944	6,228,077
Child Care and Development Block Grant	93.575	241-2011-000161	32,149
Community Services Block Grant	93.569		9,840
Total U.S. Department of Health and Human Services			**6,589,790**
U.S. Department of Homeland Security:			
Pass-Through Programs:			
Pass-Through: Puerto Rico Office of the Governor-Office for Public Safety Affairs			
Homeland Security Grant Program (OSG)	97.067	N/AV	**23,148**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$13,092,241**

See notes to schedule of expenditures of federal awards.

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the Municipality of Aguadilla, Puerto Rico The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The Municipality reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present the financial position or the results of operations

B The Municipality records the financial transactions and conditions of the grants consistent with accounting principles generally accepted in the United States of America.

C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, or when actually paid, whichever occurs first.

D. For the Section 8 – Rental Housing Choice Vouchers, the amount presented in the Schedule is the total revenues received from HUD. This policy is consistent with HUD's interpretation of Accounting Issue #10 which states that for subsidy programs (such as Section 8), the federal awards expended would equal the net ACC subsidy for the PHA's fiscal period under audit.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numberincluded in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

State or local government distribution of federal awards to the Municipality aretreated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass- through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available

NOTE 5 SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Municipality provided federal awards to subrecipients as follows.

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUB-RECIPIENTS
Community Development BlockGrant-Entitlement Grants (CDBG)	14.218	$101,865
Emergency Shelter Grant Program (ESG)	14.231	129,093
HOME Investment Partnership Program (HOME) (to CHDOs)	14.239	51,596
TOTAL		$282,554

NOTE 6 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs

END OF NOTES

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	[X] Unmodified Opinion	[ ] Qualified Opinion
	[ ] Adverse Opinion	[ ] Disclaimer Opinion
Internal control over financial reporting:		
• Significant control deficiency identified?	[ ] Yes	[X] None reported
• Material weakness (es) identified?	[ ] Yes	[X] No
Noncompliance material to financial statements noted?	[ ] Yes	[X] No

Federal Awards

Internal control over major programs		
• Significant control deficiency identified?	[X] Yes	[ ] None reported
• Material weakness (es) identified?	[ ] Yes	[X] No
Type of auditor's report issued on compliance for Major Programs.	[X] Unmodified Opinion	[ ] Qualified Opinion
	[ ] Adverse Opinion	[ ] Disclaimer Opinion
Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	[X] Yes	[ ] No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants/ Entitlement(CDBG)
14.239	Home Investment Partnership Program (HOME)
14.248	CDBG Section 108 Loan Guarantee
14.871	Section 8 Rental Housing Choice Vouchers
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG)(ARRA)
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:	$392,767	
Auditee qualified as low-risk auditee?	[ ] Yes	[X] No

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2013-001

Type of finding: Federal Award.
Situation: Significant deficiency in internal controls; compliance with program regulations.
Federal Program: Head Start Program (93.600)
Compliance Requirements: Allowable Costs/Cost Principles (B); Cash Management (C)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: $0. Fully reimbursed

Condition:
The program issued a duplicate payment for the same cost activity (payroll for a particular period) which had already been paid by the program, and had maintained cash resources requested in advance in excess of immediate needs, in part due to various deficiencies in internal controls related to disbursements and cash advance requests.

Context:
The Municipality centralizes its payroll functions within its Finance Department, processing payroll costs for all employees using its General Fund resources, and subsequently requesting departments and programs to reimburse the costs for their respective employees who work for and are charged under them. The request is made in the form of numbered invoices created and by a Finance Department accountant and signed by the Finance Department Director which then starts a program's process of requesting funds or using available cash resources to reimburse the Finance Department.

Because the grantor agency may provide for requests after extended periods of time, the Municipality may sometimes provide significant resources to cover the program's costs and operations, creating inter-fund debt. The program in turn requests advances of funds based on both obligations ready to be liquidated as well as an estimate of expected amounts to be disbursed when the advance of funds arrive, mainly to cover the expected payroll reimbursement to the Municipality.

