

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

MUNICIPIO DE AGUADILLA
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2005

Carroll

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2005

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MUNICIPALITY OF AGUADILLA, PUERTO RICO

FINANCIAL SECTION

YEAR ENDED JUNE 30, 2005



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ROMAN TORO & CO., CSP
Certified Public Accountants and Business Consultants

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Aguadilla, Puerto Rico**, as of and for the year ended June 30, 2005, which collectively comprise the Municipality of Aguadilla, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Aguadilla, Puerto Rico's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Aguadilla, Puerto Rico, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

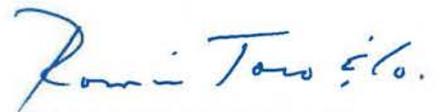
In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2005, on our consideration of the Municipality of Aguadilla, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 43 through 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT

(CONTINUED)

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



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

Yauco, Puerto Rico
December 12, 2005

Stamp #2100260 was affixed to
the original of this report

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The following discussion and analysis of the Municipality of Aguadilla's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2005 by \$89,969,867 (net assets).
- Revenues decreased by \$2,251,057 (5.2%) and expenses increased \$3,654,277 (8.95%) in comparison with year 2004, as restated.
- Net change in net assets amounted to (\$3,701,459), a decrease of 268% with respect to prior year (2004) net change.

Highlights for Fund Financial Statements

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

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$41,717,601, an increase of \$8,474,048 in comparison with the prior year, as restated.
- The General Fund reported an excess of revenues over expenditures and other financing uses of \$208,113 and an unreserved fund balance of \$1,706,644. Unreserved fund balances decreased \$177,568 from prior year.

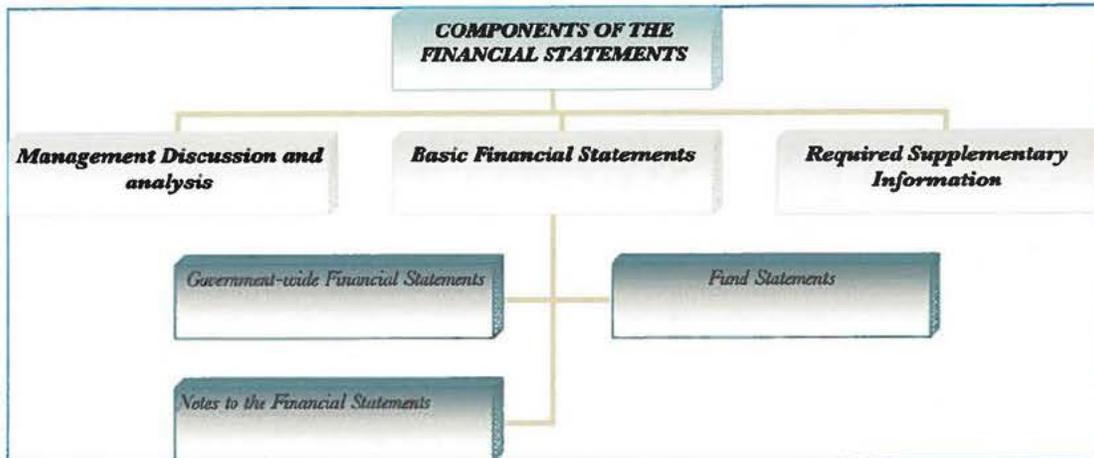
General Financial Highlights

- The investment in net capital assets as of June 30, 2005 was \$45,180,649 (net of related debt).
- Long term debt general and special obligations increased to \$57,170,000, approximately increase of 20% (\$9,515,000) with respect to prior year balance. (New general and special obligation bonds of \$12,060,000 less payments of \$2,545,000.)
- Other long term debt increases and net reductions from payments amounted to \$1,904,000 and \$1,088,151, respectively. Such increases represent the accumulation of new landfill closure and postclosure care costs during the fiscal year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$177,568, net of \$224,224 designated general fund for future expenditures (transfers out to special fund).
- Revenues increase was mainly due to \$2,125,201 of a revision of original estimate of property taxes that the Municipality does not modify the budget.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



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 Assets* – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall health of the Municipality. The second statement – the *Statement of Activities* – presents information showing how the net assets 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 reports as governmental activities 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 property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

- ***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 by bond covenants.

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 on balances of expendable 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.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.

Required supplementary information

Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2005 and 2004:

Table 1		
Statement of Net Assets		
As of June 30,		
	2005	2004
Current and non-current assets.....	\$ 61,311,035	\$ 51,124,526
Capital assets (As Restated).....	<u>102,350,649</u>	<u>103,141,121</u>
Total Assets	<u>\$163,661,684</u>	<u>\$154,265,647</u>
Current liabilities	2,896,957	2,717,382
Deferred revenues.....	9,104,404	6,517,332
Long-term liabilities.....	<u>61,690,456</u>	<u>51,359,607</u>
Total Liabilities	<u>73,691,817</u>	<u>60,594,321</u>
Net Assets:		
Investment in capital assets, Net of Related Debt (As Restated).....	45,180,649	55,486,121
Restricted	42,823,268	36,230,844
Unrestricted (As Restated)	1,965,950	1,954,361
Total Net Assets	<u>\$ 89,969,867</u>	<u>\$ 93,671,326</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year decreased 4% with respect to prior year as restated. The most significant change was a reduction in investment in capital assets net of related debt of \$6,646,106.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$45,180,649; total capital assets (\$141,452,075) less accumulated depreciation (\$39,101,426) and less any related outstanding debt

(\$57,170,000) used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

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

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

As of June 30, 2005 the Municipality presented unrestricted net assets of \$1,965,950. This balance was affected by long term obligations such as compensated absences \$3,038,298, the estimated municipal solid waste landfill future closing cost \$1,156,000 and other debts for the amount of \$326,158 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2005 and 2004:

