

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

***BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2014***



Mr. Jessie Cortés Ramos

Mayor

Mr. Juan E. Rodriguez

Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Hon. Jessie Cortés Ramos and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Aguada
Aguada, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Aguada Project, as of and for the year ended June 30, 2014, 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 did not audit the financial statements of Jardines de Aguada Project, which statements reflect total assets of \$1,256,996 as of June 30, 2014, and total revenues of \$440,029 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Jardines de Aguada Project, is based solely on the report of the other auditor. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Aguada, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–15 and 61–64 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Puerto Rico, Municipality of Aguada's basic financial statements. The supplementary information shown in pages 65 through 69, are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards 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 supplementary and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, on our consideration of the Commonwealth of Puerto Rico, Municipality of Aguada's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commonwealth of Puerto Rico, Municipality of Aguada's internal control over financial reporting and compliance.

San Juan, Puerto Rico

March 25, 2015

The stamp number 2702476
was affixed to the original report

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Expires December 1, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

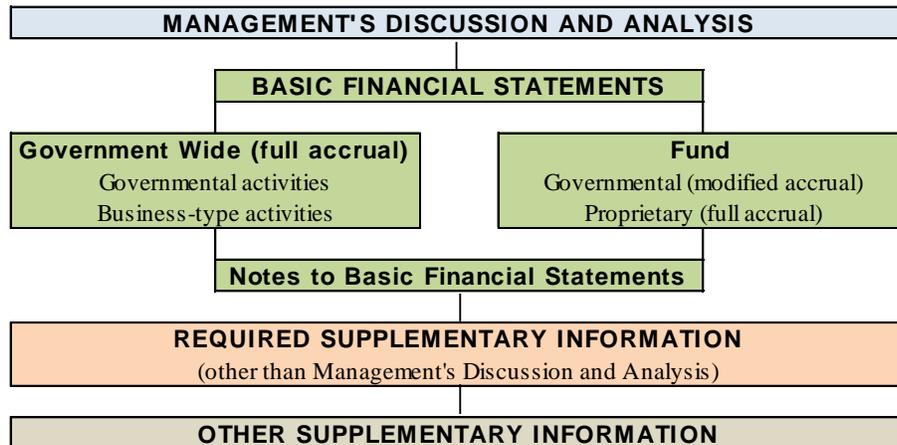
The discussion and analysis of the Municipality of Aguada's ("Municipality") financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- Total assets of the Municipality, on a government-wide basis, exceeded its total liabilities at the close of fiscal year 2013 by \$39,207,201 (net position). Of this amount, the Municipality presented an unrestricted net position (deficit) of \$(1,823,867). Total net position reported an increase of 8% when compared to 2013.
- With respect to 2013 the Municipality's governmental activities revenues and expenses increased 19% and 11% respectively. Business-type activities revenues reported no significant change while expenses increased 3%.
- A net decrease in fund balances of the Municipality's governmental funds of (\$55,523) in the fiscal year 2014 results in reported ending fund balances of \$13,073,424. Approximately 25% of the total fund balances is unrestricted (committed, assigned or unassigned). The unassigned fund balance amounts to \$764,389, an increase of 22% when compared to 2013.
- The General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,729,404 in 2014.
- The investment in capital assets (total primary government) as of June 30, 2014 was \$43,798,312 (net of depreciation).
- Long-term debt (total primary government) decreased to \$21,280,501 with respect to the prior year.
- On a budgetary basis, General Fund's actual revenues exceeded actual expenditures by \$343,939.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

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:

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. The first government-wide statement – the *statement of net position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the *statement of activities* – presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements are divided into two categories: governmental and business-type activities. The governmental activities report the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through taxes (property, sales and use and municipal license) and intergovernmental revenues. Included in the governmental activities are the governmental funds. Business-type activities charges fees to customers to finance the costs of their activities. The activities of *Jardines de Aguada Project* are included here.

- ***Fund Financial Statements***

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 Commonwealth regulations, as well as by bond covenants. The Municipality has two kinds of funds: governmental and proprietary funds.

Governmental funds - the Municipality's basic services are included in governmental funds, which 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 are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Proprietary funds – services for which the Municipality charges customers a fee are generally reported as proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information and are accounted for using the economic resources measurement focus and the accrual basis of accounting. The Municipality's proprietary funds consist of an enterprise fund, the same as business-type activities. The Municipality reports the activities of *Jardines de Aguada Project* as an enterprise fund.

The fund statements focus on major funds. The Municipality's major governmental and enterprise funds are funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds or other nonmajor enterprise funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Other supplementary information

Other supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The following table presents a summary of the Statements of Net Position as of June 30, 2014 and 2013:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

TABLE 1

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 19,612,125	\$ 19,071,607	\$ 248,275	\$ 236,691	\$ 19,860,400	\$ 19,308,298
Capital assets	42,789,591	40,679,264	1,008,721	1,047,668	43,798,312	41,726,932
Total assets	62,401,716	59,750,871	1,256,996	1,284,359	63,658,712	61,035,230
Liabilities						
Current and other liabilities	5,671,124	5,903,563	79,971	84,885	5,751,095	5,988,448
Long-term liabilities	16,702,453	16,672,722	1,997,963	2,042,758	18,700,416	18,715,480
Total liabilities	22,373,577	22,576,285	2,077,934	2,127,643	24,451,511	24,703,928
Net Position						
Net investment in capital assets	35,032,181	30,970,605	(1,034,037)	(1,036,161)	33,998,142	29,934,444
Restricted	6,918,711	7,330,095	114,213	88,263	7,032,925	7,418,358
Unrestricted (deficit)	(1,922,753)	(1,126,114)	98,886	104,614	(1,823,867)	(1,021,500)
Total net position	\$ 40,028,139	\$ 37,174,586	\$ (820,938)	\$ (843,284)	\$ 39,207,201	\$ 36,331,302

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2014, total assets exceeded its total liabilities by \$39,207,201. Net position reported an increase of 8% with respect to fiscal period 2013.

The largest portion of the Municipality's net position (87 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure) 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.

As of June 30 2014, the Municipality presented an unrestricted net position (deficit) of \$(1,823,867). This deficit primarily arises from long-term obligations such as compensated absences among other debts, 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. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2014 and 2013:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

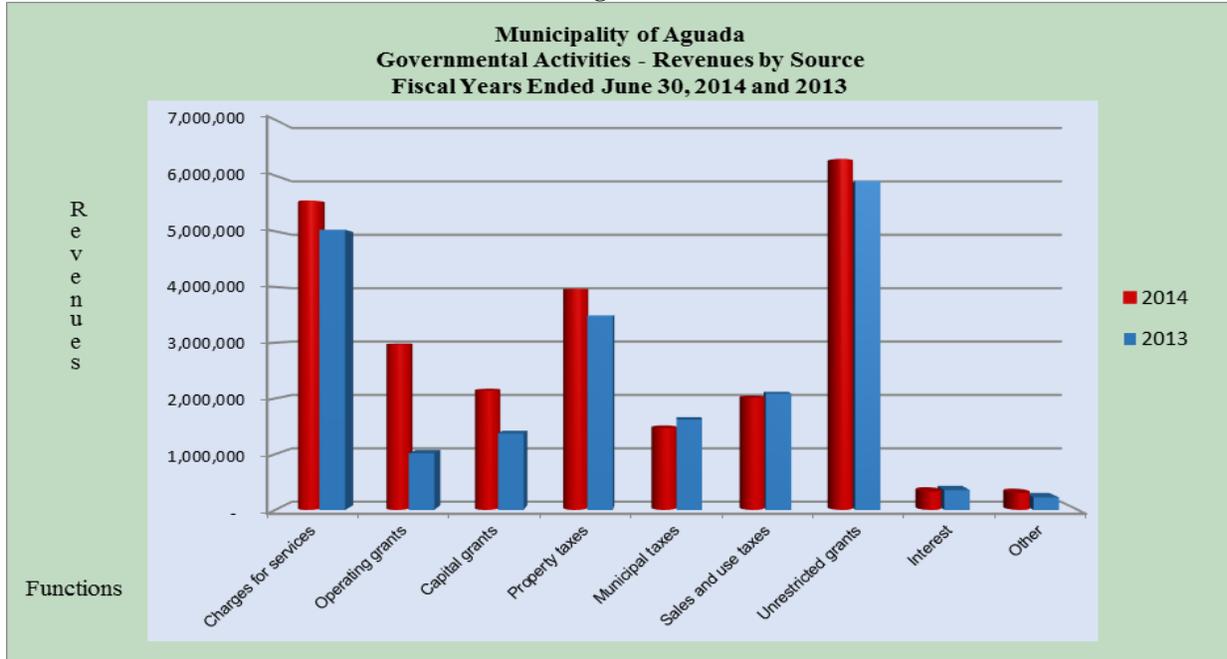
TABLE 2

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Fees, fines and charges for services	\$ 5,552,890	\$ 5,027,054	\$ 439,604	\$ 437,618	\$ 5,992,494	\$ 5,464,672
Operating grants and contributions	2,973,309	1,014,037	-	-	2,973,309	1,014,037
Capital grants and contributions	2,141,927	1,370,367	-	-	2,141,927	1,370,367
General revenues:						
Property taxes	3,968,249	3,490,615	-	-	3,968,249	3,490,615
Municipal license taxes	1,467,946	1,619,774	-	-	1,467,946	1,619,774
Sales and use taxes	2,015,168	2,085,442	-	-	2,015,168	2,085,442
Grants and contributions not restricted to specific programs	6,299,592	5,901,079	-	-	6,299,592	5,901,079
Interest and other	636,927	581,371	446	401	637,373	581,772
Total revenues	25,056,008	21,089,739	440,050	438,019	25,496,058	21,527,758
Expenses:						
General government	8,928,015	8,140,818	360,984	361,934	9,288,999	8,502,752
Public works and sanitation	5,692,547	5,788,626	-	-	5,692,547	5,788,626
Public safety	836,531	1,000,391	-	-	836,531	1,000,391
Culture and recreation	1,957,603	2,021,284	-	-	1,957,603	2,021,284
Health	492,975	492,975	-	-	492,975	492,975
Housing, welfare and community development	1,896,046	1,737,769	-	-	1,896,046	1,737,769
Education	1,678,083	29,650	-	-	1,678,083	29,650
Interest on long term debt	720,654	731,576	56,720	42,135	777,374	773,711
Total expenses	22,202,455	19,943,089	417,704	404,069	22,620,159	20,347,158
Change in net position	2,853,553	1,146,650	22,346	33,950	2,875,899	1,180,600
Net position-beginning of year	37,174,586	36,027,936	(843,284)	(877,234)	36,331,302	35,150,702
Net position-end of year	\$ 40,028,139	\$ 37,174,586	\$ (820,938)	\$ (843,284)	\$ 39,207,201	\$ 36,331,302