For the payroll period of May 5-18, 2012, the total payroll costs (compensation, taxes, and benefits) charged to the program amounted to $191,818.37. The Municipality's Finance Department issued invoice # 2012-27-HS for the amount of the payroll which was paid on June 27, 2012 by the program. According to the program's and Municipality's Directors, in the time it took the program to reimburse the costs, the invoice was re-requested by the program's accountant to quicken its processing, and such request was met issuing a new invoice with a different invoice number and date, creating the second invoice # 2012-28-HSwhich was processed for disbursement on July 9, 2012, as observed in our disbursement test. Because the situation was not detected, the program continued to request advance of funds based on immediate and estimated cash needs, without verifying its inter-fund accounting. When the program closed its budget and submitted its final reports in February and May 2013, it noted it did not have sufficient cash to return the program's surplus, and found it had requested excess cash due to this situation.

Criteria:
OMB Circular A-87 (2 CFR 225) requires that program costs be necessary and reasonable for proper and efficient performance and administration, be adequately documented, and be for actual costs, among other requirements. Additionally, OMB Circular A-102 requires that programs shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-001, continued

Cause:
The Municipality and the program did not effectively monitor the accounting of inter-fund debt and payments between each other, which would have detected any over-invoicing and over-payments of inter-fund transactions. This was due in part to documentation deficiencies and employee absenteeism. Firstly, the Head Start program's head accountant was absent for extended period of times during the 2012 and 2013 years due to medical situations, and the program did not timely mitigate this situation by assigning additional employees knowledgeable in accounting procedures to monitor inter-fund transactions.

And secondly, the Finance Department issued a different invoice for the same cost event, and the program and Finance Department did not review its supporting documentation (in relation to which payroll period was being reimbursed) which was not attached to either invoice before issuing the payment. In order to verify supporting documentation, the accountants, directors, and pre-intervention monitors who approve the payment must trace the invoice to the payroll reports in the system; however, this was not always done. Previously, all invoices were accompanied by the payroll report of each program and department, a documentation control which was changed in July 2011 when the change of the accounting system provided more information readily available digitally without the need of printing documents and reports.

Effect:
The program believed the second invoice was a new request for reimbursement for other costs, and used cash resources received in advance of the program to disburse the amount for the second invoice without realizing it had already issued a payment for the first invoice. Neither the program nor the Finance Department's accountants and directors were aware of the situation, until the closing of the program year when excess program funds were required to be returned after closing the program's budget process. The program noted it did not have enough cash resources within its bank accounts to return the amount reported in its final financial reports, and the cause was traced to the duplicate payment. The Finance Department provided $219,753.60 between May 20 thru May 30, 2013 to return the funds and to loan funds to the program while requests for advances from the pass-through entity arrived.

Auditor's recommendation:
The Municipality should improve its internal controls and accounting in the areas of debts and payments between its funds and programs. Both the Finance Department's and the Head Start program's accountants should maintain logs of inter-fund transactions, events, and debts, noting all outstanding debts balances, requests issued but not paid (including invoice reference numbers), and date of payments, using such accounting analyses to assure the reconciliation of inter-fund debt in the accounting system between both funds. Additionally, invoices should be accompanied by details of payroll reports being requested, or instructions on where to access the reports to each person who will review, approve, and prepare the payment to the invoice.

Finally, the Head Start program should assure that the program's accounting department has sufficient knowledgeable employees to substitute each other in the case that one or more employees are not available to perform their duties. Improvement in supervision is required, noting that increased absenteeism should be answered with increased monitoring by both program and Municipality management.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-001, continued:

Views of responsible officials and corrective actions:
In the regular operations of the Municipality, paying the payroll of the Head Start program at the same time paying the payroll of municipal employees causes debt between funds from Head Start, because the funds petitioned to Puerto Rico Administration for the Care and Integral Development of Children (Administración para el Cuidado y Desarrollo Integral de la Niñez or ACUDEN in Spanish) are usually slow to be drawn down to the program to then pay the debt between funds. Sometimes there are several periods of accumulated payroll waiting to be reimbursed. It is for this reason that throughout the year, the Head Start Program owes the Municipality significant amounts.