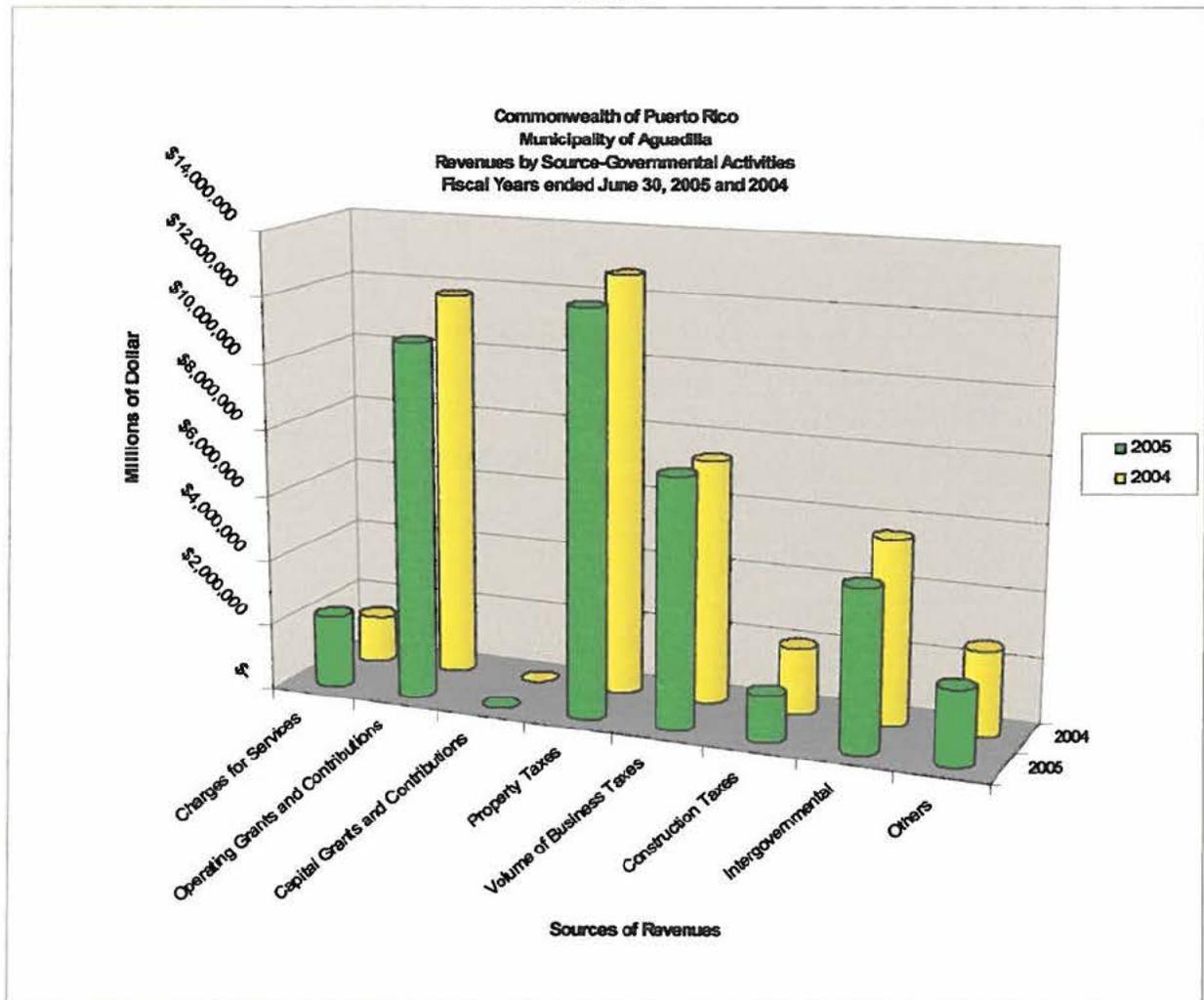
Table 2		
Changes in Net Assets For Fiscal Years Ending June 30,		
	2005	2004
Revenues:		
Program Revenues:		
Charges for Services	\$ 2,186,236	\$ 1,438,771
Operating Grants and Contributions	10,800,220	11,767,321
Capital Grants and Contributions....	-	-
General Revenues:		
Property Taxes	12,185,299	12,723,074
Volume of Business Taxes	7,557,843	7,393,246
Construction Taxes	1,382,664	2,002,950
Intergovernmental	4,873,731	5,600,351
Other General Revenues	<u>2,261,408</u>	<u>2,572,745</u>
Total revenues	<u>41,247,401</u>	<u>43,498,458</u>
Expenses:		
General Administration	20,264,093	14,873,776
Public Safety	1,712,299	1,626,191
Public Works	1,858,805	1,679,448
Culture and Recreation	3,214,666	2,571,398
Health and Sanitation	3,213,882	3,535,056
Solid Waste Disposal	221,000	135,000
Human Services and Welfare	4,991,988	4,426,804
Urban Development	1,897,109	5,274,018
Education	5,509,806	5,831,190
Interest Costs	<u>2,065,212</u>	<u>1,341,702</u>
Total expenses	<u>44,948,860</u>	<u>41,294,583</u>
Changes in net assets	(3,701,459)	2,203,875
Net assets – beginning, as Restated*	<u>93,671,326</u>	<u>91,467,451</u>
Net assets – ending	<u>\$ 89,969,867</u>	<u>\$ 93,671,326</u>

Prior Period Adjustment to capital assets is \$8.5 million and \$307 thousand for revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Figure 1 presents revenues comparison by sources of the governmental activities during the past two years:

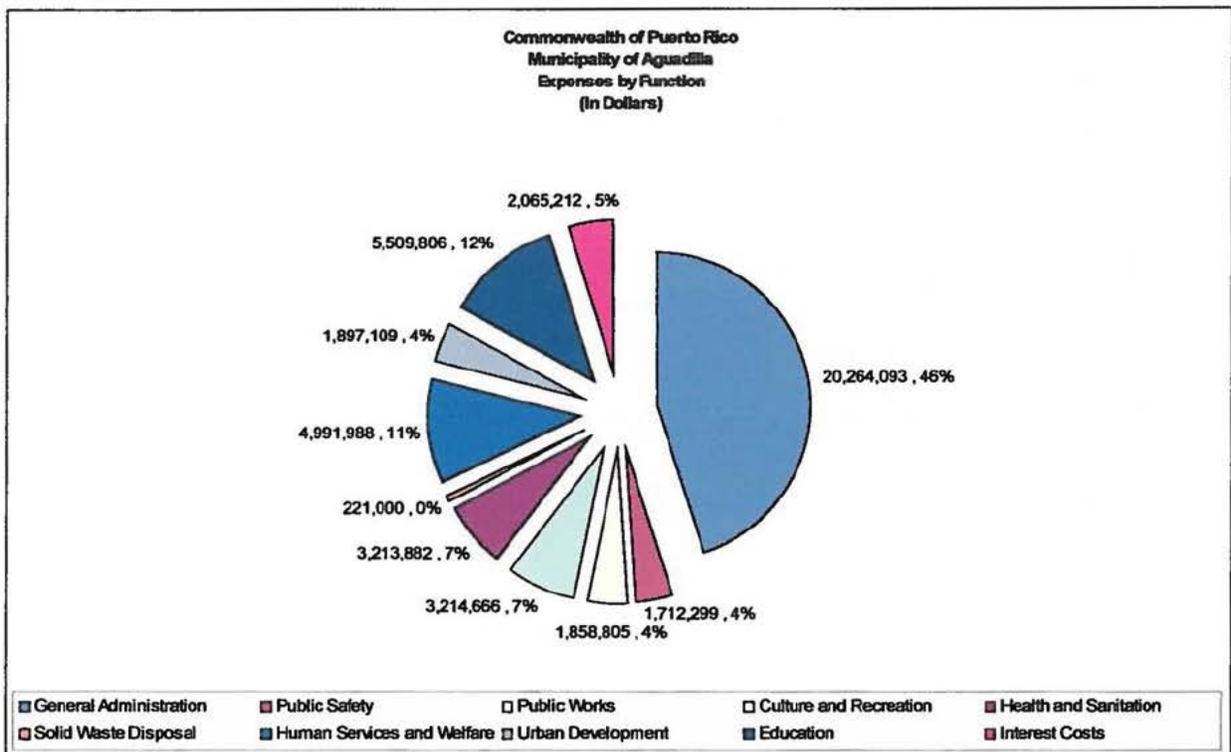
FIGURE 1



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Figure 2 presents expenses by function of the governmental activities during the fiscal year 2004-2005:

FIGURE 2



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Approximately 26% of the Municipality's revenues came from grants and contributions, 30% from property taxes, volume of business taxes 18% and 26% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 46%, health and sanitation representing approximately 7.2% and human services and welfare with 11%. Program revenues and charges for services of the Municipality covered 28.9% of total expenses.

With respect to prior year, revenues decreased by approximately \$2,251,000 or 5.5%, principally on property taxes and construction taxes. Significant increase was in charges for services with approximately \$750,000 for the promotion on new recreational facilities.