Revenues, governmental activities - the four major sources of revenues of the Governmental Activities of the Municipality in fiscal year 2013 are: unrestricted grants and contributions (25%), charges for services (22%), property taxes (16%) and operating grants (12%). Revenues increased 19%. This net increase is due mainly to (1) an increase of 193% in operating grants due to the collection of a new federal grant received from the P.R. Department of Education: "Twenty First Century Community Learning Centers" to provide tutoring and other services to Municipality's students; (2) an increase of 56% in capital grants for additional funds received from the Commonwealth Legislature for capital projects; (3) an increase of 14% in property taxes caused by a non-recurrent property tax amnesty revenue and (4) an increase of 10% in fees, fines and charges for services due to an increase in compensation revenue from PREPA. The following **Figure 1** illustrates the revenue comparison between 2014 and 2013:

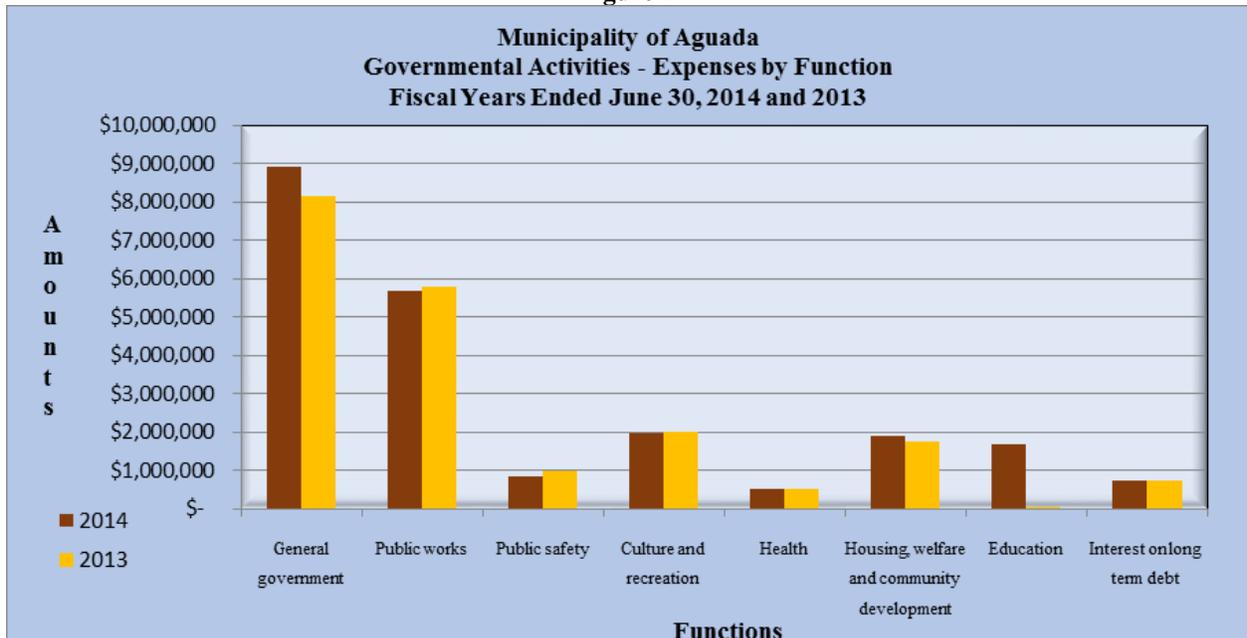
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Figure 1



Revenues, business-type activities – revenues of business-type activity of *Jardines de Aguada Project* consists mainly from charges for services – rental income paid by tenants and HUD – and remains stable with respect to fiscal year 2013.

Figure 2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Expenses, governmental activities - The largest governmental activities expenses are general government with 40% and public works and sanitation with 26%. Total expenses increased 11% when compared with fiscal year 2013. **Figure 2** illustrates the expenses comparison between 2014 and 2013. The largest increases in 2014 were in Education function due to expenses of a new federal grant received from the P.R. Department of Education, "Twenty First Century Community Learning Centers" and 10% increase in general government function for increase in light utility expense (PREPA).

Expenses, business-type activities - expenses of business-type activity of *Jardines de Aguada Project* consists of administrative and operational expenses and increased 3% when compared with 2013. Increase was mainly in administrative, depreciation and interest expense.

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses 2014 and 2013 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

<i>Expenses Net of Program Revenues As of June 30, 2013</i>		
Net expenses	2014	2013
General government	\$ (3,350,646)	\$ (2,992,140)
Public works and sanitation	(3,738,069)	(4,951,054)
Public safety	(836,531)	(1,000,391)
Culture and recreation	(1,954,103)	(2,017,784)
Health	(492,975)	(492,975)
Housing, welfare and community development	1,236,732	(316,061)
Education	(1,678,083)	(29,650)
Interest on long term debt	(720,654)	(731,576)
Total expenses, net of program revenues	(11,534,329)	(12,531,631)
General revenues		
Taxes	7,451,363	7,195,831
Grants and contributions not restricted to specific programs	6,299,592	5,901,079
Interest and other	636,927	581,371
Total general revenues	14,387,882	13,678,281
Change in net position	\$ 2,853,553	\$ 1,146,650

Some of the cost of governmental activities was paid by those who directly benefited from the programs and other governments and organizations that subsidized certain programs with grants and contributions. The net cost of services was covered by other general revenues including taxes and other grants and contributions not restricted for specific programs, as disclosed in the above **Table 3**.

Expenses of the business-type activity were fully covered by charges for services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party. For the fiscal year ended June 30, 2014, the governmental funds reported ending fund balances of \$13,073,424, a net decrease of (\$55,523) in comparison with the prior year. Of the total fund balances, \$3,325,679 (or 25%) constitutes unrestricted fund balance, of which \$764,389 (or 6%) are unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

- ***General Fund***

The general fund is the operating fund of the Municipality. The fund balance of the general fund of \$4,156,049 represents approximately 32% of total ending fund balances. Of the total fund balance 13% is committed and 49% is assigned. The remainder of \$1,594,759 is unassigned fund balance, which represents 38% of the total fund balance. This unassigned fund balance increased 61% with respect to the prior year. The total fund balance of the general fund is distributed between (1) Fund 01 of \$1,963,047 and, (2) special funds of \$2,193,003. These special funds represent fund balance of the general fund committed or assigned for specific purposes recorded in the Municipality's accounting system as special funds.

During the fiscal year the fund balance of the general fund increased by \$1,729,403. The main sources of operational revenues of the general fund in fiscal year 2014 are: intergovernmental subsidies from the Commonwealth with 37%, taxes (property taxes, sales and use taxes and municipal license taxes) with 33% and charges for services with 28%. Operational revenues increased 7% when compared to 2013. The largest expenditures of the general fund are general government with 45%, public works and sanitation with 29%, and culture and recreation with 7%. Expenditures increased 11% as compared to 2013 year, mainly due to increase in capital outlays expenditures. As disclosed above, the general fund is distributed between Fund 01 and other special funds. The increase in general fund of \$1,729,403 is the result of: (1) a positive change in fund balance of \$829,372 in Fund 01 and, (2) a positive change of \$904,031 in the other special funds. This total increase of \$1,729,403 resulted mainly from other financing sources of funds for transfer of excess funds from the sales and use tax sinking fund in the debt service fund combined with an operational positive change was \$288,856.

- ***Community Development Block Grant Program Fund ("CDBG")***

With respect to previous year, the CDBG fund operation presents a decrease in expenditures. The decrease was mainly in capital outlays expenditures of approximately \$261,000 due to less outlays for improvements for streets and roads and in welfare expenditures for approximately \$80,000. Fund balance presents a deficit as liabilities and deferred inflows of resources exceed assets for unavailable revenues recorded.

- ***Commonwealth Legislature Fund***

This fund report revenue sources from grants provided by the Commonwealth's Legislature restricted for specific purposes. During the 2014 the fund received additional grants of \$736,054 for capital outlays. Expenditures in 2014 mainly financed capital outlays.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

- ***Debt Service Fund***

The debt service fund reported a decrease in fund balance in 2014 of \$(871,100) to bring the year end fund balance to \$2,555,875 which represents 20% of total fund balances. The decrease essentially results from an increase in principal debt payments. Revenues increased 13% mainly on property taxes deposited in the redemption funds; expenditures increased 8% due to increase in principal payment expenditures on long term debt. The net decrease of \$(871,100) was mainly due to a transfer of excess funds from the sales and use taxes sinking fund to the general fund of \$1,271,508.

- ***Bonds and Notes Issuance Fund***

During the year 2014 the Municipality recorded as other financing sources the issuance of a general obligation bond of \$505,000 for payment of a legal case settlement of \$500,000. In addition, the fund expended \$412,492 in capital projects during 2014.

General Fund Budgetary Highlights - the general fund original budget for the fiscal year 2013-2014 presented a 3% decrease with respect to the prior year budget and remains for the same amount since there were no approved amendments to increase the original amount. Actual revenues reported a positive variance of \$893,472 with respect to budgeted revenues but actual expenditures reported a negative variance of (\$200,446) with respect to budgeted appropriations. Actual revenues exceeded actual expenditures by \$343,939.

As part of the budgetary management of the general fund for fiscal period 2013-2014 effective on July 1, 2013 the Municipal Legislature approved Ordinance No. 53 Series 2012-2013 as amended by Ordinance No. 4 Series 2013-2014 to establish a fiscal and administrative reorganization process to review the Municipality's organizational structure, administrative operations and processes to identify ways to improve efficiency and productivity. The process was implemented in order to address the general economic conditions, the fiscal condition of the Municipality and the reduction of funds and awards from the federal government. As part of this process, Ordinance 53 as amended implemented a salary reduction plan which is temporary until the Finance Director certifies that the plan has generated sufficient recurrent resources to cover the projected general fund's budgetary shortfall. For more details please refer to Note R of the basic financial statements.

Proprietary funds

The Municipality's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The net position (deficit) of *Jardines de Aguada Project* ("the Project") at the end of the fiscal year amounted to \$(820,938) resulting mainly from a negative net investment in capital assets of \$(1,034,037). This negative balance is the result of the balance of the net capital assets of \$1,008,721 less the balance of the related mortgage payable of \$ 2,042,758. The Project reported a positive change in net position of \$22,346 in the statement of revenues, expenses and changes in net position representing a 34% decrease as compared to 2013 due to increases in administrative, depreciation and interest expenses.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality's capital assets for its governmental and business-type activities amounted \$43,798,312 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. This amount represents a net increase of 5% over the prior year. The following **Table 4** discloses the capital assets balances as of June 30, 2014:

Table 4

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Non-depreciable assets:						
Land	\$ 4,327,185	\$ 4,327,185	\$ 93,700	\$ 93,700	\$ 4,420,885	\$ 4,420,885
Construction in progress	2,652,219	1,771,327	-	-	2,652,219	1,771,327
Depreciable assets (net):						
Land improvements	-	-	99,720	112,563	99,720	112,563
Buildings and buildings improvements	25,508,449	25,013,313	791,515	815,730	26,299,964	25,829,043
Infrastructure	8,713,437	8,499,834	-	-	8,713,437	8,499,834
Vehicles, machinery and equipment	1,588,301	1,067,605	23,786	25,675	1,612,087	1,093,280
Total	\$ 42,789,591	\$ 40,679,264	\$ 1,008,721	\$ 1,047,668	\$ 43,798,312	\$ 41,726,932

Governmental activities - the Municipality's governmental activities major capital projects that were still in construction as of June 30, 2014 are as follows:

- Espinal Elderly Center - \$663,844
- Construction of Splash Park - \$654,992
- Improvements to Ramon Domenech Park and Municipal Gymnasium - \$522,787

During the year the Municipality transferred \$1,255,385 from construction in progress for finished infrastructure and building and building improvements projects.

