

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

MUNICIPIO DE AGUADILLA
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2006

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AREA DE
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MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2006

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MUNICIPALITY OF AGUADILLA, PUERTO RICO

FINANCIAL SECTION

YEAR ENDED JUNE 30, 2006



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ROMAN TORO & CO., CSP
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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, 2006, 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, 2006, 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.

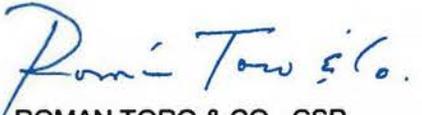
In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006, on our consideration of the Municipality of Aguadilla, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 15 and 49 through 50, 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, 2006

Stamp #2181441 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, 2006

As management of the Municipality of Aguadilla, Puerto Rico, we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here 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 2006 by \$92,087,483 (net assets).
- Revenues increased by \$8,591,532 (20.8%) and expenses increased \$2,858,435 (6.4%) in comparison with year 2005, as restated.
- Net change in net assets amounted to \$3,236,936, an increase of 196% with respect to prior year (2005) 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 \$46,645,914, an increase of \$5,306,616 in comparison with the prior year, as restated.
- Enterprise funds reported combined fund net assets of \$11,576,844, an increase of \$705,235 in comparison with the prior year.
- The General Fund reported an excess of revenues over expenditures and other financing uses of \$4,330,834 and unreserved fund balance of \$4,630,366. Unreserved fund balances increased \$2,923,722 from prior year.

General Financial Highlights

- The investment in net capital assets as of June 30, 2006 was \$80,151,494 (net of related debt), \$70,068,980 from governmental activities and \$10,082,514 from business-type activities.
- Long term debt general and special obligations increased to \$60,995,446, approximately increase of 6.7% (\$3,825,446) with respect to prior year balance. (New special obligation notes of \$6,541,446 less payments of \$2,716,000.)
- Other long term debt increases and net reductions from payments amounted to \$1,897,293 and \$903,328, respectively. Such increases represent the accumulation of compensated absences during the fiscal year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$2,372,389, net of \$919,000 designated general fund for future expenditures (transfers out to special fund).

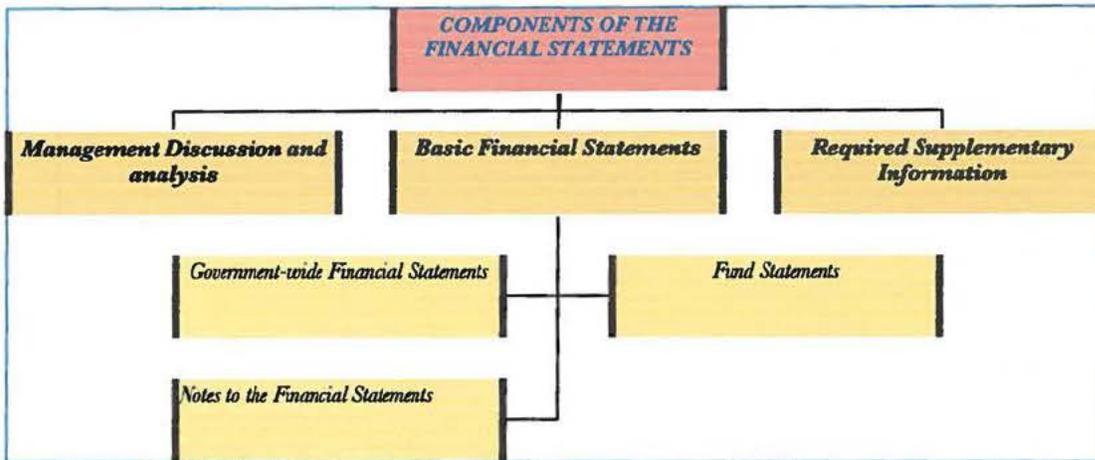
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

General Financial Highlights, Continued

- Revenues increase was mainly due to \$931,537 of construction taxes, \$542,256 of intergovernmental revenues, and \$239,466 in volume of business taxes of original estimate that the Municipality does not modify the budget. Also, economies were generated during the years in the amount of \$504,025.

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 *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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

- **Government-Wide Financial Statements, Continued**

The *Statement of Activities* presents information showing how the government's net assets changed during the year. All changes in net assets (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities the Municipality include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. The business-type activities of the Municipality include the Aguadilla's Waterfalls Aquatic Park and Aguadilla Ice Skating Arena.

The government-wide financial statements can be found on pages 16-17 of this report.

- **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

Governmental Funds – The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Governmental Funds, Continued

The Municipality maintains over ninety individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, head start fund, CDBG fund, Marketplace Loan fund, Real Marina fund and debt service fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 18-23 of this report.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – The Municipality maintain only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Municipality uses enterprise funds to account for its Aguadilla's Waterfalls Aquatic Park and Aguadilla Ice Skating Arena.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Aguadilla's Waterfalls Aquatic Park and Aguadilla Ice Skating Arena, both of which are considered to be major funds of the Municipality.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 27-48 of this report.

- ***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 that can be found on pages 49-50 of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006 and 2005:

	Statement of Net Assets As of June 30,					
	Governmental Activities		Business-Type Activities		TOTAL	
	2006	2005	2006	2005	2006	2005
Current and non-current assets	\$ 65,143,325	\$ 60,398,428	\$ 1,796,488	\$ 1,312,170	\$ 66,939,813	\$ 61,710,598
Capital assets (As Restated)	<u>104,432,814</u>	<u>101,942,951</u>	<u>10,082,514</u>	<u>10,344,807</u>	<u>114,515,328</u>	<u>112,287,758</u>
Total Assets	<u>169,576,139</u>	<u>162,341,379</u>	<u>11,879,002</u>	<u>11,656,977</u>	<u>181,455,141</u>	<u>173,998,356</u>
Current liabilities	2,719,564	1,990,737	236,721	785,368	2,956,285	2,776,105
Deferred revenues	8,259,225	9,104,404	-	-	8,259,225	9,104,404
Long-term liabilities	<u>66,509,867</u>	<u>61,690,456</u>	<u>65,437</u>	<u>-</u>	<u>66,575,304</u>	<u>61,690,456</u>
Total Liabilities	<u>77,488,656</u>	<u>72,785,597</u>	<u>302,158</u>	<u>785,368</u>	<u>77,790,814</u>	<u>73,570,965</u>
Net Assets:						
Investment in capital assets, Net of Related Debt (As Restated)	70,068,980	75,978,091	10,082,514	10,344,807	80,151,494	86,322,898
Restricted	18,251,736	10,035,387	-	-	18,251,736	10,035,387
Unrestricted (As Restated)	<u>3,766,767</u>	<u>3,542,304</u>	<u>1,494,330</u>	<u>526,802</u>	<u>5,261,097</u>	<u>4,069,106</u>
Total Net Assets	<u>\$ 92,087,483</u>	<u>\$ 89,555,782</u>	<u>\$ 11,576,844</u>	<u>\$ 10,871,609</u>	<u>\$103,664,327</u>	<u>\$100,427,391</u>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$103,664,327 at the close of the most recent fiscal year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for \$80,151,494 [total capital assets less accumulated depreciation and less any related outstanding debt used to acquire those assets]. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