Expenses increased 8.9% or \$3,654,277 in comparison with 2004 year. Significant increases were registered on salaries and benefits to employees, and donations and services incurred for the benefit of the community. Also, increases were on interest costs for new financing in prior two years (\$723,000). Public works and Culture and Recreation increased due to additional capital assets maintenance and other non-capitalize costs.

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

TABLE 3

Net Cost of Municipality's Governmental Activities				
Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
General Administration	\$ 20,264,093	\$ 14,873,776	\$ 19,266,995	\$ 13,693,475
Public Works	1,858,805	1,679,448	1,858,805	1,679,448
Culture and Recreation	3,214,666	2,571,398	1,188,874	1,511,327
Health and Sanitation	3,213,882	3,535,056	3,213,882	3,535,056
Human Services and Welfare	4,991,988	4,426,804	2,805,127	2,935,926
Urban Development	1,897,109	5,274,018	(517,360)	2,293,250
Education	5,509,806	5,831,190	147,570	23,309
Interest Cost	2,065,212	1,341,702	2,065,212	1,341,702
Others	1,933,299	1,761,191	1,933,299	1,382,491
	\$ 44,948,860	\$ 41,294,583	\$ 31,962,404	\$ 28,395,984

Some of the cost of governmental activities in 2005 was paid by those who directly benefited from the programs (\$2,186,236) and other governments and organizations that subsidized certain programs with grants and contributions (\$10,800,220). The \$31,962,404 net cost of services was partially covered by other general revenues including property, volume of business license taxes and intergovernmental.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2005, the governmental funds reported combined ending fund balances of \$41,717,601, a net increase of \$8,474,048 in comparison with the prior year. This increase was caused primarily by a net change in some major funds do to proceeds of bonds of \$12,060,000. Of total combined fund balances, \$1,706,644 (4.1%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately 43.2% of total ending general fund balance. For the year ended June 30, 2005, the fund balance of the general fund increased by \$208,113 when compared with the prior year. The principal components of the net increases is a reduction of operating transfers.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2004-2005 presented an increase of 5.3% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were decreased by \$291,666 due to a reduction of property taxes and license and permits estimates and additional collections of others revenues. Budget expenditures were adjusted properly for the reduction in estimate. Actual revenues were greater than the revised budgeted revenues by \$1,436,045. The most significant variance is in property taxes, \$1,060,083.

A positive variance of \$1,622,432 between revised budget and actual expenditures was due mainly to a additional revenues in property taxes and economies in some functions. The Municipality reported less expenditure than appropriations in those functions on payments for purchase of equipment and professional and nonprofessional services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$102,350,649 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net decrease of \$790,469 or less than .8% from the prior year, as restated.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2005	(As restated) 2004
Non-depreciable assets:		
Land	\$ 19,812,424	\$ 19,812,424
Construction in progress	2,574,181	5,683,813
Depreciable assets:		
Buildings	41,334,491	38,106,947
Infrastructure	33,467,427	34,156,028
Motor Vehicles	2,642,984	3,115,009
Machinery and Equipment	2,519,142	2,266,900
Total	\$102,350,649	\$103,141,121

The Municipality acquired a total of \$1,944,166 of capital assets during the fiscal year 2004-2005 as follows:

- "Paseo Real Marina Land Acquisition" - \$425,000
- Acquisition of Motor Vehicles - \$312,217
- Acquisition of Machinery and Equipment - \$638,157
- Construction in Progress - \$568,792

Others important projects was finalized like the Ice Skate Plaza, renewal of "Las Cascadas" Water Fall, Recreational Complex of Ceiba Baja, Skate Park Plaza Plácido Acevedo, and other repair and maintenance of roads (not capitalized) was constructed during the past year.

New general and special obligations bonds was issued for new capital projects in the amount of \$12,060,000; principally for the Marketplace Project (\$3,780,000) with an estimated cost of \$9,000,000 that are now available for the construction. Projects like Real Marina Others small but important projects for our communities should be constructed with the funds available in the capital project fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Long term debt

At year-end, the Municipality had \$57,170,000 in general and special bonds and notes, an increase of 20% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2005 and 2004:

TABLE 5

Outstanding Long-term Debt		
As of June 30,		
	Governmental Activities	
	2005	(As restated) 2004
General and special obligation bonds and notes	\$ 57,170,000	\$ 47,655,000
Landfill closure and postclosure	1,156,000	315,000
Property tax – MRCC	126,158	126,158
Claims	200,000	200,000
Compensated absences	3,038,298	3,063,449
Total	\$ 61,690,456	\$ 51,359,607

The increase in the general and special obligation bonds and others debts is due to new general and special obligations bonds issued for new capital projects in the amount of \$12,060,000 and for the recording of new estimate for the closing and post closing care cost of the solid waste landfill. More detailed information about the Municipality's long term liabilities is presented in Note 7 and 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2005-2006 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 12.5%, which compares with the Commonwealth rate of 11.3%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2006 are \$25 million, similar of the fiscal year 2005. A reduction on property taxes estimate and the closure of a big manufacturing industry reduced the possible increases in revenues for year 2006. Budgeted expenditures are expected to stabilize accordingly to the projected revenues. Among planned projects, this budget may be adjusted in accordance with economic injection projected when the construction project promoted by the Municipality and others private projects were develop during the year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and Investments (Note 2).....	\$ 31,462,258
Cash with Fiscal Agent.....	22,966,089
Receivables (net):	
Property Taxes (Note 3)	-
Federal Grants.....	6,441,316
Others.....	<u>441,372</u>
Capital Assets (Note 6):	
Land, Improvements, and Construction in Progress.....	22,811,605
Other Capital Assets, [Net of Depreciation].....	<u>79,539,044</u>
Total Capital Assets.....	<u>102,350,649</u>
TOTAL ASSETS	<u>163,661,684</u>
LIABILITIES:	
Accounts Payable and Accrued Expenses.....	2,078,239
Accrued Interest.....	818,718
Deferred Revenue.....	9,104,404
Long-Term Liabilities (Note 7):	
Due within One Year.....	4,892,749
Due in More than One Year.....	<u>56,797,707</u>
Total Liabilities	<u>73,691,817</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	45,180,649
Restricted for:	
Capital Projects.....	29,552,142
Head Start Program.....	3,798,234
Debt Service.....	3,435,617
Community Development Projects.....	2,959,157
Other Purposes.....	3,078,118
Unrestricted.....	<u>1,965,950</u>
TOTAL NET ASSETS	<u>\$ 89,969,867</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE (SEE NEXT PAGE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
Mayor and Municipal Legislature	\$ 1,572,271	\$ -	\$ -	\$ -	(\$1,572,271)
General Government	18,691,822	160,444	836,654	-	(17,694,724)
Public Safety	1,712,299	-	-	-	(1,712,299)
Public Works	1,858,805	-	-	-	(1,858,805)
Health and Sanitation	3,213,882	-	-	-	(3,213,882)
Culture and Recreation	3,214,666	2,025,792	-	-	(1,188,874)
Solid Waste Disposal	221,000	-	-	-	(221,000)
Human Services and Welfare	4,991,988	-	2,186,861	-	(2,805,127)
Urban Development	1,897,109	-	2,414,469	-	517,360
Education	5,509,806	-	5,362,236	-	(147,570)
Interest on Long-Term Debt	2,065,212	-	-	-	(2,065,212)
Total Governmental Activities	\$ 44,948,860	\$ 2,186,236	\$ 10,800,220	\$ -	(31,962,404)
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					9,567,779
Property Taxes, levied for Debt Service					2,617,520
Volume of Business Taxes					7,557,843
Construction Taxes					1,382,664
Intergovernmental					4,873,731
Rent					82,860
Miscellaneous					2,178,548
Total General Revenues					<u>28,260,945</u>
CHANGE IN NET ASSETS					(3,701,459)
Net Assets – Beginning of Year					<u>93,671,326</u>
NET ASSETS – ENDING OF YEAR					\$ 89,969,867