Business-type activities – capital asset's building improvements increased \$49,575 which is the most significant addition during the year.

More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2014 and 2013:

TABLE 5

<i>Outstanding Long-term Debt – Governmental Activities Fiscal years ended June 30,</i>		
	Governmental Activities	
	2014	2013
General, Special Obligation Bonds and Notes	\$ 14,451,000	\$ 14,830,000
Note payable to CRIM-financing of delinquent accounts	157,888	166,660
Compensated absences	2,446,738	2,557,994
Christmas Bonus	235,252	237,173
Payable to CRIM-property tax advances	275,339	-
Judgments and claims	-	500,000
Payable to EPA	-	15,000
Payable to PREPA	1,671,526	975,957
Total	<u>\$ 19,237,743</u>	<u>\$ 19,282,784</u>

Governmental activities - at year-end, the governmental activities of the Municipality reported \$14,830,000 in general and special bonds and notes outstanding, a net decrease of 3% with respect to the prior year resulting from the issuance of new debt of \$505,000 and principal payments of \$884,000. With respect to other long-term debts (other than general obligation bonds and notes) the most significant increase resulted from PREPA debt to \$1,671,526. This debt will be amortized over a two years period and is net with a corresponding receivable from PREPA for the same amount for compensation in lieu of taxes not paid by PREPA to the Municipality.

Business-type activities – the outstanding debt of the business-type activity consist of permanent residences loans provided by USDA-Rural Development. There were no significant changes with respect to 2013 year.

More detailed information about the Municipality's long-term liabilities is presented in Note G of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2014-2015 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2014 stands at 14%, and the Commonwealth rate stands at 12.8%.

For year 2013-2014 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$14,777,742 representing an increase of approximately 7% with respect to prior year estimates. This increase was due to the inclusion of a budgetary revenue amount of \$1,255,000 for sales and use taxes included in previous years as a special fund account in the general fund rather than a "01 Fund" budgetary account. Also, there was a corresponding projected increase in Municipality's budgetary appropriations for the Municipality's contribution to the Commonwealth retirement system for retired employees, an increase in expenditures of water and light utilities and public works expenditures. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2014-2015 fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economy recession since 2006. As a result of these matters, credit ratings agencies have been consistently downgrading the Commonwealth's and certain public corporation's general obligation bonds ratings. In order to address these matters the Commonwealth began to make legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico ("GDB"), its fiscal agent, and strength sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, along others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens. Among other actions, as more fully described in Note K, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Act's provides for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Subsequent to June 30, 2014 Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") respectively, lowered its ratings on the Commonwealth of Puerto Rico's general obligation (GO) debt. Current credit ratings as of March 1, 2015 are B/Negative (S&P), Caa1/Negative (Moody's) and BB-/Negative (Fitch).

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 any questions about this report or need any additional information contact the Finance Department at the Municipality of Aguada, Box 517, Aguada, P.R. 00602.

BASIC FINANCIAL STATEMENTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,261,914	\$ 109,587	\$ 5,371,501
Receivables, net			
Municipal license taxes	22,897	-	22,897
Sales and use taxes	107,722	-	107,722
Rent	17,530	-	17,530
Others	1,209	23,457	24,666
Due from:			
Commonwealth Government	2,099,651	-	2,099,651
Federal Government	569,907	-	569,907
Restricted assets:			
Cash and cash equivalents	2,847,747	114,212	2,961,959
Cash with fiscal agents	8,683,548	-	8,683,548
Other Assets	-	1,019	1,019
Capital assets:			
Land and construction in progress	6,979,404	607,385	7,586,789
Other capital assets, net	35,810,187	401,336	36,211,523
Total capital assets, net	42,789,591	1,008,721	43,798,312
Total assets	\$ 62,401,716	\$ 1,256,996	\$ 63,658,712
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,588,327	\$ 27,233	\$ 1,615,560
Accrued interest payable	359,695	7,943	367,638
Due to:			
Commonwealth Government	87,202	-	87,202
Federal Government	4,296	-	4,296
Unearned revenues			
Municipal license taxes	1,096,314	-	1,096,314
Long term liabilities:			
Due within one year	2,535,290	44,795	2,580,085
Due in more than one year	16,702,453	1,997,963	18,700,416
Total liabilities	22,373,577	2,077,934	24,451,511
NET POSITION			
Net investment in capital assets	35,032,181	(1,034,037)	33,998,144
Restricted for:			
Capital projects	2,121,366	-	2,121,366
Debt service	3,521,185	-	3,521,185
Other specified purposes	1,276,160	114,213	1,390,373
Unrestricted (deficit)	(1,922,753)	98,886	(1,823,867)
Total net position	\$ 40,028,139	\$ (820,938)	\$ 39,207,201

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines and Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 8,928,023	\$ 5,523,337	\$ -	\$ 54,040	\$ (3,350,646)	\$ -	\$ (3,350,646)
Public works and sanitation	5,692,540	26,053	-	1,928,418	(3,738,069)	-	(3,738,069)
Public safety	836,531	-	-	-	(836,531)	-	(836,531)
Culture and recreation	1,957,603	3,500	-	-	(1,954,103)	-	(1,954,103)
Health	492,975	-	-	-	(492,975)	-	(492,975)
Housing, welfare and community development	1,896,046	-	2,973,309	159,469	1,236,732	-	1,236,732
Education	1,678,083	-	-	-	(1,678,083)	-	(1,678,083)
Interest on long term debt	720,654	-	-	-	(720,654)	-	(720,654)
Total governmental activities	<u>22,202,455</u>	<u>5,552,890</u>	<u>2,973,309</u>	<u>2,141,927</u>	<u>(11,534,329)</u>	<u>-</u>	<u>(11,534,329)</u>
Business-type activities:							
Jardines de Aguada Project	417,704	439,604	-	-	-	21,900	21,900
Total business-type activities	<u>417,704</u>	<u>439,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,900</u>	<u>21,900</u>
Total primary government	<u>\$ 22,620,159</u>	<u>\$ 5,992,494</u>	<u>\$ 2,973,309</u>	<u>\$ 2,141,927</u>	<u>\$ (11,534,329)</u>	<u>\$ 21,900</u>	<u>\$ (11,512,429)</u>
		General revenues					
		Taxes:					
		Property taxes			3,968,249	-	3,968,249
		Municipal license taxes			1,467,946	-	1,467,946
		Sales and use taxes			2,015,168	-	2,015,168
		Grants and contributions not restricted to specific programs			6,299,592	-	6,299,592
		Interest			331,692	21	331,713
		Other			305,235	425	305,660
		Total general revenues			<u>14,387,882</u>	<u>446</u>	<u>14,388,328</u>
		Change in net position			2,853,553	22,346	2,875,899
		Net position-beginning			37,174,586	(843,284)	36,331,302
		Net position-ending			<u>\$ 40,028,139</u>	<u>\$ (820,938)</u>	<u>\$ 39,207,201</u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Community Development Block Grant Program	Commonwealth Legislature Resolutions	Debt Service	Bonds and Notes Issuance	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 5,261,914	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,261,914
Receivables, net:							
Municipal license taxes	22,897	-	-	-	-	-	22,897
Sales and use taxes	107,722	-	-	-	-	-	107,722
Rents and construction permits	17,530	-	-	-	-	-	17,530
Other	1	-	-	-	-	1,208	1,209
Due from:							
Commonwealth Government	1,780,791	-	-	199,804	-	119,056	2,099,651
Federal Government	-	323,126	-	-	-	246,781	569,907
Other funds	525,034	-	-	-	-	-	525,034
Restricted assets:							
Cash and cash equivalents	-	30	1,738,279	-	-	1,109,438	2,847,747
Cash with fiscal agents	2,359	-	-	3,681,076	4,430,529	569,584	8,683,548
Total assets	\$ 7,718,248	\$ 323,156	\$ 1,738,279	\$ 3,880,880	\$ 4,430,529	\$ 2,046,067	\$ 20,137,159
Liabilities Deferred Inflows of Resources and Fund Balances (Deficit)							
Liabilities:							
Accounts payable and accrued liabilities	\$ 570,629	\$ 188,305	\$ 152,433	\$ -	\$ 161,969	514,991	\$ 1,588,327
Matured bonds and notes payable	-	-	-	978,000	-	-	978,000
Matured interest payable	-	-	-	347,005	-	-	347,005
Due to:							
Commonwealth Government	87,202	-	-	-	-	-	87,202
Federal Government	-	-	-	-	-	4,296	4,296
Other funds	-	134,852	-	-	-	390,182	525,034
Unearned revenues:							
Municipal license taxes	1,096,314	-	-	-	-	-	1,096,314
Total liabilities	1,754,145	323,157	152,433	1,325,005	161,969	909,469	4,626,178
Deferred Inflow of Resources							
Unavailable revenues - Commonwealth Government Funds	1,780,792	-	-	-	-	119,056	1,899,848
Unavailable revenues - Federal grants	-	285,255	-	-	-	225,192	510,447
Unavailable revenues - Others	27,262	-	-	-	-	-	27,262
Total deferred inflow of resources	1,808,054	285,255	-	-	-	344,248	2,437,557
Fund Balances (deficit):							
Restricted	-	-	1,585,846	2,555,875	4,268,560	1,337,464	9,747,745
Committed	543,558	-	-	-	-	-	543,558
Assigned	2,017,732	-	-	-	-	-	2,017,732
Unassigned	1,594,759	(285,256)	-	-	-	(545,114)	764,389
Total fund balances (deficit)	4,156,049	(285,256)	1,585,846	2,555,875	4,268,560	792,350	13,073,424
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 7,718,248	\$ 323,156	\$ 1,738,279	\$ 3,880,880	\$ 4,430,529	\$ 2,046,067	\$ 20,137,159

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total governmental fund balances: **\$ 13,073,424**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet 42,789,591

Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Receivables:

Municipal License Taxes \$ 12,582

Rent 14,680

Due from Commonwealth entities:

Puerto Rico Electric Power Authority (PREPA) 1,671,525

Puerto Rico Department of Labor 119,056

Puerto Rico Department of Treasury-Christmas bonus reimbursement 109,267

Due from Federal Government:

Federal Grants - Hazard Mitigation 18,750

Federal grants - Emergency Shelter Grant

Federal grants - 21st Century Community Learning Centers 206,441

Federal grants - CDBG 285,255 2,437,556

Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds (12,689)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes (13,473,000)

Compensated absences (2,446,738)

Doubtfull accounts debt payable to CRIM (157,888)

Christmas bonus (235,252)

PREPA debt (1,671,526)

Property Tax advances payable to CRIM (275,339) (18,259,743)