Because the accountant was absent for extended periods of time during the years 2012 and 2013 for medical situations, and ineffective monitoring of funds between debt between the Program and the Department of Finance, the payroll period of May5 to 18,2012 was reimbursed two times.

The Municipality identified these situations and immediately implemented corrective actions. The steps taken were the following:

1. A new accountant was hired and the other program accountants were trained so that they can replace the principal accountant if this person cannot carry out their responsibilities.
2. Payments between the Department of Finance and the Head Start Program are being monitored with the reconciliation between payments and debts between funds being performed daily in the accounting system.
3. A report from this analysis is given to the Program Director for review and approval.
4. Payroll Invoices issued by the Finance Department to the Head Start Program are performed by a single accountant which assigns the invoice number and then goes on to be reviewed and approved by the Director of Finance and pre-intervention (monitoring) personnel.
5. If the program requests a new invoice for the same period, the accountant of the Department of Finance will issue a copy of the same original invoice for the same period and physically identified as copy.

Audit finding status:
The Puerto Rico Administration for the Care and Integral Development of Children (ACUDEN), which is the pass-through entity that granted the funds and monitors the Municipality's program, issued a report on October 24, 2013 noting their knowledge of the situation after their monitoring visit in August and September 2013, and requiring corrective action from the Municipality. The Municipality submitted a corrective action plan which was approved by the pass-through agency on November 2013. The pass-through agency notified its intention to visit the Municipality's program and evaluate compliance with its corrective action plan on January 31, 2014.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002

Type of finding: Federal Award.
Situation: Significant deficiency in internal controls; compliance with program regulations.
Federal Program: Head Start Program (93.600)
Compliance Requirements: Equipment and Real Property Management (E)
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: Undetermined.

Condition:
The physical inventories performed during the year revealed various items in the property records which were not found in the physical location they were assigned to, which demonstrated that the program did not properly safeguard equipment items and/or did not perform proper disposition procedures as required by local regulations.

Context:
During our planning of the program's audit in October 2013, the program's management notified us of an exhaustive physical inventory performed across all of its centers and offices, as a result of deficiencies noted by an audit by the PR Comptroller Office in 2013. Physical inventories were conducted by program personnel in September 2013, which revealed various individual equipment items which were not found in the location described in the property registers. However, the inventory was performed by each location, and at our audit date, these records were being reconciled to finding which items had been transferred to a different program location (property transfers between centers), which were previously decommissioned without adjusting the property records, and which remaining were unaccounted for.

In our review of the inventory reports of equipment items not found by each location, we did not identify any equipment with an original cost of over $5,000 nor any item which would reasonably be expected to have a fair market value of over $5,000.While the property records of the program do not include information on current depreciated value, using the Municipality's accounting policy on depreciation, all items noted would be fully depreciated. The item with the largest cost in record was an air conditioning unit for $3,600, acquired in 2002. The average cost of these items was $320.64, with most equipment items having original cost values ranging from $27 to $1,000, and with dates of acquisition ranging from 1973 through 2007. On average, the largest items in terms of cost were air conditioning units, an item normally decommissioned after it is fully depreciated or unserviceable and a new one is acquired to replace it.

Finally, during our audit fieldwork in the program's main offices, we observed various computer equipment items which were stored in an open room and unorganized, which were designated for disposition but remained in that location for extended periods of weeks without the program executing their disposition.

Criteria:
45 CFR 92requires that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every 2 years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately safeguarded.Additionally, the Municipal Administration Regulation Guide issued by the Puerto Rico Commissioner's Office for Municipal Affairs has set procedures during the disposition of property, which include an evaluation and certification by authorized personnel as to their condition and reason for disposal, a separation of duties during the actual disposition, and specific requirements for documenting the process.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002, continued

Cause:
The program's person in charge of property management did not perform proper observation procedures during physical inventories of items in all of the program's Centers, assuring all items, irrespective of their acquisition date and low depreciated value, are properly safeguarded in their assigned place, and requiring transfer documentation when such items are moved between its centers, until that time the program's management decides to decommission such items.