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>GENERAL</u>	<u>HEAD START FUND</u>	<u>CDBG FUND</u>	<u>MARKETPLACE LOAN FUND</u>	<u>REAL MARINA FUND</u>	<u>DEBT SERVICE FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS								
Cash and Investments (Note 2)	\$ 12,981,615	\$ 94,002	\$ 182,591	\$ -	\$12,936,802	\$ -	\$ 5,267,248	\$ 31,462,258
Cash with Fiscal Agent.....	-	-	-	9,163,319	-	4,517,188	9,285,582	22,966,089
Receivables:								
Federal Grants	-	3,793,881	2,360,345	-	-	-	287,090	6,441,316
Due from Other Funds (Note 4)	1,061,430	-	-	-	-	-	500,000	1,561,430
Others	19,691	-	5,300	-	-	-	416,381	441,372
Total Assets.....	\$ 14,062,736	\$ 3,887,883	\$ 2,548,236	\$ 9,163,319	\$ 12,936,802	\$ 4,517,188	\$ 15,756,301	\$ 62,872,465
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 544,743	\$ 89,649	\$ 191,911	\$ -	\$ -	\$1,775,000	\$ 827,842	\$ 3,429,145
Accrued Interest	-	-	-	-	-	818,718	-	818,718
Due to Governmental Units (Note 5).....	102,387	-	-	-	-	-	-	102,387
Due to Other Funds (Note 4).....	500,000	-	19,520	-	-	22,909	1,019,001	1,561,430
Others.....	321,707	-	-	-	-	-	-	321,707
Deferred Revenues:								
Volume of Business Tax	8,637,510	-	-	-	-	-	-	8,637,510
Federal Grants	-	3,650,438	2,166,635	-	-	-	466,894	6,283,967
Total Liabilities	10,106,347	3,740,087	2,378,066	-	-	2,616,627	2,313,737	21,154,864
Fund Balances:								
Reserve For:								
Encumbrances	2,249,745	-	-	-	-	-	-	2,249,745
Debt Service.....	-	-	-	-	-	1,900,561	-	1,900,561
Unreserved.....	1,706,644	147,796	170,170	9,163,319	12,936,802	-	13,442,564	37,567,295
Total Fund Balances (Deficit).....	3,956,389	147,796	170,170	9,163,319	12,936,802	1,900,561	13,442,564	41,717,601
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,062,736	\$ 3,887,883	\$ 2,548,236	\$ 9,163,319	\$ 12,936,802	\$ 4,517,188	\$ 15,756,301	\$ 62,872,465

See accompanying Notes to Basic Financial Statements.

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
BALANCE SHEET – GOVERNMENTAL FUNDS, Continued
JUNE 30, 2005

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Total Fund Balances – Governmental Funds (Page 16)..... \$ 41,717,601

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 15)
are different because:

Capital Assets used in governmental activities are not financial resources and therefore are
not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets.....	\$ 22,811,605	
Depreciable Capital Assets	76,416,036	
Infrastructure Assets	42,224,434	
Accumulated Depreciation	<u>(39,101,426)</u>	
Total Capital Assets		102,350,649

Some of the Municipality's revenues will be collected after year-end but are not available
soon enough to pay for the current period's expenditures and therefore are deferred in
the funds:

Head Start.....	3,650,438	
CDBG.....	<u>2,166,635</u>	
Total Deferred Revenues		5,817,073

Some liabilities are not due and payable in the current period and therefore are not reported
in the funds. Those liabilities consist of:

General Bonds and Special Bonds	55,395,000	
Compensated Absences	3,038,298	
Claims	200,000	
Landfill Closure and Postclosure Cost	1,156,000	
Property Tax Advances	<u>126,158</u>	
Total Long-Term Liabilities		<u>(59,915,456)</u>

Total Net Assets of Governmental Activities (Page 14)..... \$ 89,969,867

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
JUNE 30, 2005

	GENERAL	HEAD START FUND	CDBG FUND	MARKETPLACE LOAN FUND	REAL MARINA FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES								
Property Taxes	\$ 12,298,998	\$ -	\$ -	\$ -	\$ -	\$ 2,617,520	\$ -	\$ 14,916,518
Volume of Business Taxes	7,557,843	-	-	-	-	-	-	7,557,843
Federal Assistance	-	5,592,027	2,777,303	-	-	-	2,186,861	10,556,191
Intergovernmental	2,738,750	-	-	-	-	-	836,654	3,575,404
Licenses and Permits!	1,382,664	-	-	-	-	-	-	1,382,664
Rent	82,860	-	-	-	-	-	-	82,860
Miscellaneous	1,398,891	-	-	-	-	-	2,965,893	4,364,784
Total Revenues.....	25,460,006	5,592,027	2,777,303	-	-	2,617,520	5,989,408	42,436,264
EXPENDITURES								
Current:								
Mayor and Municipal Legislature	1,498,901	-	-	-	-	-	-	1,498,901
General Government.....	13,068,963	-	72,462	155,710	-	-	3,125,898	16,423,033
Public Safety	1,633,078	-	-	-	-	-	-	1,633,078
Public Works	1,617,941	-	-	-	-	-	-	1,617,941
Health and Sanitation	1,467,359	-	-	-	-	-	1,700,535	3,167,894
Culture and Recreation	2,285,904	-	-	-	-	-	622,068	2,907,972
Human Services and Welfare	2,979,809	-	-	-	-	-	1,962,351	4,942,160
Urban Development	-	-	1,356,833	-	-	-	1,231,946	2,588,779
Education	-	5,509,806	-	-	-	-	-	5,509,806
Capital Outlay	140,770	-	7,904	-	-	-	998,766	1,147,440
Debt Service:								
Principal	-	-	650,000	-	-	1,870,000	-	2,520,000
Interest and other Charges	-	-	599,060	-	-	1,466,152	-	2,065,212
Total Expenditures	24,692,725	5,509,806	2,686,259	155,710	-	3,336,152	9,641,564	46,022,216

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS, Continued
JUNE 30, 2005

	GENERAL	HEAD START FUND	CDBG FUND	MARKETPLACE LOAN FUND	REAL MARINA FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES)								
Bonds Issued	-	-	-	3,780,000	-	-	8,280,000	12,060,000
Transfers - In	-	-	-	-	-	334,944	224,224	559,168
Transfers - Out	(559,168)	-	-	-	-	-	-	(559,168)
Total Other Financing Sources and Uses	(559,168)	-	-	3,780,000	-	334,944	8,504,224	12,060,000
Net Change in Fund Balances	208,113	82,221	91,044	3,624,290	-	(383,688)	4,852,068	8,474,048
Fund Balance - Beginning, as Restated	3,748,276	65,575	79,126	5,539,029	12,936,802	2,284,249	8,590,496	33,243,553
FUND BALANCES - ENDING	<u>\$3,956,389</u>	<u>\$147,796</u>	<u>\$170,170</u>	<u>\$9,163,319</u>	<u>\$12,936,802</u>	<u>\$ 1,900,561</u>	<u>\$13,442,564</u>	<u>\$ 41,717,601</u>

*Copy of
06/02/05*

See accompanying Notes to Basic Financial Statements.