Net position of governmental activities: **\$ 40,028,139**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Community Development Block Grant Program</u>	<u>Commonwealth Legislature Resolutions</u>	<u>Debt Service</u>	<u>Bonds and Notes Issuance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>							
Taxes:							
Property taxes	\$ 2,830,785	\$ -	\$ -	\$ 1,374,057	\$ -	\$ -	\$ 4,204,842
Municipal license taxes	1,633,217	-	-	-	-	-	1,633,217
Sales and use taxes	1,254,656	-	-	760,512	\$ -	-	2,015,168
Intergovernmental							
Commonwealth government	6,426,765	-	736,054	-	-	907,145	8,069,964
Federal government	-	221,540	-	-	-	2,767,254	2,988,794
Fees, fines and charges for services	4,852,389	-	-	-	-	-	4,852,389
Interest	60,851	-	343	3,118	267,141	239	331,692
Other	251,983	-	-	-	-	59,978	311,961
Total revenues	17,310,646	221,540	736,397	2,137,687	267,141	3,734,616	24,408,027
<u>Expenditures</u>							
Current:							
General government	7,686,497	113,698	-	-	500,000	163,975	8,464,170
Public works and sanitation	4,932,327	-	71,292	-	-	323,224	5,326,843
Public safety	691,626	-	-	-	-	-	691,626
Culture and recreation	1,240,526	-	-	-	-	8,926	1,249,452
Health	492,975	-	-	-	-	-	492,975
Housing, welfare and community development	440,791	109,556	410	-	-	1,252,592	1,803,349
Education	36,450	-	-	-	-	1,641,632	1,678,082
Capital outlays	1,500,598	161,843	977,401	-	412,492	467,032	3,519,366
Debt service							
Principal	-	-	-	1,018,000	-	-	1,018,000
Interest	-	-	-	717,381	-	-	717,381
Bond issuance costs	-	-	-	-	7,306	-	7,306
Total expenditures	17,021,790	385,097	1,049,103	1,735,381	919,798	3,857,381	24,968,550
Excess (deficiency) of revenues over expenditures	288,856	(163,557)	(312,706)	402,306	(652,657)	(122,765)	(560,523)
Other financing sources (uses)							
General obligation bonds	-	-	-	-	505,000	-	505,000
Transfers in	1,540,547	-	100,000	-	-	-	1,640,547
Transfers out	(100,000)	-	-	(1,273,406)	(267,141)	-	(1,640,547)
Total other financing sources (uses)	1,440,547	-	100,000	(1,273,406)	237,859	-	505,000
Net change in fund balance	1,729,403	(163,557)	(212,706)	(871,100)	(414,798)	(122,765)	(55,523)
Fund balance at beginning of year	2,426,646	(121,699)	1,798,552	3,426,975	4,683,358	915,115	13,128,947
Fund balance at end of year	\$ 4,156,049	\$ (285,256)	\$ 1,585,846	\$ 2,555,875	\$ 4,268,560	\$ 792,350	\$ 13,073,424

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
RECNCILIAION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances-total governmental funds: **\$ (55,523)**

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

Governmental funds report capital assets 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:

Expenditures for capital assets	\$ 3,542,968	
Less: current year depreciation	<u>(1,417,929)</u>	2,125,039

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:

(40,136)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Receivables:

Municipal License Taxes	12,582	
Municipal Properties Rent	9,315	

Due from Commonwealth entities:

Puerto Rico Electric Power Authority (PREPA) current year	1,369,781	
Puerto Rico Department of Labor	119,056	
Christmas Bonus reimbursement	109,267	
Donated capital assets	25,424	

Due from Federal Government:

Federal grants - 21st Century Community Learning Centers	206,441	
Federal grants - CDBG	<u>283,700</u>	2,135,566

Revenues reported in funds which are not reported as revenues in the Statement of Activities:

Receivables:

Municipal License Taxes	(177,853)	
Municipal Properties Rent	(4,383)	

Due from Commonwealth entities:

Puerto Rico Electric Power Authority (PREPA) prior year	(674,212)	
Puerto Rico "OMEP"	(45,587)	
Puerto Rico Department of Transportation	(64,973)	
CRIM-prior year property tax settlement	(236,593)	
Christmas Bonus Reimbursement	(110,159)	

Due from Federal Government:

Federal grants - CDBG	(120,145)	
Federal grants - Emergency Shelter Grant	(46,570)	
Federal grants - P.R. Office of the Ombudsman for the Elderly - Title III-E-prior year	<u>(7,111)</u>	(1,487,586)

Proceeds from general obligation bonds are other financing sources in the governmental funds but an increase of long-term liabilities in the Statement Net Position:

(505,000)

Expenditures reported in funds which are not reported as expenses in the Statement of

Activities:

Matured bonds principal payments-Debt Service Fund (net change)		134,000
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Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	884,000	
Other long term liabilities	<u>2,376,177</u>	3,260,177

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 the governmental funds:

CRIM- current year property tax settlement	(275,339)	
Compensated absences	(148,622)	
Christmas Bonus	(235,252)	
Puerto Rico Electric Power Authority (PREPA)	(2,054,672)	
Net accrual, interest payable	<u>901</u>	(2,712,984)

Change in net position of governmental activities:

\$ 2,853,553

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2014**

	Business-type Activities - Enterprise Fund
	Jardines de Aguada Project
ASSETS	
Current assets:	
Cash	\$ 109,587
Accounts Receivable	23,457
Prepaid Insurance	1,019
Total Current Assets	134,063
Non-current Assets:	
Restricted deposits:	
Insurance Escrow	16,952
Tenants Security Deposit	9,930
Reserve for Replacement	87,330
Total restricted deposits	114,212
Property and equipment:	
Land	93,700
Land improvements	513,685
Buildings	2,028,847
Buildings improvements	784,090
Building equipment - portable	137,475
Furniture	26,613
Maintenance equipment	8,167
Total fixed assets	3,592,577
Less: Accumulated Depreciation	2,583,856
Total property and equipment	1,008,721
Total assets	1,256,996

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2014**

	Business-type Activities - Enterprise Fund
	Jardines de Aguada Project
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities:	
Mortgage Payable	44,795
Accounts payable trade	8,956
Accrued liabilities:	
Management Agent	1,515
Interest	7,943
Payroll Taxes and withholdings	1,488
Wages	5,937
Tenant security deposits, including interest earned	9,337
Total current liabilities	79,971
Non current liabilities:	
Mortgage Payable	1,997,963
Total liabilities	2,077,934
NET POSITION	
Net investment in capital assets	(1,034,037)
Restricted for housing and welfare	114,213
Unrestricted (deficit)	98,886
Total net position	\$ (820,938)

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUND
FISCAL YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Fund
	Jardines de Aguada Project
OPERATING REVENUES	
Rent	\$ 439,604
Other revenues	425
Total operating revenues	440,029
 OPERATING EXPENSES	
Administrative	130,888
Utilities	13,118
Operating and maintenance	89,235
Taxes and insurance	32,138
Depreciation	95,605
Total operating expenses	360,984
 Operating Income	79,045
 NON OPERATING REVENUES (EXPENSES)	
Interest revenue	21
Interest on mortgage and other charges	(56,720)
Total non operating revenues (expenses)	(56,699)
 CHANGE IN NET POSITION	22,346
 NET POSITION AT BEGINNING OF YEAR	(843,284)
 NET POSITION AT END OF YEAR	\$ (820,938)

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Fund
	Jardines de Aguada Project
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from tenants and HUD	\$ 441,648
	441,648
Administrative	(38,615)
Management fees	(32,664)
Salaries and wages	(125,734)
Utilities	(13,118)
Operating and maintenance	(25,429)
Miscellaneous taxes and insurance	(42,617)
	163,471
Net cash provided by operating activities	
CASH FLOW FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:	
Acquisition of capital assets	(56,660)
Mortgage principal payments	(41,070)
Interest on mortgage	(63,394)
Net cash used in capital and related financial activities	(161,124)
CASH FLOW FROM INVESTING ACTIVITIES	
Interest on investments	21
Deposits to and interest earned and retained reserve for replacements	(15,114)
Net cash provided by investing activities	(15,093)
Net decrease in cash	(12,746)
Cash at beginning of year	122,333
Cash at end of year	\$ 109,587

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Aguada was founded in 1510. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen (16) members of the Municipal Legislature. The Municipality engages in comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Aguada (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

- a. The primary government appoints a voting majority of the entity's governing body, and either:
 - The primary government can impose its will on the entity, or
 - A financial benefit/ burden exist between the primary government and the entity
- b. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
- c. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "*Special criteria*" apply when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- 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.

Legally separate, tax-exempt organizations that do not meet the above *special criteria* should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as *blended* if meets any of the following criteria:

- a. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
- A financial benefit/ burden exist between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary government.
- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
- c. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the *special criteria* should be included as *discretely component units*.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

2. Basis of presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basic financial statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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 users for goods and services.

Government-wide statements

The government-wide statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from *Jardines de Aguada Project*, a Municipality's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Funds are classified and summarized as governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in the fund financial statements and in separate columns in the financial section of the basic financial statements. All remaining governmental and enterprise funds are aggregated and reported as non major funds.

Governmental Funds account for the general governmental activities of the Municipality. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official criteria if the fund is particularly important to financial statement users (for Community Development Block Grant Program (CDBG) Fund and Commonwealth Legislature Resolutions Fund) The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

Community Development Block Grant Program (CDBG): CDBG fund is used to account for and report revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. CDBG funds are received through the Office of Commissioner of Municipal Affairs ("OCAM"), a Commonwealth's governmental agency.

Commonwealth Legislature Resolutions Fund: This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature for specific purposes which include, among others, acquisition, development and improvements of capital assets, public works, welfare and other community development projects.

Debt Service Fund: This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. This fund accounts for the resources of two individual funds including the "CAE Fund" (sinking fund which accounts for the 2% of property taxes collected by the CRIM), "and the "Municipal Redemption Fund" (.2% of the .5% from sales and use taxes are deposited in GDB to finance loans to Municipalities).

Bonds and Notes Issuance Fund: the Bonds and Notes Issuance Fund is used to account for and report financial resources from bond proceeds and notes issuance which are restricted for acquisition or construction of capital assets. This fund reports transactions of individual funds of Bonds and Notes issued through GDB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenues in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting, as the business-type activities in the government-wide financial statements. Under this method of accounting, revenues are recorded when earned, independently when are collected, and expenses are recorded when incurred, independently when are paid. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund statements include a Statement of Net Position, a Statement of Revenues, Expenditures and Changes in Net Position (with one for each major enterprise fund and one column combining all non-major enterprise funds) and a Statement of Cash Flows.

The Municipality's proprietary funds consist of an enterprise fund. Enterprise funds 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 be financed or recovered primarily through user charges. Major Enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses. The Municipality reports the following major enterprise fund:

Jardines de Aguada Project Fund: This fund is used to account for the activities of *Jardines de Aguada Project* ("the Project"), which is a 70-unit dwelling unit's project located in Aguada, Puerto Rico and operating property management concerns similar to companies in the private sector. The Project operates under Section 515 of USDA-Rural Development (USDA-RD) and is regulated by the U.S. Department of Housing and Urban Development (HUD) and USDA-RD with respect to rental charges and operating methods. The Project finances its operating costs from rental income from qualified tenants and a Section 8 Housing Assistance Payments agreement with HUD. Under this agreement, HUD pays to the Project the difference between the contract rent and the portion of rent payable from the qualified tenants. The Project is not legally separated from the Municipality, which holds legal title to the Project's assets and is responsible for its obligations. Its day-to-day activities are carried-out by a management agent unrelated to the Municipality.