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

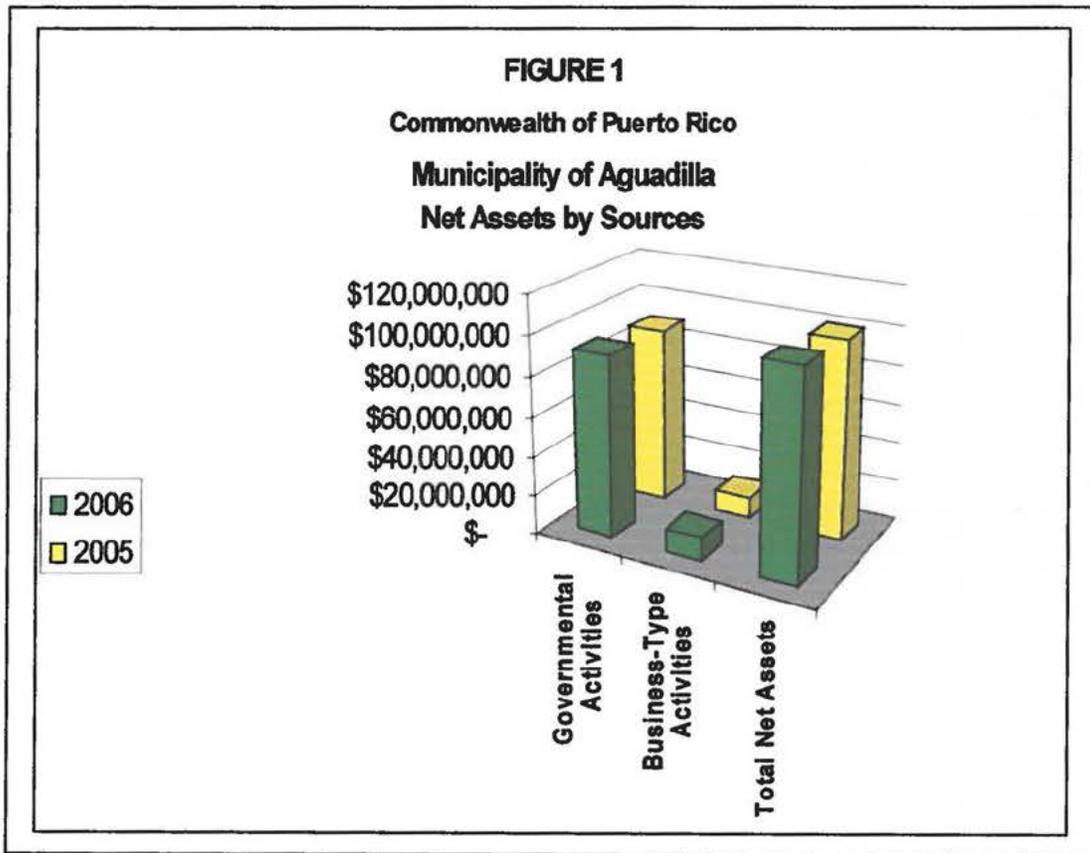
Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2006 the Municipality presented unrestricted net assets of \$3,766,767. This balance was affected by long term obligations such as compensated absences \$4,667,183, the estimated municipal solid waste landfill future closing cost \$521,080 and other debts for the amount of \$200,000 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. There is \$1,494,330 in unrestricted net assets reported in connection with the Municipality's business-type activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE, Continued

An additional portion of the Municipality's net assets (\$18,251,736) represents resources that are subject to external restrictions on how they may be used. There were an increase of \$8,216,349 in restricted net assets. See Figure 1.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2006 and 2005:

	Governmental Activities		Business-Type Activities		TOTAL	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 176,743	\$ 160,444	\$ 3,268,417	\$ 2,027,980	\$ 3,445,160	\$ 2,188,424
Operating Grants and Contributions..	9,921,342	10,947,342	-	-	9,921,342	10,947,342
Capital Grants and Contributions	280,850	-	-	-	280,850	-
General Revenues:						
Property Taxes.....	12,257,260	12,185,299	-	-	12,257,260	12,185,299
Volume of Business Taxes	10,016,589	7,557,843	-	-	10,016,589	7,557,843
Construction Taxes.....	2,632,322	1,382,664	-	-	2,632,322	1,382,664
Intergovernmental.....	8,470,360	4,873,731	-	-	8,470,360	4,873,731
Other General Revenues.....	<u>3,996,686</u>	<u>2,259,220</u>	<u>-</u>	<u>-</u>	<u>3,996,686</u>	<u>2,259,220</u>
Total revenues.....	<u>47,752,152</u>	<u>39,366,543</u>	<u>3,268,417</u>	<u>2,027,980</u>	<u>51,020,569</u>	<u>41,394,523</u>
Governmental Activities Expenses:						
General Administration	19,094,254	20,291,742	-	-	19,094,254	20,291,742
Public Safety.....	1,776,161	1,712,299	-	-	1,776,161	1,712,299
Public Works	1,800,400	1,858,805	-	-	1,800,400	1,858,805
Culture and Recreation.....	1,361,111	1,434,109	-	-	1,361,111	1,434,109
Health and Sanitation	2,135,284	3,434,882	-	-	2,135,284	3,434,882
Human Services and Welfare.....	4,780,771	4,991,988	-	-	4,780,771	4,991,988
Urban Development.....	4,905,990	1,897,109	-	-	4,905,990	1,897,109
Education.....	7,057,884	5,441,481	-	-	7,057,884	5,441,481
Interest Costs.....	<u>2,359,767</u>	<u>1,916,712</u>	<u>-</u>	<u>-</u>	<u>2,359,767</u>	<u>1,916,712</u>
Total expenses.....	<u>45,271,622</u>	<u>42,979,127</u>	<u>-</u>	<u>-</u>	<u>45,271,622</u>	<u>42,979,127</u>
Business-Type Activities Expenses:						
Aguadilla's Waterfalls Aquatic Park...	-	-	1,182,640	1,068,047	1,182,640	1,068,047
Aguadilla Ice Skating Arena	<u>-</u>	<u>-</u>	<u>1,163,757</u>	<u>712,510</u>	<u>1,163,757</u>	<u>712,510</u>
Total expenses.....	<u>-</u>	<u>-</u>	<u>2,346,397</u>	<u>1,780,557</u>	<u>2,346,397</u>	<u>1,780,557</u>

Governmental Activities. The government's net assets increased by \$2,480,530 during the current fiscal year. Key elements of this increase are as follows:

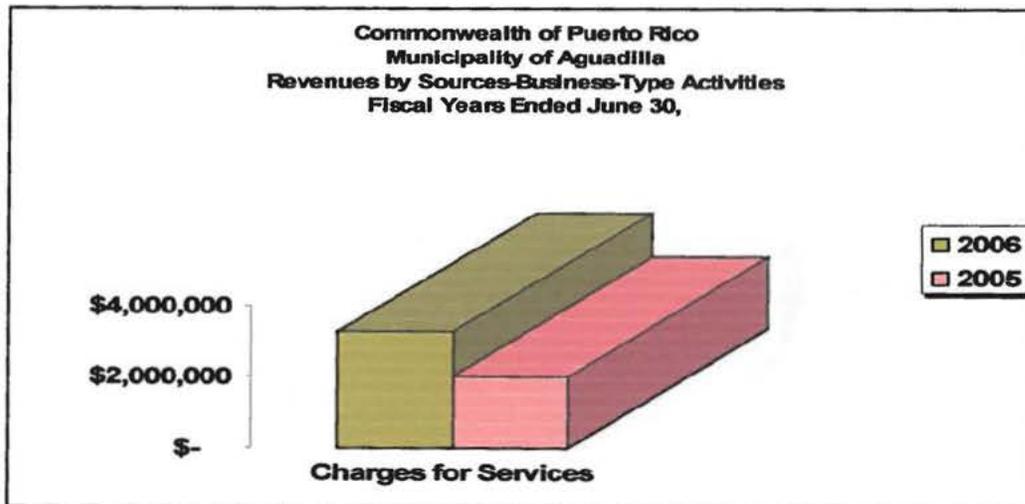
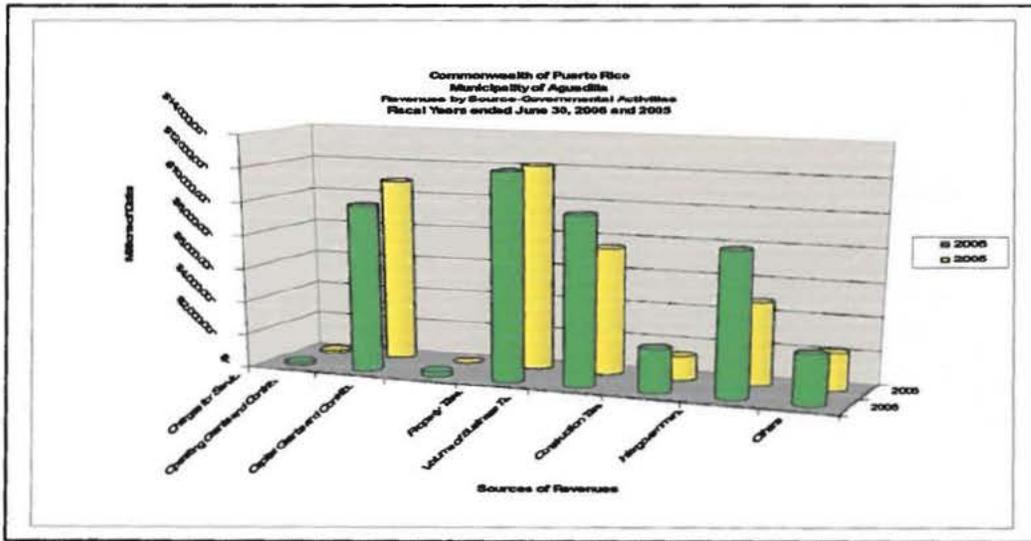
- Volume of business taxes increased by \$2,458,746.
- Intergovernmental revenues increased by \$3,596,629.
- Construction taxes increased by \$1,249,658.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Also, non-capitalized expenses were incurred for maintenance of capital assets.

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

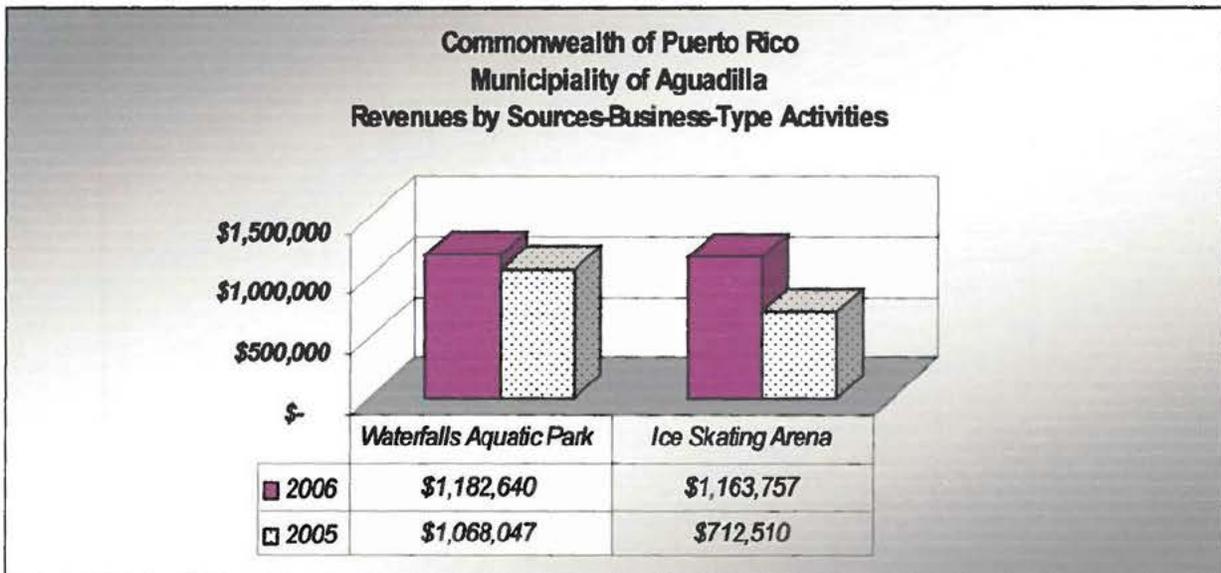
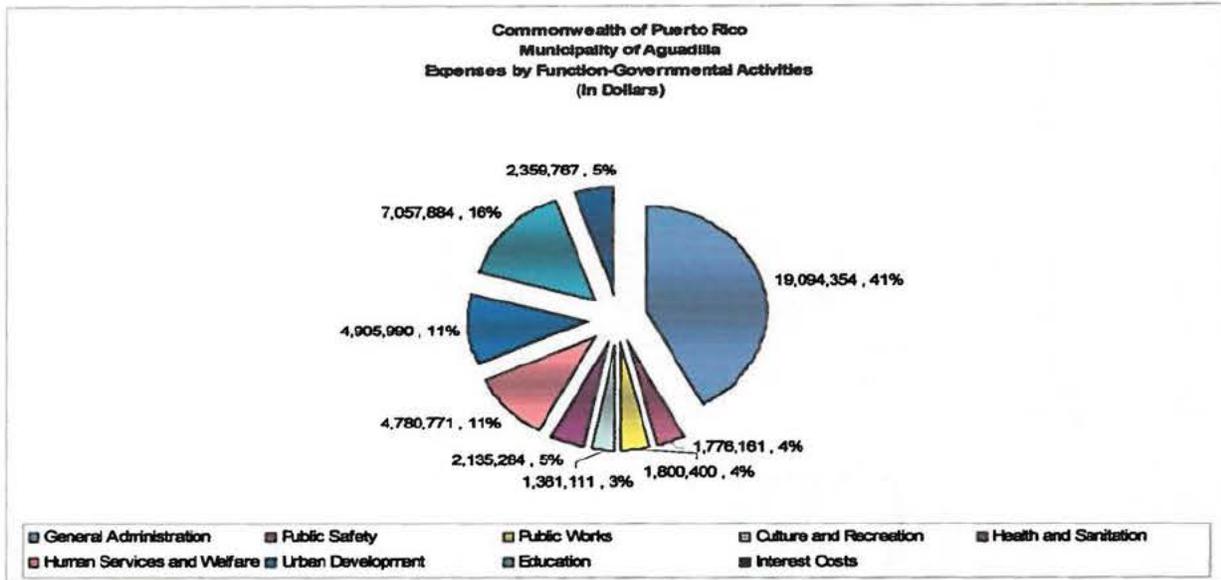
FIGURES 2



**Commonwealth of Puerto Rico
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Figures 3 present expenses by function of the governmental activities and business-type activities during the fiscal year 2005-2006:

FIGURES 3



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Approximately 20.5% of the Municipality's revenues came from grants and contributions, 24.6% from property taxes, volume of business taxes 20.1% and 34.8% from other sources. The Municipality's expenses cover a range of services. The largest expenses are general administration with 42.2%, education representing approximately 15.6%, urban development with 10.9%, and human services and welfare with 10.6%. Program revenues of the Municipality covered 23% of total expenses.

With respect to prior year, revenues increased by approximately \$7,351,000 or 18.7%, principally in intergovernmental revenues, volume of business taxes and construction taxes.