The program's supervision failed to remind each Center's teachers to assure all property was accounted for at any time and that dispositions follow the documentation requirements of local regulations, and that removal of equipment property must be accounted for to the program's management as authorized dispositions or transfers of equipment. Additionally, the program's management did not properly supervise the person in charge of property's work and inventory results, and did not assign additional personnel when the annual physical inventory was being performed.

Finally, pass-through agency regulations require at least one of their authorized employees being present when decommissioning program equipment, a requirement which may delay the decommissioning of equipment which would otherwise already been decommissioned under the Municipality's processes (as required by local regulations).

Effect:
Various equipment items of the program remained unaccounted for, and the program had to perform additional inventories in order to investigate the cause of the misplacement and/or loss of equipment.

Auditor's recommendation:
The Municipality must instruct all persons who are in charge of, or who regularly work in, Head Start centers to properly safeguard equipment and maintain all evidence of transfers, timely reporting them to the Head Start administration to document in the property records the movement of items. Secondly, the Municipality should assign 1 or more persons to perform the annual physical inventory process (specifically the observation process) in addition to the person in-charge of property to improve the likelihood that safeguarding deficiencies are noted, and consider using municipal personnel to perform surprise inspections and inventories of samples of items included in the property records. Finally, the Municipality should evaluate improving the program's management oversight of its employees, including requiring greater detail of inventory reports and results, alternating employees, and performing disciplinary actions for those who fail in their duties.

Views of responsible officials and corrective actions:
As an internal control the Municipality requires its departments conduct a quarterly equipment inventory, which is delivered to the Municipal Property Officer in the Department of Finance. This control helps prevent loss, theft or misuse of property in custody. The property records of the program are not centralized in the Municipality's Municipal Property Officer, and is separately maintained by an employee assigned by the program. The Head Start program performed and submitted an annual physical inventory report to the pass-through agency as it is required to do. In September 2013, a physical equipment inventory conducted by the Municipality resulted in detecting equipment which were not in the place originally assigned, and the Centers' personnel did not maintain equipment transfer records between centers and the administrative office.

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SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002, continued

Views of responsible officials and corrective actions (continued):
The Municipality immediately established corrective actions. The steps taken were:

1. The Municipality now requires from the program to submit quarterly inventory reports to the Municipal Property Officer of the Municipality.
2. The differences resulting from the inventory in September 2013 were reported to the Office of Internal Audit for appropriate investigation, and subsequent determination for adjustment or removal from the properly records.
3. A document of transfer of ownership between the centers and the program management office was established to identify any change location assigned to each property.
4. An additional employee was assigned to the Municipal Property Officer to perform physical inventory of the program.

Audit finding status:
Unresolved.

END OF SECTION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments

(1) Prior Audit Findings, fully corrected or not noted during our audit:

None.

(2) Prior Audit Findings, not corrected or partially corrected:

None.

(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Prior Audit Findings, are no longer valid:

None.

END OF SCHEDULE

MUNICIPIO DE AGUADILLA

Informe Especial sobre el cumplimiento con las recomendaciones del Contralor y la corrección de las fallas señaladas en los Informes de Auditoría M-12-45 del 26 de junio de 2012

15 de marzo de 2014

MUNICIPIO DE AGUADILLA

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ROMAN TORO & CO., PSC
Certified Public Accountants
Honesty - Integrity - Experience

Members of:
American Institute of Certified Public Accountants
and PR Society of Certified Public Accountants
José D. Román Toro, CPA, President
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15 de marzo de 2014

Hon. Alcalde
Municipio de Aguadilla
Aguadilla, Puerto Rico

Realizamos una auditoría, que incluyó la realización de aquellos procedimientos que consideramos necesarios, para expresar una opinión sobre el cumplimiento del Municipio con las recomendaciones del Contralor y la corrección de las fallas señaladas en los Informes de Auditoría **M-12-45 del 26 de junio de 2012**. La misma se efectuó a base de las disposiciones que se establecen en los **artículos 7.010 y 8.016 de la Ley Núm. 81 del 30 de agosto de 1991, Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991, según enmendada (Ley Núm. 81)**.