Notes to Financial Statements

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

Required Supplementary Information

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Deposits and investments*

Cash consist of cash on hand and demand deposits; cash equivalents consist of short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB").

4. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. *Interfund receivables and payables*

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to 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 among funds are reported as "due from/to other funds".

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

7. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

8. Capital assets

Capital assets reported in the governmental activities in the Statements of Net Position include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$100 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Buildings and building improvements	15-50
Infrastructure	20-40
Vehicles, machinery and equipment	5-15

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

9. Deferred outflows/inflows of resources

In addition to assets, the statement of net 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(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net 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 government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report *unavailable revenue* from two sources: unavailable intergovernmental revenues and other general revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental and business-type activities columns in the Statement of Net Position, consist of general and special obligation bonds, mortgages, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

11. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

12. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they mature (generally, when payment is due). The accompanying government-wide statements include an amount estimated as a contingent liability or liabilities as incurred.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

14. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

15. Fund balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB No. 54”) establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government’s highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality’s intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government’s highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality’s policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of 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.

17. Interfund transactions

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

18. Risk financing

The Puerto Rico Department of Treasury (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Aguada consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

19. Use of estimates

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

20. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

21. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

- a. **GASB Statement No. 68** “*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*”. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** “*Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*” into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth’s resulting Net Pension Liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
- b. **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. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
- c. **GASB Statement No. 71** “*Pension Transition for Contributions Made Subsequent to the Measurement Date*”. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. This Statement amends paragraph 137 of **GASB Statement No.68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement No.68 (fiscal year ended June 30, 2015).

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE B- DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial, governmental banks and a credit union located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks and credit unions must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC) or the "Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico" ("COSSEC"), respectively. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end the Municipality's bank balance of deposits in commercial banks amounting to \$6,487,972 and deposits in a credit union amounting to \$2,468,880 were covered by the FDIC, COSSEC or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$8,692,513.

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2014 follows:

	Commonwealth Government	Federal Government
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 1,671,526	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	109,266	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	15,440	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	184,363	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	323,126
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	119,056	-
P.R. Department of Education – Twenty First Century Community Learning Centers	-	206,441
Office of the Governor: PR-SCVCS – AmeriCorps State and National	-	21,590
P.R. Emergency Management Agency – Hazard Mitigation	-	18,750
	\$ 2,099,651	\$ 569,907

Certain amounts are recorded as deferred inflow of resources in the governmental funds statements since they are not available as required by current standards. See related note H.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued

2. *Amounts due to governmental entities as of June 30, 2014 follows:*

	Commonwealth Government
<u>Major fund – General fund:</u>	
P.R. Water and Sewer Authority	\$ 86,626
P.R. General Services Administration	576
	\$ 87 202

NOTE D- INTERFUND TRANSACTIONS

1. *Due from/to other funds*

Amounts due/from to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures, as follows:

Receivable Fund	Payable Funds	Amount
General Fund	<u>Major Funds:</u>	
	CDBG	\$ 134,853
	<u>Other Governmental Funds:</u>	
	Child Care and Development Block Grant	38,575
	State Roads Improvements	37,517
	Emergency Solutions Grant Program	9,142
	Law No. 52	122,137
	AmeriCorps State and National	105,059
	Twenty First Century Community Learning Centers	20,037
	Hazard Mitigation	18,750
	Improvements Plaza Festivales	6,966
	Section 8 HCV	5,590
	Agro Expo Nacional Coloso	3,100
	Special Programs for the Aging Titles III- B and E	23,308
Total:		\$ 525,034

2. *Transfers in (out)*

Transfers among individual funds were made for operational purposes. Transfers include interest earned in the debt service and bonds and notes issuance funds transferred to the general fund, transfer of excess funds in sales and use tax sinking fund (debt service fund) to the general fund and a transfer of \$100,000 from the general fund to the Commonwealth Legislature Resolutions Fund to provide additional funding to “Construccion Paseo Tablado” project.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE E- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2014 are shown in the following table:

	General Fund	Community Development Block Grant Program	Commonwealth Legislative Resolutions	Debt Service	Bond and Notes Issuance	Other Governmental Funds	Total
Restricted:							
General public works and sanitation	-	-	-	-	-	81,830	81,830
Sports, culture and recreation	-	-	-	-	-	220,322	220,322
Housing, welfare and community development	-	-	-	-	-	277,992	277,992
Debt service	-	-	-	2,555,875	-	-	2,555,875
Capital outlays	-	-	1,585,846	-	4,262,660	411,450	6,259,956
General government and other purposes	-	-	-	-	5,900	345,870	351,770
	<u>-</u>	<u>-</u>	<u>1,585,846</u>	<u>2,555,875</u>	<u>4,268,560</u>	<u>1,337,464</u>	<u>9,747,745</u>
Committed:							
General government and other purposes	543,558	-	-	-	-	-	543,558
	<u>543,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>543,558</u>
Assigned:							
General public works and sanitation	134,719	-	-	-	-	-	134,719
Public safety	8,335	-	-	-	-	-	8,335
Sports, culture and recreation	19,962	-	-	-	-	-	19,962
Housing, welfare and community development	167,044	-	-	-	-	-	167,044
Capital outlays	1,450,619	-	-	-	-	-	1,450,619
General government and other purposes	237,053	-	-	-	-	-	237,053
	<u>2,017,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,017,732</u>
Unassigned	1,594,759	(285,256)	-	-	-	(545,114)	764,389
	<u>4,156,049</u>	<u>(285,256)</u>	<u>1,585,846</u>	<u>2,555,875</u>	<u>4,268,560</u>	<u>792,350</u>	<u>13,073,424</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE E- FUND BALANCE – Continued

2. Fund balance deficits

Certain special funds included in the fund statements disclosed fund balance deficits as follows:

<u>Funds</u>	<u>Amount</u>
Major Funds:	
Community Development Block Grant Program	\$ 285,256
Other Governmental Funds:	
Twenty First Century Community Learning Centers	\$ 206,441
Law 52	\$ 115,597
AmeriCorps State and National	\$ 83,469
State Roads Improvements	\$ 30,000
Child Care and Development Block Grant	\$ 27,414
Special Programs for the Aging Titles III-B and E	\$ 20,897
Others	\$ 26,497

The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE F- CAPITAL ASSETS

1. Capital assets and depreciation activity of the governmental activities follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 4,327,185	\$ -	\$ -	\$ 4,327,185
Construction in progress	1,771,327	2,136,277	1,255,385	2,652,219
Total capital assets not being depreciated:	<u>6,098,512</u>	<u>2,136,277</u>	<u>1,255,385</u>	<u>6,979,404</u>
Capital assets, being depreciated:				
Buildings and building improvements	38,779,104	1,255,385	-	40,034,489
Infrastructure	13,096,870	498,092	75,443	13,519,519
Vehicles, machinery and equipment	10,381,707	934,022	779,164	10,536,565
Total capital assets being depreciated	<u>62,257,681</u>	<u>2,687,499</u>	<u>854,607</u>	<u>64,090,573</u>
Less accumulated depreciation for:				
Buildings and building improvements	13,765,791	760,249	-	14,526,040
Infrastructure	4,597,036	247,554	38,508	4,806,082
Vehicles, machinery and equipment	9,314,102	410,126	775,964	8,948,264
Total accumulated depreciation	<u>27,676,929</u>	<u>1,417,929</u>	<u>814,472</u>	<u>28,280,386</u>
Total capital assets being depreciated, net	<u>34,580,752</u>	<u>1,269,570</u>	<u>40,135</u>	<u>35,810,187</u>
Governmental activities capital assets, net	<u>\$ 40,679,264</u>	<u>\$ 3,405,847</u>	<u>\$ 1,295,520</u>	<u>\$ 42,789,591</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE F- CAPITAL ASSETS – Continued

Depreciation expense of the governmental activities was charged to functions/programs of the Municipality as follows:

General government	\$	80,956
Public works and sanitation		389,295
Public safety		146,827
Culture and recreation		708,152
Welfare and community development		<u>92,699</u>
Total depreciation expense, governmental activities	\$	<u>1,417,929</u>

2. Capital assets and depreciation activity of the business-type activities follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated:			
Land	\$ 93,700	\$ -	\$ 93,700
Capital assets, being depreciated:			
Land improvements	513,685	-	513,685
Buildings and building improvements	2,763,362	49,575	2,812,937
Machinery and equipment	165,170	7,084	172,254
Total capital assets being depreciated	<u>3,442,217</u>	<u>56,659</u>	<u>3,498,876</u>
Less accumulated depreciation for:			
Land improvements	401,122	12,843	413,965
Buildings and building improvements	1,947,632	73,790	2,021,422
Vehicles, machinery and equipment	139,495	8,973	148,468
Total accumulated depreciation	<u>2,488,249</u>	<u>95,606</u>	<u>2,583,855</u>
Total capital assets being depreciated, net	<u>953,968</u>	<u>38,947</u>	<u>915,021</u>
Business-type activities capital assets, net	<u>\$ 1,047,668</u>	<u>\$ 38,947</u>	<u>\$ 1,008,721</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT

1. Summary of long- term debt activity of governmental and business-type activities:

Governmental activities:

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due within one year</u>
General, Special Obligation Bonds and Notes	\$ 14,830,000	\$ 505,000	\$ 884,000	\$ 14,451,000	\$ 1,019,000
Note payable to CRIM- financing of delinquent accounts	166,660	-	8,772	157,888	8,772
Compensated absences	2,557,994	148,622	259,878	2,446,738	285,631
Christmas Bonus	237,173	235,252	237,173	235,252	235,252
Payable to CRIM- property tax advances current	-	275,339	-	275,339	-
Judgments and claims	500,000	-	500,000	-	-
Payable to EPA	15,000	-	15,000	-	-
Payable to PREPA	975,957	2,054,672	1,359,103	1,671,526	986,635
	<u>\$ 19,282,784</u>	<u>\$ 3,218,885</u>	<u>\$ 3,263,926</u>	<u>\$ 19,237,743</u>	<u>\$ 2,535,290</u>

Business-type activities:

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due within one year</u>
Note Payable, USDA Rural No.1	\$ 1,375,564	\$ -	\$ 33,233	\$ 1,342,331	\$ 36,170
Note Payable, USDA Rural No.2	304,922	-	5,752	299,170	6,403
Note Payable, USDA Rural No.3	403,342	-	2,085	401,257	2,222
	<u>\$ 2,083,828</u>	<u>\$ -</u>	<u>\$ 37,659</u>	<u>\$ 2,042,758</u>	<u>\$ 44,795</u>

2. Governmental Activities - General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes of its governmental activities at June 30, 2014 amount to \$14,451,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect a percent of property taxes to be deposited in a sinking fund ("CAE Sinking Fund") for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a Municipal Redemption Fund to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued.