Expenses increased 5.4% or \$2,292,595 in comparison with 2005 year. Significant increases were registered on donations and services incurred for the benefit of the community. Also, increases were on interest costs for new financing in prior years and to additional capital assets maintenance and other non-capitalize costs.

Business-Type Activities. The government's net assets increased by \$705,235 during the current fiscal year. Key element of this increase is as follow:

- Charges for services increased by \$1,240,437.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Significant increase in charges for services was for the operation for the full year on the new recreational facilities.

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):

	Net Cost of Municipality			
	Fiscal years ended June 30,			
	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Governmental Activities:				
General Administration.....	\$19,094,254	\$20,291,742	\$18,917,511	\$19,294,644
Public Safety	1,776,161	1,712,299	1,776,161	1,712,299
Public Works	1,800,400	1,858,805	1,800,400	1,858,805
Culture and Recreation	1,361,111	1,434,109	1,361,111	1,434,109
Health and Sanitation	2,135,284	3,434,882	2,135,284	3,434,882
Human Services and Welfare.....	4,780,771	4,991,988	2,069,878	2,805,127
Urban Development	4,905,990	1,897,109	2,776,390	(517,360)
Education	7,057,884	5,441,481	1,696,185	(67,877)
Interest Costs	2,359,767	1,916,712	2,359,767	1,916,712
Total expenses	<u>45,271,622</u>	<u>42,979,127</u>	<u>34,892,687</u>	<u>31,871,341</u>
Business-Type Activities:				
Aguadilla's Waterfall Park	1,182,640	1,068,047	(779,210)	(181,967)
Aguadilla Ice Skating Arena	1,163,757	712,510	(142,810)	(65,456)
Total expenses	<u>2,346,397</u>	<u>1,780,557</u>	<u>(922,020)</u>	<u>(247,423)</u>
Total expenses	<u>\$47,618,019</u>	<u>\$44,759,684</u>	<u>\$33,970,667</u>	<u>\$31,623,918</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Some of the cost of governmental activities in 2006 was paid by those who directly benefited from the programs (\$176,743) and other governments and organizations that subsidized certain programs with grants and contributions (\$10,202,192). The \$34,892,787 net cost of services was partially covered by other general revenues including property, volume of business taxes, intergovernmental and others. Business-type activities in 2006 were paid by those directly benefited from the programs.

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, 2006, the governmental funds reported combined ending fund balances of \$46,645,914, a net increase of \$5,306,616 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 \$6,541,446 and sale of capital asset \$919,000. Of total combined fund balances, \$4,630,366 (10%) constitutes unreserved fund balance of general fund. The remainder of fund balance is reserved for specific purpose 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 55.9% of total ending general fund balance. For the year ended June 30, 2006, the fund balance of the general fund increased by \$2,923,722 when compared with the prior year. The principal component of the net increases is an excess of revenues with corresponding control in operating expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2005-2006 is similar with prior year budget. Amendments to the original budget for additional \$5.3 million are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$3,660,000 in volume of business taxes, \$680,000 in construction taxes and \$919,000 for the proceeded of sale of capital assets. Budget expenditures were adjusted properly for the increase in estimate; principally in urban development and transfer to other funds (for future capital expenditures). Actual revenues were greater than the revised budgeted revenues by \$1,868,364. The most significant variance is in construction taxes (\$931,537), intergovernmental revenues (\$542,256), and volume of business taxes (\$239,466).

Also, economies were generated during the years in the amount of \$504,025. 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, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$114,515,325 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of \$2,227,570 or 2% more than prior year, as restated.

The Municipality acquired a total of \$5,351,000 of capital assets during the fiscal year 2005-2006 as follows:

- Purchase of land - \$390,000
- Acquisition of building - \$507,000 (to be used as an addition to the City Hall)
- Acquisition of Motor Vehicles - \$1,150,591
- Acquisition of Machinery and Equipment - \$658,815
- Construction in Progress - \$2,643,761

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

	Capital Assets, net As of June 30,	
DESCRIPTION	2006	2005
GOVERNMENTAL ACTIVITIES:		
Non-Depreciable Capital Assets:		
Land	\$ 23,960,008	\$ 23,569,259
Construction in Progress	7,734,880	7,000,401
Depreciable Capital Assets:		
Buildings	34,860,222	33,417,214
Infrastructure	32,688,783	33,322,902
Motor Vehicles	2,997,709	2,703,251
Machinery and Equipment	<u>2,191,212</u>	<u>1,929,924</u>
Total Governmental Capital Assets	<u>104,432,814</u>	<u>101,942,951</u>
BUSINESS-TYPE ACTIVITIES:		
Non-Depreciable Capital Assets:		
Construction in Progress	347,504	347,504
Depreciable Capital Assets:		
Buildings	9,416,283	9,635,909
Motor Vehicles	18,800	27,491
Equipment	<u>299,927</u>	<u>333,903</u>
Total Business-Type Capital Assets	<u>10,082,514</u>	<u>10,344,807</u>
TOTAL	<u>\$114,515,328</u>	<u>\$112,287,758</u>

Long term debt

New general and special obligations were issued for new capital projects in the amount of \$6,541,446; advance from a total approved financing of \$8,955,000. Important projects for our communities should be constructed with the funds available in the capital project fund.

At year-end, the Municipality had \$60,995,446 in general and special bonds and notes, an increase of 6.7% with respect to prior year. In the next page following is a summary of the Municipality's outstanding debt as of June 30, 2006 and 2005:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

TABLE 5

Outstanding Long-term Debt As of June 30,		
	Governmental Activities	
	2006	(As restated) 2005
General and special obligation bonds and notes	\$60,995,446	\$57,170,000
Property Taxes	126,158	126,158
Solid Waste Landfill	521,080	1,156,000
Claims and Judgments	200,000	200,000
Compensated absences	<u>4,667,183</u>	<u>3,038,298</u>
Total	<u>\$66,509,867</u>	<u>\$61,690,456</u>

More detailed information about the Municipality's long term liabilities is presented in Note 8 and 9 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 12.6%, which compares with the Commonwealth rate of 10.2%.