BASE LEGAL

El 15 de marzo de 2013 el Municipio contrató los servicios de esta firma para realizar la auditoría de sus estados financieros de acuerdo con los requisitos del **Single Audit Act** y a tenor con la **Ley Núm. 81 y el Reglamento para la Administración Municipal.** Este fue aprobado por el Comisionado de Asuntos Municipales el 18 de julio de 2008 y comenzó a regir el 18 de agosto de 2008.

ALCANCE Y METODOLOGIA

La auditoría cubrió del 1 de julio de 2012 al 30 de junio de 2013. El examen se realizó de acuerdo con las normas de auditoría generalmente aceptadas promulgadas en las **Normas de Auditoría Gubernamental emitidas por el Contralor General de los Estados Unidos, el Manual de Normas de Auditoría del Contralor de Puerto Rico y el Instituto Americano de Contadores Públicos Autorizados** en lo que concierne al cumplimiento con las recomendaciones y la corrección de las fallas señaladas en los Informes de Auditoría **M-12-45 del 26 de junio de 2012**. Efectuamos las pruebas que consideramos necesarias de acuerdo con las circunstancias. Además, como parte de nuestro examen, asistimos el 11 de septiembre de 2013 a la orientación ofrecida por la Oficina del Contralor sobre el cumplimiento con las recomendaciones del Contralor y la corrección de las fallas señaladas en los Informes de Auditoría **M-12-45 del 26 de junio de 2012.**

INFORME DE LOS AUDITORES INDEPENDIENTES

Hemos examinado el cumplimiento del Municipio de Aguadilla con las recomendaciones del Contralor de Puerto Rico emitidas en sus informes **M-12-45 del 26 de junio de 2012**. La gerencia es responsable de que el Municipio de Aguadilla cumpla con estas recomendaciones. Nuestra responsabilidad es la de expresar una opinión sobre el cumplimiento del Municipio de Aguadilla basado en nuestro examen.

Nuestro examen fue realizado de acuerdo a las normas de atestación promulgadas por el Instituto Americano de Contadores Públicos Autorizados y, por lo tanto, incluyó examinar, a base de pruebas, evidencia acerca del cumplimiento del Municipio de Aguadilla con las recomendaciones mencionadas en el primer párrafo y la realización de cualquier otro procedimiento que consideramos necesario según las circunstancias. Nosotros creemos que nuestro examen provee una base razonable para nuestra opinión. Nuestra opinión no representa una base legal para determinar el cumplimiento del Municipio de Aguadilla con las recomendaciones que se especifican en el primer párrafo.

En nuestra opinión el Municipio de Aguadilla cumplió, en todos los aspectos materiales, con las recomendaciones que se especifican en el primer párrafo, para el año terminado el 30 de junio de 2013.

Este informe es emitido para conocimiento y uso exclusivo de la Oficina del Contralor de Puerto Rico y del Municipio de Aguadilla en relación al cumplimiento con los Artículos 7.010 y 8.016 de la Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico y no debe ser utilizado para ningún otro propósito.

AGRADECIMIENTO

A los funcionarios y empleados del Municipio de Aguadilla les agradecemos la cooperación que nos prestaron durante nuestro examen.