Continue

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Net Change in Fund Balances – Total Governmental Funds (Page 19) \$ 8,474,048

Amounts reported for Governmental Activities in the Statement of Activities (Page 15)
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of
Activities the cost of those assets is allocated over their estimated useful lives and reported
as depreciation expense. In the current period, these amounts are:

Capital Assets	\$ 1,944,166	
Depreciation Expense	(2,734,638)	
Excess of Capital Assets over Depreciation Expense.....		(790,472)

Revenues in the Statement of Revenues, Expenditures, and Change in Fund Balance
reported as revenues in the Statement of Activities during the prior year:

Municipal Revenue Collection Center	\$ (596,238)	
Head Start	(229,791)	
CDBG.....	(203,157)	(1,029,186)

Bonds proceeds provide current financial resources to governmental funds, but issuing debt
increases Long-Term Liabilities in the Statement of Net Assets. In the current period,
proceeds received were..... (12,060,000)

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment
reduces Long-Term Liabilities in the Statement of Net Assets. In the current year, the
repayments were. 2,520,000

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.
These activities consist of:

Decrease in Compensated Absences	25,151	
Increase in Landfill Closure and Postclosure Cost.....	(841,000)	
Total Additional Expenditures.....		(815,849)

Change in Net Assets of Governmental Activities (Page 15) \$ (3,701,459)

See accompanying Notes to Basic Financial Statements.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Aguadilla, Puerto Rico (Municipality) was founded in the year 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomous Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant aspects of such policies.

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

In June 1999, the GASB issued Statement Number 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments. The Municipality adopted the provisions of GASBS No. 34 as well as other statements referred to below as of July 1, 2002. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASBS No. 34, the Municipality has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

As previously mentioned, other GASB Statements and Interpretations were required to be implemented in conjunction with GASBS No. 34. Therefore, the Municipality has implemented the following GASB Statements: GASBS No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, GASBS No. 38, *Certain Financial Statement Note Disclosures*, GASB No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2005, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity

The accompanying basic financial statements include all departmental and organizational units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity are if potential component units and other organizations are financially accountable and for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include the power to appoint a voting majority of an organization's governing body and (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, which are recognized when due.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures when incurred to the extent available. For the other types of revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2005 has been reported only in the government-wide financial statements.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Net Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in Capital Assets, Net of Related Debt – These consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- Restricted Net Assets – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – These consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet, the Statement of Revenues, Expenditures, and Changes in Fund Balances, the Statement of Net Assets) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliations and separate explanations are presented for each difference.

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

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major fund:

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives of this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness.

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

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

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

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

D. Budgetary Data

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved.
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenues Collections Center (CRIM, as known by its Spanish acronym) of the Commonwealth of Puerto Rico, acting as Fiscal Agent, are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalent and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by CRIM and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

F. Receivable

Receivable are stated nets of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

H. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	50
Improvement Other Than Buildings	50
Infrastructure	10-50
Motor Vehicles	5
Machinery and Equipments	5-10

I. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed.

The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations (see Note 7 on page 33-35).

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2005:

BALANCE JULY 1, 2004	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2005	CURRENT PORTION	LONG-TERM PORTION
<u>\$3,063,449</u>	<u>\$ -</u>	<u>\$ 25,151</u>	<u>\$3,038,298</u>	<u>\$1,850,591</u>	<u>\$ 1,187,707</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by CRIM from quarterly advances of annual property tax and subsidy sent to the Municipality.

K. Interfund Transactions

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

The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

L. Reservations of Fund Balance – Governmental Funds

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

M. Claims and Judgments

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

N. Use of Estimates

The preparation of the basic financial statements in conformity 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 disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments consist of certificates of deposit. The Municipality's cash, cash equivalent and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

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

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2005, the market value of investments approximated its carrying value as follow:

<i>Certificate OF DEPOSIT ISSUED BY</i>	<i>PRINCIPAL NUMBER</i>	<i>INTEREST AMOUNT</i>	<i>RATE</i>	<i>EXPIRATION DATE</i>
Banco Popular of Puerto Rico.....	01020000136	\$ 4,000,000	3.58%	10-24-2005
Banco Popular of Puerto Rico.....	01020000135	1,000,000	3.53%	8-25-2005
Banco Popular of Puerto Rico.....	01110000128	1,000,000	3.35%	7-08-2005
Banco Popular of Puerto Rico.....	01110000125	4,000,000	3.35%	7-17-2005
Banco Popular of Puerto Rico.....	01110000121	5,000,000	3.40%	8-21-2005
Banco Popular of Puerto Rico.....	01110000119	4,500,000	3.59%	8-21-2005
Banco Popular of Puerto Rico.....	01110000117	1,000,000	3.36%	7-15-2005
Government Development Bank of P.R....	15515A	500,000	3.13%	6-30-2005
Government Development Bank of P.R....	15481A	1,000,000	3.38%	7-19-2005
Government Development Bank of P.R....	15604	2,337,522	3.61%	9-26-2005
Government Development Bank of P.R....	15417	<u>400,000</u>	3.25%	9-28-2005
TOTAL		<u>\$24,737,522</u>		

The investments are distributed by the amounts of \$11,500,000 in the General Fund, \$300,720 in the Other Governmental Funds and \$12,936,802 in Paseo Real Marina Fund.

NOTE 3 RECEIVABLES

As of June 30, 2005, other receivables for Other Major Funds totaled \$305,799 from Title III, \$93,995 from the P.R. Department of Labor, and \$16,587 from others.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 INTERFUND TRANSFER AND BALANCES

A. INTERFUND TRANSFERS

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS

<u>SOURCES</u>	<u>TRANSFER TO</u>	<u>AMOUNT</u>	<u>PURPOSE</u>
General Fund	Debt Services Fund	\$ 334,944	Debt payments
General Fund	Other Fund	<u>224,224</u>	Specific project funding
Total		<u>\$ 559,168</u>	

B. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivables and payables at June 30, 2005 are summarized as follows:

<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>	<u>AMOUNT</u>
General Fund	Other Funds	\$1,019,001
General Fund	CDBG	19,520
Other Fund	General Fund	500,000
General Fund	Debt Service Fund	<u>22,909</u>
TOTAL		<u>\$1,561,430</u>