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2006 are \$29 million, approximately \$3 million more than the fiscal year 2005. The Municipality expects an increase in revenues for the next years due to a new sales tax enacted by state legislature and Municipality ordinance during fiscal year 2006-2007. Also, revenues increases from other sources are demonstrative of the economic development from new commerce and stability of the manufacturing industry. 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, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS:			
Cash and Investments (Note 2).....	\$ 40,891,429	\$ 2,115,011	\$ 43,006,440
Cash with Fiscal Agent.....	12,958,261	-	12,958,261
Receivables (net):			
Property Taxes.....	15,532	-	15,532
Federal Grants.....	6,915,082	-	6,915,082
Others.....	3,780,059	9,000	3,789,059
Internal Balances.....	327,523	(327,523)	-
Deferred Charges.....	204,168	-	204,168
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress.....	31,694,888	347,504	32,042,392
Other Capital Assets [Net of Depreciation].....	<u>72,738,926</u>	<u>9,735,010</u>	<u>82,473,936</u>
TOTAL ASSETS.....	<u>169,525,868</u>	<u>11,879,002</u>	<u>181,404,870</u>
LIABILITIES:			
Accounts Payable and Accrued Expenses.....	1,960,627	236,721	2,197,348
Accrued Interest.....	758,937	-	758,937
Deferred Revenue.....	8,259,225	-	8,259,225
Long-Term Liabilities (Note 7):			
Due within One Year.....	6,484,960	48,855	6,533,815
Due in More than One Year.....	<u>60,024,907</u>	<u>16,582</u>	<u>60,041,489</u>
Total Liabilities.....	<u>77,488,656</u>	<u>302,158</u>	<u>77,790,814</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt.....	70,069,980	10,082,514	80,152,494
Restricted for:			
Capital Projects.....	2,997,136	-	2,997,136
Head Start Program.....	2,826,033	-	2,826,033
Debt Service.....	5,880,748	-	5,880,748
Community Development Projects.....	2,828,824	-	2,828,824
Other Purposes.....	3,667,724	-	3,667,724
Unrestricted.....	<u>3,766,767</u>	<u>1,494,330</u>	<u>5,261,097</u>
TOTAL NET ASSETS.....	<u>\$ 92,037,212</u>	<u>\$ 11,576,844</u>	<u>\$103,614,056</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, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
Mayor and Municipal Legislature	\$ 1,455,224	\$ -	\$ -	\$ -	(\$ 1,455,224)	\$ -	(\$ 1,455,224)
General Government	17,639,030	176,743	-	-	(17,462,287)	-	(17,462,287)
Public Safety	1,776,161	-	-	-	(1,776,161)	-	(1,776,161)
Public Works	1,800,400	-	-	-	(1,800,400)	-	(1,800,400)
Culture and Recreation	1,361,111	-	-	-	(1,361,111)	-	(1,361,111)
Health and Sanitation	2,135,284	-	-	-	(2,135,284)	-	(2,135,284)
Human Services and Welfare	4,780,771	-	2,710,893	-	(2,069,878)	-	(2,069,878)
Urban Development	4,905,990	-	1,848,750	280,850	(2,776,390)	-	(2,776,390)
Public Instruction	7,057,884	-	5,361,699	-	(1,696,185)	-	(1,696,185)
Interest on Long-Term Debt	2,359,767	-	-	-	(2,359,767)	-	(2,359,767)
Total Governmental Activities	45,271,622	176,743	9,921,342	280,850	(34,892,687)	-	(34,892,687)
Business-Type Activities:							
Aguadilla's Waterfalls Aquatic Park	1,182,640	1,961,850	-	-	-	779,210	779,210
Aguadilla Ice Skating Arena	1,163,757	1,306,567	-	-	-	142,810	142,810
Total Business-Type Activities	2,346,397	3,268,417	-	-	-	922,020	922,020
Total Activities	\$ 47,618,019	\$ 3,445,160	\$ 9,921,342	\$ 280,850	(34,892,687)	922,020	(33,970,667)
General Revenues:							
Taxes:							
Property Taxes, levied for General Purposes					8,723,643	-	8,723,643
Property Taxes, levied for Debt Service					3,533,617	-	3,533,617
Volume of Business Taxes					10,016,589	-	10,016,589
Construction Taxes					2,632,322	-	2,632,322
Intergovernmental					8,470,360	-	8,470,360
Rent					238,491	-	238,491
Miscellaneous					2,672,410	-	2,672,410
Special Item - Gain on Sale of Building					869,000	-	869,000
Transfers					216,785	(216,785)	-
Total General Revenues, Special Item and Transfers					37,373,217	(216,785)	37,156,432
CHANGE IN NET ASSETS					2,480,530	705,235	3,185,765
Net Assets - Beginning of Year, as Restated					89,556,682	10,871,609	100,428,291
NET ASSETS - ENDING OF YEAR					\$ 92,037,212	\$ 11,576,844	\$103,614,056

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL	HEAD START FUND	CDBG FUND	MARKETPLACE LOAN FUND	REAL MARINA FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS								
Cash and Investments (Note 2).....	\$ 15,118,878	\$ 12,616	\$ -	\$ 8,637,367	\$ 12,936,802	\$ -	\$ 4,185,766	\$ 40,891,429
Cash with Fiscal Agent.....	-	-	-	-	-	4,902,598	8,055,663	12,958,261
Receivables:								
Property Taxes.....	15,532	-	-	-	-	-	-	15,532
Federal Grants.....	-	4,289,728	2,344,438	-	-	-	280,916	6,915,082
Due from Other Funds (Note 5).....	2,581,805	-	-	-	-	-	500,000	3,081,805
Others Receivables.....	91,478	-	11,600	-	-	-	3,676,981	3,780,059
Total Assets.....	\$ 17,807,693	\$ 4,302,344	\$ 2,356,038	\$ 8,637,367	\$ 12,936,802	\$ 4,902,598	\$ 16,699,326	\$ 67,642,168
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts Payable.....	\$ 624,564	\$ 60,838	\$ 128,271	\$ -	\$ -	\$ 1,500,000	\$ 743,674	3,057,347
Accrued Interest.....	-	-	-	-	-	758,937	-	758,937
Due to Governmental Units (Note 6).....	97,150	-	-	-	-	-	-	97,150
Due to Other Funds (Note 5).....	500,000	379,391	48,943	-	-	37,913	1,788,035	2,754,282
Others.....	306,130	-	-	-	-	-	-	306,130
Deferred Revenues:								
Volume of Business Tax.....	7,992,626	-	-	-	-	-	-	7,992,626
Federal Grants.....	-	3,696,004	2,118,450	-	-	-	266,599	6,081,053
Total Liabilities.....	9,520,470	4,136,233	2,295,664	-	-	2,296,850	2,798,308	21,047,525

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

BALANCE SHEET – GOVERNMENTAL FUNDS, Continued

JUNE 30, 2006

	<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>
Fund Balances:								
Reserve For:								
Encumbrances	3,656,857	-	-	-	-	-	-	3,656,857
Debt Service	-	-	-	-	-	2,605,748	-	2,605,748
Unreserved, reported in:								
General fund	4,630,366							4,630,366
Head start		166,111						166,111
CDBG			60,374					60,374
Marketplace loan				8,637,367				8,637,367
Real Marina					12,936,802			12,936,802
Other governmental funds	-	-	-	-	-	-	13,901,018	13,901,018
Total Fund Balances	<u>8,287,223</u>	<u>166,111</u>	<u>60,374</u>	<u>8,637,367</u>	<u>12,936,802</u>	<u>2,605,748</u>	<u>13,901,018</u>	<u>46,594,643</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,807,693</u>	<u>\$ 4,302,344</u>	<u>\$ 2,356,038</u>	<u>\$ 8,637,367</u>	<u>\$ 12,936,802</u>	<u>\$ 4,902,598</u>	<u>\$ 16,699,326</u>	<u>\$ 67,642,168</u>

See accompanying Notes to Basic Financial Statements.

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

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

JUNE 30, 2006

Total Fund Balances – Governmental Funds (Page 18) \$ 46,594,643

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 17)
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	\$ 31,694,888	
Depreciable Capital Assets	70,622,907	
Infrastructure Assets	42,274,594	
Accumulated Depreciation	<u>(40,158,575)</u>	
Total Capital Assets		104,433,814

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

Deferred Charges		204,168
------------------------	--	---------

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	3,696,004	
CDBG	<u>2,118,450</u>	
Total Deferred Revenues		5,814,454

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	59,495,446	
Compensated Absences	4,667,183	
Claims	200,000	
Landfill Closure and Postclosure Cost	521,080	
Property Tax Advances	<u>126,158</u>	
Total Long-Term Liabilities		<u>(65,009,867)</u>