ROMAN TORO & CO., CPA, C.S.P.
LICENCIA #35 - VIGENTE

Yauco, Puerto Rico
15 de marzo de 2014

OMB No. 0348-0057 09/17/2013	U.S. Dept. of Comm. - Econ and Stat Admin. - U.S. Census Bureau ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET
GENERAL INFORMATION	REPORTID: 582650 VERSION:1
1. Fiscal Period End Date	**2. Type of Circular A-133 Audit**
6/30/2013	**Single Audit**
3. Audit Period Covered	If Audit Period Other, Number of months
Annual	
4. Auditee Indentification Numbers	
a. Auditee Employer Identification Number (EIN)	**d. Auditee Data Universal Numbering System (DUNS) Number**
66-0433570	**10-582-2415**
b. Are multiple EINS covered in this report?	**e. Are multiple DUNS covered in this report?**
No	**No**
If Yes, the additional EINs are listed on	If Yes, the additional DUNS are listed on
Additional EINS	Additional DUNS
5. AUDITEE INFORMATION	**6. PRIMARY AUDITOR INFORMATION**
a.Auditee Name	a.Audit Firm / Organization Name
MUNICIPALITY OF AGUADILLA	**ROMAN TORO & CO., CSP**
	b.Audit Firm / Organization EIN
	66-0567952
b.Auditee Address (Number and street)	c.Audit Firm / Organization Address (Number and street)
PO BOX 1008	**PO BOX 3043**
Auditee City	Auditor Firm/Organization City
AGUADILLA	**YAUCO**
Auditee State	Auditor Firm/Organization State
PR	**PR**
Auditee ZIP Code	Auditor Firm/Organization ZIP Code
00605-1008	**00698-3043**
c.Auditee Contact Name	d.Primary Auditor Name
NOEMI ALFONSO	**MARCOS MELENDEZ**
Auditee Contact Title	Primary Auditor Title
FINANCE DIRECTOR	**AUDIT MANAGER**
d.Auditee Contact Telephone	e.Primary Auditor Contact Telephone
(787)891-1005	**(787)856-6220**
e.Auditee Contact Fax	f.Primary Auditor Contact Fax
(787)882-6085	**(787)856-6233**
f.Auditee Contact E-mail	g.Primary Auditor Contact E-mail
NOEMIAV@YAHOO.COM	**CPAMARCOSMELENDEZ@CPAROMANTORO.COM**
	7. Was a secondary auditor used?
	No
	8. If Yes, the additional auditors are listed on
	Secondary Auditors

Form SF-SAC Single Audit Data Collection Form	REPORTID: 582650 VERSION:1

FINANCIAL STATEMENTS SUMMARY

1.Type of audit report

Unmodified

2. Is a 'going concern' emphasis-of-matter paragraph included in the audit report?

No

3.Is a significant deficiency disclosed?

Yes

4.Is a material weakness disclosed?

No

5.Is a material noncompliance disclosed?

No

FEDERAL PROGRAMS SUMMARY

1.Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending $500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide)

No

2.What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § _.520(b))

$392,767

3.Did the auditee qualify as a low-risk auditee? (§_.530)

No

4.Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§_.315(b))

No

5.Indicate which Federal agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding.

None

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6. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

Federal Agency Prefix [1]	Extension [2]	Federal Program Name	Amount Expended	R&D	Loan/Loan Guarantee	ARRA [3]	Direct Award	Major Program (MP)	If yes (MP), type of audit report [4]	Number of Audit Findings
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
10	558	CHILD AND ADULT CARE FOOD PROGRAM	$700,959	N	N	N	N	Y	Unmodified	0
14	218	COMMUNITY DEVELOPMENT BLOCK GRANTS- EN	$2,018,896	N	N	N	Y	Y	Unmodified	0
14	221	URBAN DEVELOPMENT ACTION GRANT	$24,586	N	N	N	N	N		0
14	231	EMERGENCY SHELTER GRANT PROGRAM	$140,128	N	N	N	Y	N		0
14	239	HOME INVESTMENT PARTNERSHIP PROGRAM	$588,319	N	N	N	Y	Y	Unmodified	0
14	248	CDBG SECTION 108 LOAN GUARANTEE	$983,600	N	Y	N	Y	Y	Unmodified	0
14	871	SECTION 8 HOUSING CHOICE VOUCHER PROGRA	$1,366,899	N	N	N	Y	Y	Unmodified	0
16	738	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE	$739	N	N	Y	N	N		0
20	600	STATE AND COMMUNITY HIGHWAY SAFETY	$6,138	N	N	N	Y	N		0
81	128	ENERGY EFFICIENCY AND CONSERVATION BLOCK	$537,691	N	N	Y	Y	Y	Unmodified	0
84	287	TWENTY-FIRST COMMUNITY LEARNING CENTER	$111,348	N	N	N	N	N		0
93	044	SPECIAL PROGRAM FOR AGING,TITLE ILL, PART B	$168,317	N	N	N	N	N		0
93	045	SPECIAL PROGRAM FOR AGING,TITLE ILL, PART C	$151,407	N	N	N	N	N		0
93	600	HEAD START PROGRAM	$6,228,077	N	N	N	N	Y	Unmodified	2
93	575	CHILD CARE AND DEVELOPMENT BLOCK GRANT	$32,149	N	N	N	N	N		0
93	569	COMMUNITY SERVICES BLOCK GRANT	$9,840	N	N	N	N	N		0
97	067	HOMELAND SECURITY GRANT PROGRAM	$23,148	N	N	N	N	N		0
		Total Federal Awards Expended:	$13,092,241							