NOTE 5 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2005, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	<u>AMOUNT</u>
Water Company	\$ 82,067
General Services Administration	20,233
Other Governmental Units	<u>87</u>
Total Due to Governmental Units	<u>\$102,387</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2005 was as follows:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2004</u>	<u>ADJUSTMENTS</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2005</u>
Non-Depreciable Capital Assets:					
Land	\$ 18,067,403	\$ 1,745,021	\$ 425,000	\$ -	\$ 20,237,424
Construction in Progress	<u>5,683,813</u>	<u>(3,678,424)</u>	<u>568,792</u>	<u>-</u>	<u>2,574,181</u>
Total Non-Depreciable Capital Assets	<u>23,751,216</u>	<u>(1,933,403)</u>	<u>993,792</u>	<u>-</u>	<u>22,811,605</u>
Depreciable Capital Assets:					
Buildings	56,268,160	6,951,638	-	-	63,219,798
Infrastructure	40,019,187	2,205,247	-	-	42,224,434
Motor Vehicles	7,653,962	367,376	312,217	-	8,333,555
Machinery and Equipment	<u>3,369,278</u>	<u>855,248</u>	<u>638,157</u>	<u>-</u>	<u>4,862,683</u>
Total Depreciable Capital Assets	<u>107,310,587</u>	<u>10,379,509</u>	<u>950,374</u>	<u>-</u>	<u>118,640,470</u>
Less Accumulated Depreciation:					
Buildings	(21,434,427)	-	(875,880)	-	(22,310,307)
Infrastructure	(8,068,406)	-	(688,601)	-	(8,757,007)
Motor Vehicles	(4,906,329)	-	(784,242)	-	(5,690,571)
Machinery and Equipment	<u>(1,957,626)</u>	<u>-</u>	<u>(385,915)</u>	<u>-</u>	<u>(2,343,541)</u>
Total Accumulated Depreciation	<u>(36,366,788)</u>	<u>-</u>	<u>(2,734,638)</u>	<u>-</u>	<u>(39,101,426)</u>
Total Depreciable Capital Assets (Net)	<u>70,943,799</u>	<u>10,379,509</u>	<u>(1,784,264)</u>	<u>-</u>	<u>79,539,044</u>
CAPITAL ASSETS, NET	<u>\$ 94,695,015</u>	<u>\$ 8,446,106</u>	<u>\$ (790,472)</u>	<u>\$ -</u>	<u>\$102,350,649</u>

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

	<u>AMOUNT</u>
Mayor and Municipal Legislature	\$ 73,370
General Government	1,796,219
Public Safety	79,221
Public Works	240,864
Health and Sanitation	305,910
Culture and Recreation	46,772
Human Services and Welfare	49,828
Urban Development	<u>142,454</u>
Total Depreciation Expenses	<u>\$2,734,638</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND SPECIAL NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 8). The special obligations long-term notes retirements are paid through retention made by CRIM from monthly advance of annual property tax and subsidy send to the Municipality.

General obligations bonds and notes payable as of June 30, 2005, are comprised of the following individual issues:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
General Obligations Bonds:	
\$590,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$20,000 to \$70,000, excluding interests from 4.86% to 6.11%, through July 1, 2013.....	\$ 435,000
\$2,840,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$105,000 to \$300,000, excluding interests from 4.86% to 6.11%, through July 1, 2013.....	2,060,000
\$5,065,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$70,000 to \$425,000, excluding interests from 4.86% to 6.56%, through July 1, 2023.....	4,530,000
\$3,210,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$45,000 to \$270,000, excluding interests from 2.70% to 5.60%, through July 1, 2023.....	2,865,000
\$1,700,000, Series 1999, for purchase of equipment purposes, payable in semiannual installments ranging from \$115,000 to \$230,000, excluding interests from 2.70% to 3.88%, through July 1, 2008.....	830,000
\$805,000, Series 1999, for construction purposes, payable in semiannual installments ranging from \$5,000 to \$65,000, excluding interests from 2.70% to 5.60%, through July 1, 2023.....	725,000
\$3,520,000, Series 2000, for construction purposes, payable in annual installments ranging from \$130,000 to \$370,000, excluding interests from 2.70% to 4.73%, through July 1, 2014.....	2,745,000
\$1,340,000, Series 2000, for construction purposes, payable in annual installments ranging from \$15,000 to \$115,000, excluding interests from 2.70% to 5.60%, through July 1, 2024.....	1,240,000
\$975,000, Series 2000, for construction purposes, payable in annual installments ranging from \$65,000 to \$135,000, excluding interests from 2.80% to 4.30%, through July 1, 2010.....	670,000
\$3,015,000, Series 2001, for construction purposes, payable in annual installments ranging from \$65,000 to \$285,000, excluding interests from 2.80% to 5.29%, through July 1, 2020.....	2,720,000

Continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS, Continued

<u>DESCRIPTION</u>	<u>AMOUNT</u>
General Obligations Bonds (continued):	
\$1,010,000, Series 2001, for construction purposes, payable in annual installments ranging from \$840,000 to \$240,000, for construction purposes, excluding interests from 2.80% to 6.13%, through July 1, 2005	240,000
\$2,165,000, Series 2001, for construction purposes, payable in annual installments ranging from \$25,000 to \$190,000, for construction purposes, excluding interests from 2.70% to 5.60%, through July 1, 2025	2,040,000
\$405,000, Series 2003, for construction purposes, payable in annual installments ranging from \$50,000 to \$70,000, excluding interests from 4.37% to 6.00%, through July 1, 2010.....	355,000
\$1,255,000, Series 2003, for construction purposes, payable in annual installments ranging from \$25,000 to \$95,000, excluding interests from 4.37% to 6.00%, through July 1, 2028.....	1,230,000
\$565,000, Series 2003, for purchase of equipment purposes, payable in semiannual installments ranging from \$65,000 to \$100,000, excluding interests from 5.00% to 6.00%, through July 1, 2009.....	430,000
\$1,795,000, Series 2005, for construction purposes, payable in semiannual installments ranging from \$35,000 to \$120,000, excluding interests from 4.37% to 5.00%, through July 1, 2029.....	1,795,000
\$1,795,000, Series 2005, for construction purposes, payable in semiannual installments ranging from \$35,000 to \$120,000, excluding interests from 3.27% to 5.00%, through July 1, 2029.....	1,795,000
\$1,935,000, Series 2005, for construction purposes, payable in semiannual installments ranging from \$35,000 to \$130,000, excluding interests from 4.27% to 5.00%, through July 1, 2029.....	1,935,000
\$9,340,000, Series 2004, for construction purpose, payable in semiannual installments ranging from \$225,000 to \$660,000, excluding interests at 5.00%, through July 1, 2028.....	9,340,000
\$1,150,000, Series 1998, for construction purposes, payable in semiannual installments ranging from \$130,000 to \$200,000, excluding interests from 5.42% to 6.00%, through July 1, 2005.....	200,000
\$1,010,000, Series 2005, for construction purposes, payable in semiannual installments ranging from \$40,000 to \$95,000, excluding interests from 4.27% to 5.00%, through July 1, 2019.....	<u>1,010,000</u>
Total General Obligations Bonds	<u>39,190,000</u>

Continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS, Continued

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Special Obligations Notes (continued):	
\$12,995,000, Series 2002, for construction purpose, payable in annual installments of \$650,000, excluding interests at 5.00%, through August 1, 2022 (HUD – Section 108 Loan)	11,695,000
\$4,795,000, Series 2003, for construction purpose, payable in annual installments ranging from \$75,000 to \$370,000, excluding interests from 5.00% to 6.00%, through July 1, 2027	4,545,000
\$250,000, Series 2005, for construction purpose, payable in annual installments ranging from \$31,000 to \$41,000, excluding interests at 4.75%, through July 1, 2012	250,000
\$250,000, Series 2005, for purchase of equipment purpose, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 5.00%, through July 1, 2029	245,000
\$1,245,000, Series 2005, for purchase of equipment purpose, payable in annual installments ranging from \$155,000 to \$203,000, excluding interests at 4.50%, through July 1, 2012	<u>1,245,000</u>
Total Special Obligations Bonds	<u>17,980,000</u>
Total General and Special Obligations Bonds	<u>\$57,170,000</u>

The Municipality's general obligations long-term notes retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 8). The special obligations long-term notes retirements are paid through retention made by CRIM from monthly advance of annual property tax and subsidy sent to the Municipality.