Total Net Assets of Governmental Activities (Page 16) \$ 92,037,212

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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<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>
REVENUES								
Property Taxes	\$ 8,723,643	\$ -	\$ -	\$ -	\$ -	\$ 3,533,617	\$ -	\$ 12,257,260
Volume of Business Taxes	10,016,589	-	-	-	-	-	-	10,016,589
Federal Assistanes	-	5,531,580	2,150,137	-	-	-	2,710,893	10,392,610
Intergovernmental	6,857,113	-	-	-	-	-	1,613,247	8,470,360
Licenses and Permits	2,632,322	-	-	-	-	-	-	2,632,322
Rent	238,491	-	-	-	-	-	-	238,491
Miscellaneous	<u>2,325,144</u>	-	<u>33,843</u>	-	-	-	<u>490,166</u>	<u>2,849,153</u>
Total Revenues	<u>30,793,302</u>	<u>5,531,580</u>	<u>2,183,980</u>	-	-	<u>3,533,617</u>	<u>4,814,306</u>	<u>46,856,785</u>
EXPENDITURES								
Current:								
Mayor and Municipal Assembly	1,379,470	-	-	-	-	-	-	1,379,470
General Government	13,203,725	-	13,312	-	-	-	1,985,377	15,202,414
Public Safety	1,694,440	-	-	-	-	-	-	1,694,440
Public Works	1,556,446	-	-	-	-	-	-	1,556,446
Culture and Recreation	1,303,340	-	-	-	-	-	-	1,303,340
Health and Sanitation	2,458,784	-	-	-	-	-	-	2,458,784
Public Instruction	-	5,513,265	-	-	-	-	508,537	6,021,802
Human Services and Welfare	3,011,974	-	-	-	-	-	1,715,221	4,727,195
Urban Development	1,147,697	-	1,241,406	-	-	-	2,358,759	4,747,862
Capital Outlay	114,428	-	24,170	525,952	-	-	4,686,466	5,351,016
Debt Service:								
Principal	-	-	-	-	-	2,441,000	-	2,441,000
Interest and Other Charges	-	-	-	-	-	2,359,767	-	2,359,767
Bond Issue Costs	-	-	-	-	-	<u>35,135</u>	-	<u>35,135</u>
Total Expenditures	<u>25,870,304</u>	<u>5,513,265</u>	<u>1,278,888</u>	<u>525,952</u>	-	<u>4,835,902</u>	<u>11,254,360</u>	<u>49,278,671</u>

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	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)								
Proceed of Note	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,541,446	\$ 6,541,446
Transfers – In	-	-	216,785	-	-	1,858,972	919,000	2,994,757
Transfers – Out	(1,511,164)	-	(1,231,673)	-	-	-	(35,135)	(2,777,972)
Total Other Financing Sources and Uses	(1,511,164)	-	(1,014,888)	-	-	1,858,972	7,425,311	6,758,231
Special Item	919,000	-	-	-	-	-	-	919,000
Net Change in Fund Balances	4,330,834	18,315	(109,796)	(525,952)	-	556,687	985,257	5,255,345
Fund Balance – Beginning, as Restated..	3,956,389	147,796	170,170	9,163,319	12,936,802	2,049,061	12,915,761	41,339,298
FUND BALANCES – ENDING	\$ 8,287,223	\$ 166,111	\$ 60,374	\$ 8,637,367	\$ 12,936,802	\$ 2,605,748	\$ 13,901,018	\$ 46,594,643

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See accompanying Notes to Basic Financial Statements.

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances – Total Governmental Funds (Page 22) \$5,255,345

Amounts reported for Governmental Activities in the Statement of Activities (Page 17) 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	\$ 5,351,016	
Depreciation Expense	<u>(2,811,053)</u>	
Excess of Capital Assets over Depreciation Expense.....		2,539,963

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

CDBG	(20,537)	
Head Start	<u>(169,881)</u>	(190,418)

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset..... (50,000)

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 was (6,541,446)

Repayment of long-term principal is 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. 2,441,000

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 governmental funds. These activities consist of:

Decrease in Landfill Closure and Postclosure Cost.....	634,920	
Bond Issue Costs Amortization	20,051	
Increase in Compensated Absences.....	<u>(1,628,885)</u>	
Total Additional Expenditures.....		<u>(973,914)</u>

Change in Net Assets of Governmental Activities (Page 17) \$ 2,480,530

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS		
	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	TOTAL
ASSETS:			
Current Assets:			
Cash	\$ 1,622,334	\$ 492,677	\$ 2,115,011
Receivables	9,000	-	9,000
Total Current Assets	1,631,334	492,677	2,124,011
Noncurrent Assets:			
Construction in progress	347,504	-	347,504
Buildings and Equipment	6,404,641	6,076,230	12,480,871
Less Accumulated Depreciation	(2,540,432)	(205,429)	(2,745,861)
Total Noncurrent Assets	4,211,713	5,870,801	10,082,514
TOTAL ASSETS	5,843,047	6,363,478	12,206,525
LIABILITIES:			
Current Liabilities:			
Accounts Payable and Accrued Expenses	154,170	82,551	236,721
Due to Other Funds	29,828	297,695	327,523
Compensated Absences.....	24,320	24,535	48,855
Total Current Liabilities	208,318	404,781	613,099
Noncurrent Liabilities:			
Compensated Absences.....	9,885	6,697	16,582
Total Liabilities	218,203	411,478	629,681
NET ASSETS			
Invested in Capital Assets, Net of Related Debt.....	4,211,713	5,870,801	10,082,514
Unrestricted.....	1,413,131	81,199	1,494,330
TOTAL NET ASSETS	\$ 5,624,844	\$ 5,952,000	\$11,576,844

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS		
	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	TOTAL
OPERATING REVENUES:			
Charges for Services	\$ 1,961,850	\$ 1,306,567	\$ 3,268,417
OPERATING EXPENSES:			
Contractual Services.....	163,666	122,821	286,487
Payroll Expenses	273,406	349,405	622,811
Fringes Benefits.....	31,705	59,511	91,216
Utilities	309,124	265,253	574,377
Repair and Maintenance.....	75,971	87,955	163,926
Supplies and Other Expenses	166,063	149,385	315,448
Depreciation.....	162,705	129,427	292,132
Total Operating Expenses	1,182,640	1,163,757	2,346,397
Income Before Transfers	779,210	142,810	922,020
Transfer Out.....	(216,785)	-	(216,785)
CHANGES IN NET ASSETS.....	562,425	142,810	705,235
NET ASSETS, JULY 1, 2005.....	5,062,419	5,809,190	10,871,609
NET ASSETS, JUNE 30, 2006.....	\$ 5,624,844	\$ 5,952,000	\$11,576,844

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS		
	AGUADILLA'S WATERFALLS AQUATIC PARK	AGUADILLA ICE SKATING ARENA	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers and Users	\$ 1,964,054	\$ 1,306,567	\$ 3,270,621
Payments to Suppliers	(642,206)	(688,108)	(1,330,314)
Payments to Employees	<u>(270,906)</u>	<u>(377,684)</u>	<u>(648,590)</u>
Net Cash Provided by Operating Activities	<u>1,050,942</u>	<u>240,775</u>	<u>1,291,717</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Internal Activities – Receipts (Payments) to Other Funds	23,626	(254,675)	(231,049)
Operating Subsidies and Transfers to Other Funds	<u>(216,785)</u>	<u>-</u>	<u>(216,785)</u>
Net Cash Used from Noncapital Financing Activities	<u>(193,159)</u>	<u>(254,675)</u>	<u>(447,834)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases of Capital Assets	<u>(15,352)</u>	<u>(14,487)</u>	<u>(29,839)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	842,431	(28,387)	814,044
Cash, July 1, 2005	<u>779,903</u>	<u>521,064</u>	<u>1,300,967</u>
Cash, June 30, 2006	<u>\$ 1,622,334</u>	<u>\$ 492,677</u>	<u>\$ 2,115,011</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income	\$ 779,210	\$ 142,810	\$ 922,020
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	162,705	129,427	292,132
Decrease in Current Assets:			
Receivables	2,204	-	2,204
Increase (Decrease) in Current Liabilities:			
Accounts Payable	72,618	(62,694)	9,924
Accrued Expenses	<u>34,205</u>	<u>31,232</u>	<u>65,437</u>
Net Cash Provided by Operating Activities	<u>\$ 1,050,942</u>	<u>\$ 240,775</u>	<u>\$ 1,291,717</u>

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 "Autonomy 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 (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. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*.