Form SF-SAC Single Audit Data Collection Form REPORTID: 582650 VERSION:1

7. FEDERAL AWARD FINDINGS

Federal Agency Prefix	Extension	Federal Program Name	Audit Finding Reference Number	Type(s) of Compliance Requirement(s) [1]	Compliance Findings [2]		Internal Control Findings [2]		Other Findings [2]	Questioned Costs
					Modified Opinion	Other Matters	Material Weakness	Significant Deficiency		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
93	600	HEAD START PROGRAM	2013-001	BC	N	N	N	Y	N	N
93	600	HEAD START PROGRAM	2013-002	F	N	N	N	Y	N	N

1 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material

2 There are 9 valid combinations of 'Compliance Findings,' 'Internal Control Findings,' and 'Other Findings' for each Federal program with findings. (See in

weaknesses,), questioned costs, fraud, and other items reported under §_.510(a)) reported for each Federal program.										
structions - Item 7)										

Form SF-SAC Single Audit Data Collection Form	REPORTID: 582650 VERSION:1
PART I, Item 4c. AUDITEE EIN CONTINUATION SHEET (FROM PART I, ITEM 4b)	

Additional EINs

Form SF-SAC Single Audit Data Collection Form	REPORTID: 582650 VERSION:1
PART I, Item 4f. AUDITEE DUNS CONTINUATION SHEET (FROM PART I, ITEM 4e)	

Additional DUNS

Form SF-SAC Single Audit Data Collection Form										REPORTID: 582650 VERSION:1
PART I, Item B, SECONDARY AUDITORS' CONTACT INFORMATION										
Auditor Firm Name	Auditor EIN	Auditor Address	City	State	ZIP Code	Contact Name	Contact Title	Contact Phone	Contact Fax	Contact E-mail
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)

Form SF-SAC Single Audit Data Collection Form	REPORTID: 582650 VERSION:1
CERTIFICATIONS	
Auditee Certification Statement	**Auditor Statement**
This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.	The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. Except for Part III, Items 4, 5, 6a-6h, and, when audit findings are reported, 7a-7c, the information included in Parts II and III of this form was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.
Auditee Certification	Auditor Statement
ELECTRONICALLY CERTIFIED: 3/12/2014	ELECTRONICALLY CERTIFIED: 2/22/2014
Name of certifying official	
NOEMI ALFONSO	
Title of certifying official	
FINANCIAL DIRECTOR	

[1] **The letters entered in the 'Type(s) of Compliance Requirements' field apply to audit findings (i.e., noncompliance, significant deficiency (including questioned costs, fraud, and other items reported under §_.510(a)) reported for each Federal program:**

A. Activities Allowed or Unallowed
B. Allowable costs/cost principles
C. Cash management
D. Davis-Bacon Act
E. Eligibility
F. Equipment and real property management
G. Matching, level of effort, earmarking
H. Period of availability of Federal funds
I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None (2008 through 2012 Only)
P. Other

ANEJO EXPLICATORIO
Certificación OC-DA-123 para el Año Fiscal Terminado
el 30 de Junio del 2013

Línea número 1

En la línea número 1 de la Certificación OC-DA-123 para el año fiscal terminado el 30 de junio del 2013, la cantidad de fondos públicos recibida en el año se compone de lo siguiente:

Fondos públicos recibidos de fondos gubernamentales, proviniendo de recursos locales, estatales, y federales (Pg. 28 del "Comprehensive Annual Financial Report 2013")	$56,042,176
Fondos públicos recibidos de fondos propietarios, proviniendo de empresas municipales (Pg. 30 del "Comprehensive Annual Financial Report 2013")	2,179,690
Total fondos públicos recibidos	$58,221,866