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2005 are as follows:

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u> <u>PAYMENT</u>	<u>INTEREST</u> <u>PAYMENT</u>	<u>TOTAL</u> <u>PAYMENT</u>
2006	\$ 2,716,000	\$ 2,647,578	\$ 5,363,578
2007	2,629,000	2,781,278	5,410,278
2008	2,744,000	2,580,490	5,324,490
2009	2,908,000	2,537,977	5,445,977
2010	2,792,000	2,403,709	5,195,709
2010-2014	13,398,000	9,921,591	23,319,591
2016-2020	12,668,000	6,579,295	19,247,295
2021-2025	11,845,000	2,939,924	14,784,924
2026-2029	<u>5,470,000</u>	<u>594,720</u>	<u>6,064,720</u>
TOTAL	<u>\$57,170,000</u>	<u>\$32,986,562</u>	<u>\$90,156,562</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 GENERAL LONG-TERM DEBTS, Continued

B. OTHER LONG-TERM DEBTS

<i>DESCRIPTION</i>	<i>BALANCE JULY 1, 2004</i>	<i>NEW ISSUES</i>	<i>RETIREMENTS AND ADJUSTMENT</i>	<i>BALANCE JUNE 30, 2005</i>
Property Taxes – MRCC.....	\$ 126,158	\$ -	\$ -	\$ 126,158
Landfill Closure and Postclosure	315,000	1,904,000	1,063,000	1,156,000
Claims	200,000	-	-	200,000
Compensated Absences.....	<u>3,063,449</u>	<u>-</u>	<u>25,151</u>	<u>3,038,298</u>
TOTAL	<u>\$ 3,704,607</u>	<u>\$ 1,904,000</u>	<u>\$ 1,088,151</u>	<u>\$ 4,520,456</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2005:

<i>DESCRIPTION</i>	<i>BALANCE JULY 1, 2004</i>	<i>NEW ISSUES</i>	<i>RETIREMENTS AND ADJUSTMENT</i>	<i>BALANCE JUNE 30, 2005</i>	<i>AMOUNTS DUE WITHIN ONE YEAR</i>	<i>AMOUNTS DUE AFTER NEXT YEAR</i>
General	\$24,915,000	\$10,315,000	\$ 1,800,000	\$33,430,000	\$ 1,775,000	\$31,655,000
Special	22,740,000	1,745,000	745,000	23,740,000	941,000	22,799,000
Others	<u>3,704,607</u>	<u>1,904,000</u>	<u>1,088,151</u>	<u>4,520,456</u>	<u>2,176,749</u>	<u>2,343,707</u>
TOTAL	<u>\$51,359,607</u>	<u>\$13,964,000</u>	<u>\$ 3,633,151</u>	<u>\$61,690,456</u>	<u>\$ 4,892,749</u>	<u>\$56,797,707</u>

NOTE 8 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by CRIM to the Municipality (See Note 9).

These property taxes are accumulated by CRIM in costs of the general obligations bonds issued by the Municipality (See Note 7). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by CRIM of Puerto Rico.

NOTE 9 PROPERTY TAXES

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

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 PROPERTY TAXES, Continued

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.53% for real property and 6.53% for personal property, of which 1.03% of both rates belong to the Commonwealth of Puerto Rico, and 7.50% and 5.50%, respectively, belong to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represent the Municipality's basic tax rates that are appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion of 1.50% belonging to the Municipality represents the ad-valorem property taxes withheld by CRIM and restricted for debt service, which is accounted for through the debt service fund (See Note 8). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. CRIM, instead of the property taxpayer, becomes the source of payment in these cases.

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

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

NOTE 10 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from: the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

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

NOTE 12 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from defined contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN, Continued

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2004 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 EMPLOYEE'S RETIREMENT PLAN, Continued

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2005 was approximately \$791,961. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2005. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940.

NOTE 13 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome, with the exception of various uninsured lawsuits for which our legal counsel estimate in \$200,000 the probable unfavorable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available can not determine the final outcome of these claims. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts and in the opinion of the administration, the outcome of these law suits will not have a materially adverse effect in the accompanying financial statements and accordingly, no provision for losses has been recorded.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsels of the Municipality have advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

NOTE 14 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

According to the Environmental Protection Agency's (EPA) regulations, the Municipality must follow certain closure functions and postclosure monitoring and maintenance procedures. In addition, the Municipality has not adopted the GASB Number 18 in order to comply with these regulations.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS, Continued

As of June 30, 2002, the Municipality proceeded with the rehabilitation of an inactive landfill. According with a study performed, the landfill qualified to receive additional waste material during a maximum estimated useful life of 40 months. The total estimated closing and postclosing costs in accordance with the study are \$1,250,000, which will be recognized in the financial statements as required by this accounting policy. Of this amount, a total of \$135,000 (75% of the estimated life) was recognized as expense during fiscal year 2004-2005, with a reimbursement to the Municipality of \$378,700 from the proceeds of collections for the material deposited in the landfill. The reimbursement is not available for future periods. The amount due to the private company should be paid when the closing is performed the following year.

NOTE 15 NET ASSETS AND FUND BALANCES RESTATEMENTS

During fiscal year 2002-2003, the Municipality implemented several new accounting standards and an interpretation issued by GASB. As part of the implementation of the new standards, during the current fiscal year 2004-2005, the Municipality continued the documentation of capital assets not previously reported and the inventory of infrastructure.

These new accounting standards caused most of the accounting changes, changes in reporting entity, and restatements described on the ensuing discussions below. Changes and restatements for reasons other than the adoption of the above pronouncements are also explained below.

GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (1) governmental fund liabilities and (2) general long-term liabilities of the government. The provisions of this interpretation have been incorporated into the basic financial statements and notes.

The following schedule reconciles the June 30, 2005 Net Assets, as previously reported, to Beginning Net Assets, as restated, July 1, 2004:

	<u>NET ASSETS</u>
Net Assets, as Previously Reported, At JUNE 30, 2005	\$84,917,727
Adjustment to Capital Assets.....	8,446,106
Adjustment to Head Start Revenues	307,493
Beginning Net Assets, as Restated, At July 1, 2004	<u>\$93,671,326</u>

The following schedule reconciles the JUNE 30, 2005 Fund Balances, as previously reported, to Beginning Fund Balances, as restated, July 1, 2004.

	<u>FUND BALANCE RESTATED</u>			
	<u>REAL MARINA FUND</u>	<u>MARKETPLACE LOAN FUND</u>	<u>LOANS FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>
Fund Balance, as Previously Reported, At JUNE 30, 2005	\$ -	\$ -	\$ 21,241,521	\$ 5,824,806
Reclassification of Major Fund.....	<u>12,936,802</u>	<u>5,539,029</u>	<u>(21,241,521)</u>	<u>2,765,690</u>
Beginning Fund Balance, as Restated, At July 1, 2004	<u>\$ 12,936,802</u>	<u>\$ 5,539,029</u>	<u>\$ -</u>	<u>\$ 8,590,496</u>

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for fiscal year beginning after December 15, 2004; and GASBS No. 46, *Net Assets Restricted by Enabling Legislation*, which is effective for period beginning after June 15, 2005. Early application is encouraged. The Municipality has not adopted the requirement of this statement. Other two pronouncements are issued (GASBS Nos. 43 and 44), but do not apply to the Municipality.