Principal and interest payments of outstanding general and special obligation bonds are paid through the CAE Sinking Fund except for principal and interest payments of special obligation bonds and notes of \$746,000, \$820,000, \$958,000, \$61,000, \$470,000, \$600,000, \$1,490,000, \$200,000 and \$505,000 which are made through the Municipal Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT- Continued

A detail of the governmental activities - general and special obligation bonds and notes as of June 30, 2014 follows:

	Outstanding Amount
1994 public improvement bonds of \$2,030,000 due in annual installments of \$30,000 to \$185,000 through July 1, 2018; bearing interest at rates ranging from 6.11% to 8.21% (7.71% at June 30, 2014)	\$ 775,000
1995 public improvement bonds of \$350,000 due in annual installments of \$8,000 to \$26,000 through January 1, 2018; bearing interest at rates of 4.50%	94,000
1997 general obligation bonds of \$2,040,000 due in annual installments of \$30,000 to \$185,000 through July 1, 2021; bearing interest at rates ranging from 4.87% to 6.71% (6.19% at June 30, 2014)	1,120,000
1998 general obligation bonds of \$910,000 due in annual installments of \$15,000 to \$85,000 through July 1, 2020; bearing interest at rates ranging from 4.87% to 6.71% (6.19% at June 30, 2014)	460,000
2003 general obligation bonds of \$845,000 due in annual installments of \$15,000 to \$70,000 through July 1, 2027; ; bearing interest at rates ranging from 4.17% to 5.31% (4.45% at June 30, 2014)	630,000
2004 general obligation notes of \$635,000 due in annual installments of \$10,000 to \$50,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.31% (4.45% at June 30, 2014)	485,000
2006 general obligation bonds of \$600,000 due in annual installments of \$15,000 to \$40,000 through January 1, 2031; bearing interest at rates of 4.50%	470,000
2006 general obligation bonds of \$445,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2030; bearing interest at rates ranging from 1.53% to 6.62% (1.48% at June 30, 2014)	370,000
2007 general obligation bonds of \$1,245,000 due in annual installments of \$20,000 to \$105,000 through July 1, 2031; bearing interest at rates ranging from 1.53% to 7.00% (1.48% at June 30, 2014)	1,070,000
2008 general obligation notes of \$790,000 due in annual installments of \$90,000 to \$140,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 7.00% (1.53% at June 30, 2014)	140,000
2010 general obligation bonds of \$370,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	350,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

	Outstanding Amount
2011 general obligation bonds of \$345,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	335,000
2011 general obligation bonds of \$980,000 due in annual installments of \$25,000 to \$90,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	930,000
2011 general obligation bonds of \$245,000 due in annual installments of \$5,000 to \$20,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	235,000
2011 general obligation bonds of \$830,000 due in annual installments of \$10,000 to \$70,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	805,000
2012 general obligation bonds of \$255,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	245,000
2012 general obligation bonds of \$345,000 due in annual installments of \$5,000 to \$35,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	335,000
2012 general obligation bonds of \$700,000 due in annual installments of \$15,000 to \$65,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	670,000
2012 general obligation bonds of \$75,000 due in annual installments of \$5,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	70,000
2008 special obligation notes of \$746,000 due in annual installments of \$29,000 to \$79,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.48% at June 30, 2014)	580,000
2008 special obligation notes of \$820,000 due in annual installments of \$10,000 to \$75,000 through July 1, 2029; bearing interest at rates ranging from 1.53% to 7.50% (1.48% at June 30, 2014)	725,000
2008 special obligation notes of \$958,000 due in annual installments of \$91,000 to \$152,000 through July 1, 2016; bearing interest at rates ranging from 1.53% to 7.50% (1.48% at June 30, 2014)	426,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

	Outstanding Amount
2008 special obligation notes of \$61,000 due in annual installments of \$7,000 to \$11,000 through July 1, 2011; bearing interest at rates ranging from 1.53% to 7.50% (1.48% at June 30, 2014)	21,000
2011 special obligation notes of \$470,000 due in annual installments of \$55,000 to \$90,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2013)	360,000
2011 special obligation bonds of \$600,000 due in annual installments of \$10,000 to \$50,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	580,000
2012 special obligation bonds of \$1,490,000 due in annual installments of \$20,000 to \$130,000 through July 1, 2037; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	1,470,000
2012 special obligation bonds of \$200,000 due in annual installments of \$5,000 to \$20,000 through July 1, 2027; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	195,000
2013 special obligation bonds of \$505,000 due in annual installments of \$55,000 to \$90,000 through July 1, 2020; bearing interest at rates ranging from 6.00% to 7.50%. (6.00% at June 30, 2014)	505,000
	\$ 14,451,000

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2014 follows:

June 30,	Principal	Interest
2015	\$ 1,019,000	\$ 888,121
2016	944,000	879,695
2017	1,009,000	808,484
2018	922,000	743,751
2019	980,000	651,627
2020-2024	3,392,000	2,628,234
2025-2029	2,990,000	1,608,770
2030-2034	2,200,000	629,363
2035-2039	995,000	95,248
Totals	\$ 14,451,000	\$ 8,933,293

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

3. Governmental Activities - Other long-term liabilities

	Outstanding Amount
<p>Note payable to CRIM (Financing of delinquent accounts)– On March 19, 2002 the Municipality entered into a \$468,783 financing agreement with the Municipal Revenue Collection Center (“CRIM”) to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement was in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period, on July 1, 2007 the loan outstanding balance was restructured through a 2.504% note payable of \$219,315 due on July 1, 2032. Debt service requirements in future years are as follows:</p>	157,888

June 30,	Principal	Interest
2015	\$ 8,772	\$ 3,899
2016	8,772	3,679
2017	8,772	3,459
2018	8,772	3,240
2019	8,772	3,020
2020-2024	43,858	11,696
2025-2029	43,858	6,315
2030-2032	26,312	1,152
Totals	\$ 157,888	\$ 36,460

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

	<u>Outstanding Amount</u>								
Compensated absences – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality’s commitment to fund such costs from future operations. The amount is paid with unrestricted funds	2,446,738								
Christmas Bonus – represents the accrued portion corresponding to fiscal year 2014 of the Christmas bonus to be paid in December 2014.	235,252								
Payable to PREPA – As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2012-2013 the Municipality’s annual energy charges amounts to \$2,419,018 but the CELI obligation amounted to \$364,346. The excess amount of \$2,054,672 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2014 the outstanding amount of \$1,671,526 includes the unamortized balances of \$684,891 and \$301,745 from fiscal years 2013 and 2012 respectively and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	1,671,526								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black; width: 20%;">June 30</th> <th style="text-align: right; border-bottom: 1px solid black;">Principal</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">2014</td> <td style="text-align: right;">\$ 986,635</td> </tr> <tr> <td style="padding-left: 20px;">2015</td> <td style="text-align: right;">684,891</td> </tr> <tr> <td style="padding-left: 20px;">Totals</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 1,671,526</td> </tr> </tbody> </table>	June 30	Principal	2014	\$ 986,635	2015	684,891	Totals	\$ 1,671,526	
June 30	Principal								
2014	\$ 986,635								
2015	684,891								
Totals	\$ 1,671,526								

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

4. Business-type Activities – Mortgages Payable

Mortgages payable of the business-type activities consists of permanent residences loans provided by USDA-Rural Development. The land and buildings of *Jardines de Aguada Project* secure the mortgages notes, described as follows:

	Outstanding Amount
Note payable to USDA – Rural (1): consists of a 8.50% mortgage note, payable in monthly installments of \$12,407 of which \$7,594 is subsidized by USDA-RD, including interest until 2031, collateralized with land and building.	\$ 1,342,331
Note payable to USDA – Rural (2): consists of a 10.75% mortgage note, payable in monthly installments of \$3,188, of which \$2,178 is subsidized by USDA-RD, including interest until 2031, collateralized with land and building.	299,170
Note payable to USDA – Rural (3): consists of a 6.375% mortgage note, payable in monthly installments of \$2,311, of which \$1,415 is subsidized by USDA-RD, including interest until 2055, collateralized with land and building.	401,257
	\$ 2,042,758

Debt service requirements in future years are as follows:

June 30,	Principal	Interest
2015	\$ 44,795	\$ 170,078
2016	48,861	166,011
2017	53,302	161,572
2018	58,150	156,722
2019	63,447	151,427
2020-2024	415,460	658,905
2025-2029	644,220	430,144
2030-2034	400,125	143,946
2035-2039	45,172	93,516
2040-2044	62,077	76,611
2045-2049	105,873	53,378
2050-2054	101,276	14,315
Totals	\$ 2,042,758	\$ 2,276,625

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE H- DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Commonwealth Government Funds</u>	<u>Federal Grants</u>	<u>Others</u>
Major fund – General fund:			
P.R. Electric Power Authority (PREPA)	\$ 1,671,526	\$ -	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	109,266	-	-
Unavailable license taxes receivable and other miscellaneous	-	-	27,262
Major fund – CDBG fund:			
Office of Commissioner of Municipal Affairs – CDBG	-	285,255	-
Other governmental funds:			
Law 52	119,056	-	-
Twenty First Century Community Learning Centers	-	206,442	-
P.R. Governor's Office (GAR) – Hazard Mitigation	-	18,750	-
	<u>\$ 1,899,848</u>	<u>\$ 510,447</u>	<u>\$ 27,262</u>

NOTE I – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2014 are 6.83% for personal property and 8.83% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE I – PROPERTY TAXES - Continued

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A payable of \$275,339 resulting from the final settlement of fiscal 2013-2014 was recorded as other long-term debt in the government-wide financial statements since it will not be paid with current available resources.

NOTE J – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2014, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,096,314 is recorded as unearned revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE K – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which amended Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (“2011 PR Code”). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1% and increased the Commonwealth sales and use tax from 5.5% to 6% effective February 1, 2014. In addition, in order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Act’s provides for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

1. Act No. 18 of January 24, 2014

The purpose of this Act was to create a special fund called “Municipal Administration Fund” (“FAM”) under custody of the Governmental Development Bank of Puerto Rico (“GDB”) that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (“COFINA”), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth’s sales and use tax are currently being deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth deposited \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- a. .2% deposited in a Municipal Development Fund to be distributed to the municipalities,
- b. .2% deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- c. .1% deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth’s Legislature.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE K – SALES AND USE TAXES - Continued

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month.

As of June 30, 2014 the Municipality recorded as revenue \$1,254,656 in the general fund which corresponds to the 1% imposition and \$760,512 in the debt service fund corresponding to the Municipal Redemption Fund and Municipal Development Fund that was fully transferred to the Municipal Redemption Fund to increase their credit margin.