The following are other pronouncements issued that does not apply to the Municipality:

GASB No. 43. *Financial Reporting for Post employment Benefit Plans Other than Pension Plans* (Period beginning after December 15, 2006).

GASB No.44. *Economic Condition Reporting: The Statistical Section* (Period beginning after June 15, 2005).

GASB No. 45. *Accounting and Financial Reporting by Employers for Post employment Benefit Other than Pension* (Period beginning after December 15, 2007).

END OF NOTES

MUNICIPALITY OF AGUADILLA, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

MUNICIPALITY OF AGUADILLA, PUERTO RICO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) (SEE NOTE A)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2004	\$ 1,465,291	\$ 1,465,291	\$ 1,465,291	\$ -
Resources (Inflows):				
Property Taxes	8,330,482	8,038,816	10,164,017	2,125,201
Volume of Business Taxes	7,500,000	7,516,215	7,557,843	41,628
Intergovernmental Revenues	5,137,345	5,137,345	4,873,731	(263,614)
License and Permits	1,850,000	1,374,206	1,382,664	8,458
Rent	105,000	105,000	82,860	(22,140)
Miscellaneous	<u>1,392,800</u>	<u>1,852,379</u>	<u>1,398,891</u>	<u>(453,488)</u>
Total Resources (Inflows)	<u>24,315,627</u>	<u>24,023,961</u>	<u>25,460,006</u>	<u>1,436,045</u>
Amounts Available for Appropriation	<u>25,780,918</u>	<u>25,489,252</u>	<u>26,925,297</u>	<u>1,436,045</u>
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	1,605,006	1,582,251	1,572,288	9,963
General Government	11,867,007	13,265,493	13,172,116	93,377
Public Safety	1,697,037	1,645,626	1,643,212	2,414
Public Works	1,551,077	1,701,595	1,687,531	14,064
Health and Sanitation	2,409,918	2,321,544	2,298,538	23,006
Culture and Recreation	1,482,240	1,499,952	1,491,040	8,912
Human Services and Welfare	3,221,342	3,034,542	3,003,451	31,091
Capital Outlays	112,900	213,636	210,230	3,406
Transfer to Other Funds	<u>369,100</u>	<u>559,322</u>	<u>559,168</u>	<u>154</u>
Total Charges to Appropriations	<u>24,315,627</u>	<u>25,823,961</u>	<u>25,637,574</u>	<u>186,387</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005	\$ 1,465,291	\$ (334,709)	\$ 1,287,723	\$ 1,622,432

See accompanying Notes to Required Supplementary Information.

MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 43).....	\$ 26,925,297
Difference – Budget to GAAP:	
The Fund Balance at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes.	<u>(1,465,291)</u>
Total Revenues, as reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 25,460,006</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 43).....	\$ 25,637,574
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.	(2,249,745)
Payments of encumbrances of prior year that are expenditures for financial reporting Purposes but are not outflows for budgetary purposes	1,864,064
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	<u>(559,168)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 18)	<u>\$ 24,692,725</u>

NOTE B Explanation of Differences between Budgetary Fund Balance and GAAP Fund Balance

Budgetary Fund Balance, June 30, 2005 (See Page 43)	\$ 1,287,723
Timing Differences:	
Non-budgetary Items	33,240
Change in Encumbrances.....	<u>385,681</u>
Unrestricted Fund Balance, June 30, 2005 (See Page 16)	<u>\$ 1,706,644</u>

END OF THIS SECTION

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2005

MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor / Pass Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA).....	10.558	CCC-07-AG	\$ 464,379
Pass-Through Office of the Governor – Elderly Office			
Child and Adult Care Food Program (USDA).....	10.558	N/AV	<u>11,777</u>
Total U.S. Department of Agriculture			<u>476,156</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants (CDBG).....	14.218		2,777,303
Urban Development Action Grant	14.221		11,657
Emergency Shelter Grant Program.....	14.231		75,557
Home Investment Partnership Program (HOME)	14.239		347,433
Section 8 Rental Housing Choice Vouchers	14.871		<u>1,097,245</u>
Total U.S. Department of Housing and Urban Development....			<u>4,309,195</u>
U.S. Department of Justice:			
Direct Programs:			
Weed and Seed.....	16.595		<u>154,307</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>\$ 4,939,658</u>

Continue

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continue

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor / Pass Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$ 4,939,658</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of the Governor – Elderly Office:			
Special Program for Aging, Title III, Part B	93.044	N/AV	165,894
Special Program for Aging, Title III, Part C	93.045	N/AV	171,209
Pass-Through Administration of Families and Children:			
Head Start Program.....	93.600	02-CH-0483-37	
.....	93.600	02-CH-0483-38	<u>5,974,185</u>
Total U. S. Department of Health and Human Services			<u>6,311,288</u>
Corporation for National and Community Service (CNS):			
Volunteers in Service to America (Vista Project Support)	94.013	N/AV	<u>11,480</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$11,262,426</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the Municipality of Aguadilla, Puerto Rico. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The Municipality reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

MUNICIPALITY OF AGUADILLA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Municipality, provided federal awards to subrecipients as follows:

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNT PROVIDED TO SUBRECIPIENTS</u>
Community Development Block Grant-Entitlement Grants (CDBG)	14.218	\$147,534
Emergency Shelter Grant Program (ESG)	14.231	88,520
HOME Investment Partnership Program (HOME)	14.239	<u>164,133</u>
TOTAL.....		<u>\$400,187</u>

NOTE 6 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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Partners:
Juan E. Román Toro, MBA, CPA
José D. Román Toro, CPA

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Aguadilla, Puerto Rico**, as of and for the year ended June 30, 2005, which collectively comprise Municipality of Aguadilla's basic financial statements and have issued our report thereon dated December 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Aguadilla's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Aguadilla, Puerto Rico's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

Roman Toro & Co.
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Yauco, Puerto Rico
December 12, 2005

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

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

Compliance

We have audited the compliance of **Municipality of Aguadilla, Puerto Rico** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Municipality of Aguadilla's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Aguadilla's management. Our responsibility is to express an opinion on Municipality of Aguadilla's compliance based on our audit.

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

In our opinion, Municipality of Aguadilla, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

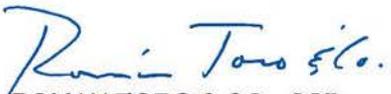
The management of Municipality of Aguadilla, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Aguadilla's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

(CONTINUED)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by errors or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 12, 2005

Stamp #2100262 was affixed to
the original of this report

**MUNICIPALITY OF AGUADILLA, PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Reportable condition(s) identified? Yes None reported
- Material weakness (es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Reportable condition(s) identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.248	Community Development Block Grant Section 108 Loan Guarantees
93.600	Head Start Program
14.871	Section 8 – Rental Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B Programs: \$337,873

Auditee qualified as low-risk auditee? Yes No

**MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

**SECTION III – FINANCIAL AWARD FINDINGS AND
QUESTIONED COSTS**

None

**MUNICIPALITY OF AGUADILLA, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Cost	Comments
(1) Audit Findings that have been fully corrected:					
	NONE				
(2) Audit Findings not corrected or partially corrected:					
	NONE				
(3) Corrective action taken is significantly different from corrective action previously reported:					
	NONE				
(4) Audit findings is no longer valid:					
	NONE				
END OF SCHEDULE					

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