Of the total \$107,722 sales and use tax receivable of the general fund \$99,991 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 10, net of uncollectible accounts and \$7,731 corresponds to prior years taxes receivable collected in August 2014. Of the total \$199,804 reported as Due from Commonwealth Government in the debt service fund \$184,363 represents the amount of “Municipal Redemption Fund” collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

After July 1, 2014 the 6% corresponding to the Commonwealth’s sales and use tax will still be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act’s provisions. The Municipality of Aguada signed the agreement to be covered. For municipalities covered by the agreement the .5% will be distributed as follows:

- a. .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- b. .2% will be deposited in a Municipal Redemption Fund or may be deposited in the municipalities’ general fund. The municipalities has the option to maintain funds in the Municipal Redemption Fund to increase its debt margin and issue loans to be obtained from financial institutions.
- c. .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.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- a. .2% will be deposited in the “Municipal Development Fund”. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- b. .2% will be deposited in a “Municipal Redemption Fund” to guarantee and repay long term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- c. .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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE K – SALES AND USE TAXES – Continued

The Act provides for cash advances to the Municipalities two times a year (not later than the 10th day of July and January of each year) in order to maintain its cash flow.

2. Act No. 19 of January 24, 2014

The purpose of this Act was to create the “Municipal Finance Corporation” (“COFIM”) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (“GDB”) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act was effective on February 1, 2014.

After July 1, 2014 the 1% corresponding to the municipalities’ sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM’s sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (“RFA”). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM’s sinking fund (.7% of the 1% of the municipal sales and use tax or the “Municipal Transfer”) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the Municipal Transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM’s sinking fund.

If at any moment the required deposits to the COFIM’s sinking fund are not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth’s general fund budget.

The Act provides for monthly cash advances to the Municipalities (except for the Municipalities that receive cash advances under Act No. 18) within the first ten days of each month in order to maintain its cash flow until the Municipal Transfer is done. If the cash advances exceeds the amount corresponding to the Municipal Transfer (Act No. 19) or exceeds the amount corresponding to Act No. 18 the excess will be deducted on a prorate basis from the next fiscal year cash advances, amount of Municipal Transfer or amount corresponding to Act No. 18.

Act 19 was started to be implemented as a pilot project on August 1, 2014 by sixteen no-tax collecting municipalities since they delegate the 1% sales and use tax collection to the PRDT since previous years. Starting December 1, 2014 the Municipality of Aguada and other fifteen municipalities that were previously tax collectors but decided to become no-tax collecting municipalities were added to COFIM. Merchants will render their tax return and payment through COFIM’s web site or through a bank institution. Other municipalities that decided to remain as certified tax collectors will be added to COFIM starting on February 1, 2015. Certified collecting municipalities that meet certain requirements may accept filings and payments through their Municipal Collections Officer. This information will be transmitted on a daily basis to the COFIM data base.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE L – INTERGOVERNMENTAL AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

1. Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 6,086,214
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	188,845
Other proceeds from Commonwealth's agencies	151,706
	\$ 6,426,765

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 3,715,030
P.R. Department of Education – transportation services to students	743,109
Construction excise tax	184,451
Rental income	152,238
Fines	26,282
Recycling	21,728
Licenses and permits	1,725
Others	7,826
	\$ 4,852,389

NOTE M – RETIREMENT PLAN

1. Plan description

Previously to July 1, 2013 regular employees of the Municipality contributed to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system operated under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. *Act No. 305 of September 24, 1999* amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE M – RETIREMENT PLAN – continued

On April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS. Act No.3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan (“New Hybrid Plan”). Contributions will be maintained by each participant in individual accounts.

For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the New Hybrid Plan. Participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual’s life expectancy and a rate of return. New participants under the New Hybrid Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees’ contributions plus a return on investment). The New Hybrid Plan eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.

Act No. 3 establish the retirement age of Act 447 regular employees at 61 years, Act 447 high risk employees (state and municipal police, firefighters and custody officials) at 55 years, Act 305 (System 2000) regular employees at 65 years; high risk employees remains the same, at 55 years. Act 1 employees remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Hybrid Plan retirement age will be 67 for regular employees and 58 for high risk employees.

Furthermore, Act No. 3 eliminates Special Law benefits to future retirees; reduce the Christmas bonus to \$200 and eliminate the summer bonus of \$100 to current retirees. There is no change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 to current retirees. Employers will contribute \$2,000 per retiree and future retiree (originally under Act 447 and Act 1) to help finance Special benefits; the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees. Given these changes to Special Laws, the minimum monthly pension for current retirees was increased to \$500.

Act No. 3 eliminates disability benefits and requires a mandatory disability insurance policy.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS’s actuaries.

2. Funding policy

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. All participants are required to contribute 10% of gross salary. Participants under the coordinated plan as of June 30, 2013 (benefits coordinated with social security benefits) are required to contribute 7% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2013-2014; 8.5% of gross salary up to \$6,600 plus 10% of gross Salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE M – RETIREMENT PLAN – continued

The Municipality contributed 12.275% of gross salary for fiscal year 2013-2014. The Act requires an additional 1% annually for each of the next two fiscal years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. As stated in the Act the increase applicable to the municipalities for fiscal year 2013-2014 was financed through the Commonwealth’s budget appropriations. The Municipality’s actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>	<u>Law No. 3</u>
2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 456,038</u>
2013	<u>\$ 317,693</u>	<u>\$ 264,136</u>	<u>\$ -</u>

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

NOTE N – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth’s laws. Also, the Municipality is required to finance costs related to the application of certain “Special Laws” issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2014, costs related to these post-employment benefits amounted to \$228,567. These benefits are recorded as expenditures in the general fund

NOTE O – COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$49,417. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

2. Construction

As of June 30, 2014, the Municipality has commitments of \$2,174,619 for design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE O – COMMITMENTS - Continued

3. Encumbrances

The Municipality has encumbrances outstanding which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2014 in the general fund represent unassigned amounts that are encumbered and are classified by management as assigned fund balance. Purpose classification follows:

Purpose	General Fund- assigned fund balance
General public works and sanitation	\$ 93,484
Public safety	8,335
Sports, culture and recreation	19,962
Housing and welfare	12,989
General government and other purposes	233,518
	\$ 368 288

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

NOTE P – CONTINGENCIES

1. Federal and Commonwealth Grants

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

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality’s activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality’s financial position.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE Q – GENERAL FUND - FUND BALANCE COMPOSITION

The general fund is composed of Fund 01, which is the Municipality’s operational fund, and other special funds, which represent fund balance of the general fund committed or assigned for specific purposes recorded in the Municipality’s accounting system as special funds. The following discloses the distribution of the net change in fund balance of the general fund as reported in the governmental funds statement of revenues, expenditures and changes in fund balances:

	<u>Fund 01</u>	<u>Special Funds in General Fund</u>	<u>Total General Fund</u>
Fund balance at beginning of year	\$ 1,137,674	\$ 1,288,972	\$ 2,426,646
Net change in fund balance	<u>825,372</u>	<u>904,031</u>	<u>1,729,403</u>
Fund balance at end of year	<u>\$ 1,963,046</u>	<u>\$ 2,193,003</u>	<u>\$ 4,156,049</u>

NOTE R – FISCAL REORGANIZATION PROCESS

The Municipal Legislature approved Ordinance No. 53 Series 2012-2013 as amended by Ordinance No. 4 Series 2013-2014 to establish, effective on July 1, 2013 a fiscal and administrative reorganization process to review the Municipality’s organizational structure, administrative operations and processes to identify ways to improve efficiency and productivity. The process was implemented in order to address the general economic conditions, the fiscal condition of the Municipality and the reduction of funds and awards from the federal government.

As part of this process, Ordinance 53 as amended implemented expense reduction measures on payroll expenses, which is the most significant component of the Municipality’s expense base. A salary reduction plan was implemented in order to prevent a fund balance deficit and achieve budgetary balance in the general fund as follows:

- a. Reduction of \$600 of the monthly salary of the Mayor,
- b. Reduction of \$150 of the monthly salary of the Mayor’s Executive Assistant and the Federal Programs and Housing Department Directors,
- c. Reduction of \$100 of the monthly salary of other administrative department directors and trusted employees of the executive and legislative branches and,
- d. Reduction of one day on a by-weekly period or a half day on a weekly period to the remaining employees paid through general fund resources. Employees whose salaries are paid through federal awards as well as police, emergency management personnel, school bus drivers and the homeless services coordinator are not covered by the salary reduction plan.

The Ordinance stated that the salary reduction plan is temporary until the Finance Director certifies that the plan has generated sufficient recurrent resources to cover the projected general fund’s budgetary shortfall.

BUDGETARY COMPARISON SCHEDULE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2014

	<u>Budgeted amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenues				
Property taxes	\$ 3,212,911	\$3,212,912	\$ 3,212,911	\$ (1)
Municipal license taxes	1,468,443	1,468,443	1,623,329	154,886
Intergovernmental	7,084,188	5,250,348	5,243,425	(6,923)
Fees, fines and charges for services	1,175,653	3,009,492	3,472,719	463,227
Interest	203,987	203,987	332,306	128,319
Other	98,018	98,018	251,983	153,965
Total revenues	<u>13,243,200</u>	<u>13,243,200</u>	<u>14,136,673</u>	<u>893,473</u>
Expenditures				
General government	6,108,203	6,364,702	6,755,608	(390,906)
Public works and sanitation	4,423,694	4,221,905	4,131,119	90,786
Public safety	899,313	735,655	699,386	36,269
Culture and recreation	1,339,392	1,300,075	1,257,326	42,749
Health	498,648	498,648	492,975	5,673
Welfare and community development	476,684	435,853	420,870	14,983
Education	28,000	35,450	35,450	-
Total expenditures	<u>13,773,934</u>	<u>13,592,288</u>	<u>13,792,734</u>	<u>(200,446)</u>
Excess (deficiency) of revenues over expenditures	<u>(530,734)</u>	<u>(349,088)</u>	<u>343,939</u>	<u>693,027</u>
Other financing sources (uses)				
Transfers in	530,734	530,734	-	(530,734)
Transfers out	-	(181,646)	-	181,646
Total other financing sources (uses)	<u>530,734</u>	<u>349,088</u>	<u>-</u>	<u>(349,088)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,939</u>	<u>\$ 343,939</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,939</u>	<u>\$ 343,939</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2014

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year- end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

As part of the budgetary management of the general fund for fiscal period 2013-2014 effective on July 1, 2013 the Municipal Legislature approved Ordinance No. 53 Series 2012-2013 as amended by Ordinance No. 4 Series 2013-2014 to establish a fiscal and administrative reorganization process to review the Municipality's organizational structure, administrative operations and processes to identify ways to improve efficiency and productivity. The process was implemented in order to address the general economic conditions, the fiscal condition of the Municipality and the reduction of funds and awards from the federal government. As part of this process, Ordinance 53 as amended implemented a salary reduction plan which is temporary until the Finance Director certifies that the plan has generated sufficient recurrent resources to cover the projected general fund's budgetary shortfall. For more details please refer to Note R of the basic financial statements.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2014**

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 343,939
Budget to GAAP differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	2,060,103
Non budgeted funds recorded as expenditures for financial reporting:	(2,329,086)
Non budgeted transfers in:	1,273,014
Non budgeted transfers out:	(100,000)
Revenues recorded for financial reporting purposes but not in budgetary basis:	2,524,736
Revenues recorded in budgetary basis purposes but not in financial reporting:	(1,143,332)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	470,950
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,466,643)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	294,753
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(199,030)
Net change in fund balance (GAAP basis):	<u><u>\$ 1,729,403</u></u>

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSE INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871
	Balance Sheet	Housing Choice Vouchers
111	Cash - unrestricted	\$ 105,645
113	Cash - other restricted	\$ 7,468
100	Total cash	\$ 113,113
121	Accounts receivable - PHA projects	\$ 1,012
128	Fraud recovery	\$ 196
120	Total receivables, net of allowance for doubtful accounts	\$ 1,208
150	Total Current Assets	\$ 114,321
164	Furniture, equipment and machinery - administration	\$ 40,608
166	Accumulated depreciation	\$ (27,258)
160	Total capital assets, net of accumulated depreciation	\$ 13,350
180	Total Non-current Assets	\$ 13,350
190	Total Assets	\$ 127,671
200	Deferred Outflows of Resources	\$ -
290	Total Assets and Deferred Outflows of Resources	\$ 127,671
312	Accounts payable <= 90 days	\$ 48
322	Accrued compensated absences - current portion	\$ 8,739
331 - 030	Accounts payable - HUD PHA programs - Other	\$ 4,296
332	Accounts Payable - PHA Projects	\$ 15,004
333	Accounts payable - other government	\$ 5,590
310	Total Current Liabilities	\$ 33,677
353	Non-current liabilities - other	\$ 2,585
354	Accrued compensated absences - non current	\$ 19,274
350	Total Non-current Liabilities	\$ 21,859
300	Total Liabilities	\$ 55,536
300	Deferred Inflows of Resources	\$ -
508.4	Net Investment in Capital Assets	\$ 13,350
511.4	Restricted Net Position	\$ 685
512.4	Unrestricted Net Position	\$ 58,100
513	Total Equity/Net Position	\$ 72,135
600	Total Liabilities, Deferred Inflows of Resources and Equity/Net Position	\$ 127,671

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSE INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871
		Housing Choice Vouchers
Income Statement		
70600-010	Housing assistance payments	\$ 554,264
70600-020	Ongoing administrative fees earned	\$ 71,666
70600-031	FSS Coordinator	\$ -
70600-070	Admin fee calculation description	
70600	HUD PHA operating grants	\$ 625,930
71100-020	Administrative Fee	\$ 168
71100	Investment income - unrestricted	\$ 168
71400-010	Housing Assistance Payment	\$ 352
71400-020	Administrative Fee	\$ 351
71400	Fraud recovery	\$ 703
71500	Other revenue	\$ 59,275
72000-010	Housing Assistance Payment	\$ 9
72000	Investment income - restricted	\$ 9
700	Total Revenue	\$ 686,085
91100	Administrative salaries	\$ 59,343
91200	Auditing fees	\$ 1,612
91500	Employee benefit contributions- administrative	\$ 13,784
91600	Office expenses	\$ 3,845
91800	Travel	\$ -
91000	Total Operating - Administrative	\$ 78,584
96200	Other general expenses	\$ 521
96000	Total Other General Expenses	\$ 521
96900	Total Operating Expenses	\$ 79,105
97000	Excess Revenue Over Operating Expenses	\$ 606,980
97300-050	All Other	\$ 537,581
97300-041	HAP Portability-out	\$ 16,359
97300	Housing assistance payments	\$ 553,940
97350	HAP Portability-in	\$ 52,550
97400	Depreciation expense	\$ 6,070
900	Total Expenses	\$ 691,665
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (5,580)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSE INFORMATION
JUNE 30, 2014

Line Item No.	Description	14.871 Housing Choice Vouchers
Income Statement		
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (5,580)
11030	Beginning equity	\$ 77,715
11770-001	Administrative Fee Equity - Beginning Balance	\$ 77,715
11170-010	Administrative Fee Revenue	\$ 71,666
11170-040	Investment Income	\$ 168
11170-045	Fraud Recovery Revenue	\$ 351
11170-050	Other Revenue	\$ 59,275
11170-051	Comment For Other Revenue	This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$6,726) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 13-14 (\$52,549).
11170-060	Total Admin Fee Revenues	\$ 131,460
11170-080	Total Operating Expenses	\$ 79,105
11170-090	Depreciation	\$ 6,070
11170-095	Housing Assistance Portability In	\$ 52,550
11170-110	Total Expenses	\$ 137,725
11170-002	Net Administrative Fee	\$ (6,265)
11170-003	Administrative Fee Equity - Ending Balance	\$ 71,450
11170-005	Pre-2004 Administrative Fee Reserves	\$ -
11170-006	Post-2003 Administrative Fee Reserves	\$ 71,450
11170	Administrative Fee Equity	\$ 71,450
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ -
11180-010	Housing Assistance Payments Revenues	\$ 554,264
11180-015	Fraud Recovery Revenue	\$ 352
11180-025	Investment Income	\$ 9
11180-030	Total HAP Revenues	\$ 554,625
11180-080	Housing Assistance Payments	\$ 553,940
11180-100	Total Housing Assistance Payments Expenses	\$ 553,940
11180-002	Net Housing Assistance Payments	\$ 685
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 685
11180	Housing Assistance Payments Equity	\$ 685
11190-210	Total ACC HCV Units	1,452
11190	Unit Months Available	1,452
11210	Unit Months Leased	1,421

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It is prepared using the accrual basis of accounting, as required by REAC regulations.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through program from:			
P.R. Department of Education			
Child and Adult Care Food Program	10.558	CCC-79	\$ 19,141
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through programs from:			
Office of Commissioner of Municipal Affairs:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			
	14.228	AF-37, AB-37, FD-37	385,096
<u>P.R. Department of Family - Families and Children Administration</u>			
Emergency Solutions Grants Program	14.231	272-1220000-14F-2013-E-12-DC-72-0001	58,197
Direct programs:			
Section 8 Housing Choice Vouchers Program			
	14.871	N/A	625,930
Subtotal U.S. Department of Housing and Urban Development			1,069,224
<u>U.S. Department of Transportation</u>			
Passed-through programs from:			
P.R. Department of Transportation:			
Federal Transit Formula Grants	20.507	PR-90-X284-00	9,198
<u>Institute of Museum and Library Services</u>			
Passed-through program from:			
P.R. Department of Education:			
Grants to States	45.310	LSTA 2011-2012/BP007	79,685
<u>U.S. Department of Education</u>			
Passed-through program from:			
P.R. Department of Education:			
Twenty First Century Community Learning Centers	84.287	2014-AF 0052	1,939,682
<u>U.S. Department of Health and Human Services</u>			
Passed-through programs from:			
P. R. Office of Ombudsman Administration (OAP):			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers			
	93.044	150006R2	62,162
P. R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant			
	93.575	241-2014-000032	243,330
Subtotal U.S. Department of Health and Human Services:			305,491
<u>Corporation for National and Community Services</u>			
Passed-through programs from:			
Office of the Governor: Puerto Rico Commission for Volunteerism and Community Services (PR-SCVCS):			
ARRA - AmeriCorps State and National	94.006	13AC149920	178,880
Total Expenditures of Federal Awards			\$ 3,601,301

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

NOTE A – REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Municipality, except the federal grant activities related to *Jardines de Aguada Project* (the Project). As described in Note A to the Municipality’s basic financial statements, the basic financial statements includes the operations of the Project as a business-type activity and an enterprise fund. The Project expended \$2,469,644 in federal awards as follows:

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
US Department of Agriculture: Direct Program: USDA Rural Development Section 515	10.415	\$ 2,042,758
US Department of Housing and Urban Development: Direct Program: Section 8 Housing Assistance Payments	14.195	426,886
		<u>\$ 2,469,644</u>

The Project has obtained a separate A-133 audit, which is not included as part of this audit. A copy of this audit report can be obtained by contacting Project’s administrative office at Box 68, Trujillo Alto, Puerto Rico 00978.

NOTE B – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA’s fiscal period.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as “pass-through awards”, should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

<u>Description</u>	<u>Community Development Block Grant Program</u>	<u>Other Governmental Funds</u>
10.558	\$ -	\$ 19,141
14.228	385,096	-
14.231	-	58,197
14.871	-	625,930
20.507	-	9,198
45.310	-	79,685
84.287	-	1,939,682
93.044	-	62,162
93.575	-	243,330
ARRA - 94.006	-	178,880
Total federal awards expenditures (not including federal grants activities of Jardines de Aguada Project (see note A):	385,096	3,216,205
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	62,406
Non-federal awards expenditures:	-	578,769
Total expenditures, fund statements:	<u>\$ 385,096</u>	<u>\$ 3,857,380</u>

**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**

Hon. Jessie Cortés Ramos and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Aguada
Aguada, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Commonwealth of Puerto Rico, Municipality of Aguada, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Commonwealth of Puerto Rico, Municipality of Aguada basic financial statements, and have issued our report thereon dated March 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commonwealth of Puerto Rico, Municipality of Aguada’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 Commonwealth of Puerto Rico, Municipality of Aguada’s internal control. Accordingly, we do not express an opinion on the effectiveness of Commonwealth of Puerto Rico, Municipality of Aguada’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.

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 (Continued)

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 Commonwealth of Puerto Rico, Municipality of Aguada'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

San Juan, Puerto Rico
March 25, 2015


GONZÁLEZ TORRES, CO., CPA, PSC
License 96
Expires December 1, 2017

The stamp number 2702477
was affixed to the original report.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

Hon. Jessie Cortés Ramos and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Aguada
Aguada, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Commonwealth of Puerto Rico, Municipality of Aguada'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 Commonwealth of Puerto Rico, Municipality of Aguada's major federal programs for the year ended June 30, 2014. Commonwealth of Puerto Rico, Municipality of Aguada'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 Commonwealth of Puerto Rico, Municipality of Aguada'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 Commonwealth of Puerto Rico, Municipality of Aguada's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (Continued)

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 Commonwealth of Puerto Rico, Municipality of Aguada's compliance.

Opinion on Each Major Federal Program

In our opinion, Commonwealth of Puerto Rico, Municipality of Aguada 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, 2014.

Report on Internal Control over Compliance

Management of Commonwealth of Puerto Rico, Municipality of Aguada 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 Commonwealth of Puerto Rico, Municipality of Aguada'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 Commonwealth of Puerto Rico, Municipality of Aguada'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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (Continued)

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.

San Juan, Puerto Rico
March 25, 2015

González Torres, CPA, PSC
GONZÁLEZ TORRES, CO., CPA, PSC

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2014

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes No

5. Major Programs:

CFDA Number (s) Federal Program Grantor / Program Name

14.228 US Department of Housing and Urban Development: Community Development Block Grants/State Grants

14.871 US Department of Housing and Urban Development: Section 8 Housing Choice Vouchers

6. Dollar threshold used to distinguish Type A and Type B programs: \$300,000

7. Low-risk auditee

Yes No

8. Waive risk criteria under 520 (i) of Circular A -133

Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2014**

Section II. Financial Statements Findings

None.

Section III. Federal Awards Findings and Questioned Costs

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADA**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

NONE.