GASBS No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balance; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. 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 and business type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund 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 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's governmental activities and business type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The *Statement of Net 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.
- 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* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Governmental Funds and Proprietary Funds Financial Statements

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

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. 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 different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations [Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Assets] 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.

C. 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. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds and Proprietary Funds Financial Statements

The governmental funds 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 enough thereafter to pay liabilities of the current period. For this purposes, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period.

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 are incurred to the extent available. For the other 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. The exceptions to this general rule are the compensated absences and claims and judgments, if any, that are recorded only when payment is due.

Property taxes, volume of business taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major governmental funds:

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

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

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

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.

Marketplace Fund – This is the fund used to account for all financial resources and transactions related to the loans for the construction of the Market Place, which is financed by bonds with the Governmental Development Bank of Puerto Rico.

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

The Municipality reports the following major proprietary funds:

Aguadilla's Waterfalls Aquatic Park – This is used to account for the operation of the Aquatic Park Las Cascadas. This is an amusement park with pools and various water related attractions.

Aguadilla Ice Skating Arena – This is the fund used to account for the operations of the Ice Skate Arena. This park consists of an ice skate ring, food court, and meeting rooms.

The non-major funds are combined in a single column in the fund financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the governmental-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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. All encumbrance appropriations in the operating budget lapse at the end of the fiscal year.

Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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 are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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

E. Cash 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center 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. Receivables and Payables

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

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivable are shown net of an allowances for uncollectible, 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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

Enterprise fund should capitalize interest only on debt actually reported in the fund itself. Interest on debt issued for the benefit of an enterprise fund but expected to be repaid from governmental activities should not be capitalized inasmuch as the debt would be reported as a liability of governmental activities rather than as a liability of the benefiting enterprise fund.

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. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. 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 8 on page 42).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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 the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. 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.

N. 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.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

O. 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.

P. 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.

NOTE 2 CASH AND INVESTMENTS

Investments consist of certificates of deposit. The Municipality's cash 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, 2006 the market value of investments approximated its carrying value as follow:

CERTIFICATE OF DEPOSIT ISSUED BY	PRINCIPAL NUMBER	INTEREST AMOUNT	RATE	EXPIRATION DATE
Popular Bank of Puerto Rico.....	01110000117	\$ 1,000,000	5.16%	07-11-06
Popular Bank of Puerto Rico.....	01110000121	5,000,000	5.21%	08-18-06
Popular Bank of Puerto Rico.....	01110000125	4,000,000	5.17%	07-12-06
Popular Bank of Puerto Rico.....	01110000135	1,000,000	5.52%	08-20-06
Popular Bank of Puerto Rico.....	01110000136	4,000,000	5.36%	10-19-06
Popular Bank of Puerto Rico.....	01110000137	2,336,802	5.59%	09-24-06
Popular Bank of Puerto Rico.....	01110000138	500,000	5.20%	07-08-06
Popular Bank of Puerto Rico.....	01110000139	500,000	5.20%	07-08-06
Popular Bank of Puerto Rico.....	01110000140	150,000	5.26%	08-28-06
Popular Bank of Puerto Rico.....	01110000141	1,000,000	5.27%	07-03-06
Popular Bank of Puerto Rico.....	01110000142	1,000,000	5.27%	07-03-06
Interest Bearing				
Bank Accounts:				
Banco Santander	3004262521	4,538,134	4.80%	
Banco Santander	3004294997	<u>2,013,137</u>	5.04%	
		<u>\$27,038,073</u>		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 CASH AND INVESTMENTS (continuation)

The Investment are distributed as follows:

General Fund.....	\$13,000,000
Paseo Real Marina Fund.....	11,888,073
Other Governmental Funds.....	1,000,000
Waterfalls Aquatic Park.....	1,000,000
Ice Skating Arena.....	<u>150,000</u>
	<u>\$27,038,073</u>

NOTE 3 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

As of June 30, 2006, the **Municipality's** custodial credit risk was approximately \$18 million, which is the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the **Municipality** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, among others.

NOTE 4 RECEIVABLES

As of June 30, 2006, the amount of others receivable of the Other Major Funds is \$168,806 from Title III, \$2,653 from Section 8, \$93,995 from Department of Labor and \$3,411,527 from Bonds issued but no cash received.

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

	UNAVAILABLE	UNEARNED
Volume of Business Taxes.....	\$ -	\$ 7,992,626
Head Start Grant.....	-	3,696,004
CDBG Grant.....	-	2,118,450
Other Governmental Funds (Federal Grants).....	<u>-</u>	<u>266,599</u>
Total Deferred/Unearned Revenue.....	<u>\$ -</u>	<u>\$14,073,679</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
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NOTE 5 INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Due to/from Other Funds at June 30, 2006 are summarized as follows:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT
General Fund	Other Funds	\$1,788,035
General Fund	Debt Service Fund	37,913
General Fund	CDBG	48,943
General Fund	Head Start Fund	379,391
General Fund	Proprietary Funds	327,523
Other Funds	General Fund	<u>500,000</u>
TOTAL		<u>\$3,081,805</u>

B. INTERFUND TRANSFERS

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

SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	\$ 592,164	Debt payments
General Fund	Other Governmental	919,000	Construction Projects
CDBG	Debt Service Fund	1,231,673	Debt payments
Proprietary Fund	CDBG	216,785	Program Income
Other Fund	Debt Service Fund	<u>35,135</u>	Bond Issue Costs
Total		<u>\$2,994,757</u>	

NOTE 6 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2006, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Puerto Rico Department of Labor	\$71,394
Retirement Administration.....	<u>25,756</u>
Total Due to Governmental Units.....	<u>\$97,150</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
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NOTE 7 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2006 was as follows:

DESCRIPTION	BALANCE JULY 1, 2005	ADJUSTMENTS	INCREASE	DECREASE	BALANCE JUNE 30, 2006
GOVERNMENTAL ACTIVITIES:					
Non-Depreciable Capital Assets:					
Land	\$ 20,237,424	\$ 3,331,835	\$ 390,749	\$ -	\$ 23,960,008
Construction in Progress	<u>2,574,181</u>	<u>2,516,938</u>	<u>2,643,761</u>	<u>-</u>	<u>7,734,880</u>
Total Non-Depreciable Capital Assets	<u>\$ 22,811,605</u>	<u>\$ 5,848,773</u>	<u>\$ 3,034,510</u>	<u>\$ -</u>	<u>\$ 31,694,888</u>
Depreciable Capital Assets:					
Buildings	\$ 63,219,798	\$ (8,527,870)	\$ 2,416,282	\$ (568,700)	\$ 56,539,510
Infrastructure	42,224,434	50,160	-	-	42,274,594
Motor Vehicles	8,333,555	(37,324)	1,150,591	(79,300)	9,367,522
Machinery and Equipment	<u>4,862,683</u>	<u>(498,613)</u>	<u>658,815</u>	<u>(307,510)</u>	<u>4,715,375</u>
Total Depreciable Capital Assets	<u>118,640,470</u>	<u>(9,013,647)</u>	<u>4,225,688</u>	<u>(955,510)</u>	<u>112,897,001</u>
Less Accumulated Depreciation:					
Buildings	(22,310,307)	1,036,093	(923,274)	518,700	(21,678,788)
Infrastructure	(8,757,007)	(194,685)	(634,119)	-	(9,585,811)
Motor Vehicles	(5,690,574)	97,591	(856,133)	79,300	(6,369,813)
Machinery and Equipment	<u>(2,343,541)</u>	<u>(90,605)</u>	<u>(397,527)</u>	<u>307,510</u>	<u>(2,524,163)</u>
Total Accumulated Depreciation	<u>(39,101,426)</u>	<u>848,394</u>	<u>(2,811,053)</u>	<u>905,510</u>	<u>(40,158,575)</u>
Total Depreciable Capital Assets (Net)	<u>\$ 79,539,044</u>	<u>\$ (8,165,253)</u>	<u>\$ 1,414,635</u>	<u>\$ (50,000)</u>	<u>\$ 72,738,426</u>
BUSINESS-TYPE ACTIVITIES:					
Non-Depreciable Capital Assets:					
Construction in Progress	\$ 347,504	\$ -	\$ -	\$ -	\$ 347,504
Depreciable Capital Assets:					
Buildings	11,972,263	-	-	-	11,972,263
Motor Vehicles	53,456	-	-	-	53,456
Equipment	<u>425,313</u>	<u>-</u>	<u>29,839</u>	<u>-</u>	<u>455,152</u>
Total Depreciable Capital Assets	<u>12,451,032</u>	<u>-</u>	<u>29,839</u>	<u>-</u>	<u>12,480,871</u>
Less Accumulated Depreciation:					
Buildings	(2,336,354)	-	(219,626)	-	(2,555,980)
Motor Vehicles	(25,965)	-	(8,691)	-	(34,656)
Equipment	<u>(91,410)</u>	<u>-</u>	<u>(63,815)</u>	<u>-</u>	<u>(155,225)</u>
Total Accumulated Depreciation	<u>(2,453,729)</u>	<u>-</u>	<u>(292,132)</u>	<u>-</u>	<u>(2,745,861)</u>
Total Depreciable Capital Assets (Net)	<u>9,997,303</u>	<u>-</u>	<u>(262,293)</u>	<u>-</u>	<u>9,735,010</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$10,344,807</u>	<u>\$ -</u>	<u>(\$ 262,293)</u>	<u>\$ -</u>	<u>\$10,082,514</u>

**COMMONWEALTH OF PUERTO RICO
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NOTE 7 CAPITAL ASSETS (continuation)

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

	AMOUNT
Governmental Activities:	
Mayor and Municipal Legislature.....	\$ 75,754
General Government.....	1,828,729
Public Safety	81,721
Public Works	243,954
Health and Sanitation	311,420
Culture and Recreation	57,771
Human Services and Welfare.....	53,576
Urban Development	<u>158,128</u>
Total Depreciation Expenses – Governmental Activities.....	<u>\$2,811,053</u>
Business-Type Activities:	
Aguadilla's Waterfalls Aquatic Park.....	\$ 162,705
Aguadilla Ice Skating Arena	<u>129,427</u>
Total Depreciation Expenses – Business-Type Activities.....	<u>\$ 292,132</u>

NOTE 8 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 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

General obligations bonds and notes payable as of June 30, 2006, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
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.....	\$ 400,000
\$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.....	1,890,000
\$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.....	4,415,000
\$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.....	2,790,000

**COMMONWEALTH OF PUERTO RICO
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NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$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.....	645,000
\$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.....	705,000
\$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.....	2,550,000
\$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.....	1,215,000
\$975,000, Series 2000, for construction purposes, payable in annual installments ranging from \$65,000 to \$135,000, excluding interests from 2.70% to 4.30%, through July 1, 2010.....	580,000
\$3,015,000, Series 2001, for construction purposes, payable in annual installments ranging from \$65,000 to \$285,000, excluding interests from 2.70% to 5.29%, through July 1, 2020.....	2,630,000
\$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% at 5.60%, through July 1, 2025	2,000,000
\$405,000, Series 2003, for construction purposes, payable in annual installments ranging from \$50,000 to \$70,000, excluding interests from 5.00% to 6.00%, through July 1, 2010.....	305,000
\$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.....	1,205,000
\$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.....	355,000
\$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.....	1,760,000
\$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.....	1,760,000
\$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.....	1,900,000
\$3,130,000, Series 2006, for construction purposes, payable in semiannual installments ranging from \$50,000 to \$240,000, excluding interests from 6.00% to 6.50%, through July 1, 2030.....	3,130,000

**COMMONWEALTH OF PUERTO RICO
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NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

DESCRIPTION	AMOUNT
Special Obligations Bonds:	
\$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>970,000</u>
Total General Obligations Bonds.....	<u>31,205,000</u>
Special Obligations Notes:	
\$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)	11,045,000
\$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	4,445,000
\$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	219,000
\$250,000, Series 2005, for purchase of equipment purpose, payable in semiannual installments ranging from \$5,000 to \$20,000, excluding interests from 5.00% to 6.50%, through July 1, 2029.....	240,000
\$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.....	1,090,000
Interim construction loan payable with \$4,220,000, Series 2006, with a repayment period of 25 years at 4.25% , (Unmatured)	2,979,100
Interim construction loan payable with \$1,940,000, Series 2006, with a repayment period of 25 years at 4.50%, (Unmatured)	344,296
Interim construction loan payable with \$2,105,000, Series 2006, with a repayment period of 25 years at 4.25%, (Unmatured)	13,050
Interim construction loan payable with \$690,000, Series 2006, with a repayment period of 25 years at 4.25%, (Unmatured)	75,000
Interim construction loan payable with \$9,340,000, Series 2004, with a repayment period of 25 years. Through at 5.00% from \$225,000 to \$660,000, (Unmatured)	<u>9,340,000</u>
Total Special Obligations Bonds.....	<u>29,790,446</u>
Total General and Special Obligations Bonds.....	<u>\$60,995,446</u>

**COMMONWEALTH OF PUERTO RICO
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NOTE 8 GENERAL LONG-TERM DEBTS (continuation)

The Municipality's general obligations long-term notes retirements are appropriated and paid from resources accumulated in the debt service fund (see Note 9). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center 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, 2006 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2007	\$ 2,454,000	\$ 2,501,855	\$ 4,955,855
2008	2,564,000	2,407,031	4,971,031
2009	2,718,000	2,290,623	5,008,623
2010	2,597,000	2,164,795	4,761,795
2011	2,439,000	2,021,525	4,460,525
2012-2016	11,854,000	8,067,523	19,921,523
2017-2021	11,468,000	5,272,894	16,740,894
2022-2026	8,675,000	2,089,297	10,764,297
2027-2030	3,475,000	400,902	3,875,902
Unmatured	<u>12,751,446</u>	-	<u>12,751,446</u>
TOTAL	<u>\$60,995,446</u>	<u>\$27,216,445</u>	<u>\$88,211,891</u>

B. OTHER LONG-TERM DEBTS

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006
Property Taxes – MRCC.....	\$ 126,158	\$ -	\$ -	\$ 126,158
Landfill Closure and Postclosure	1,156,000	-	634,920	521,080
Claims.....	200,000	-	-	200,000
Compensated Absences.....	<u>3,038,298</u>	<u>1,897,293</u>	<u>268,408</u>	<u>4,667,183</u>
TOTAL	<u>\$ 4,520,456</u>	<u>\$ 1,897,293</u>	<u>\$ 903,328</u>	<u>\$ 5,514,421</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, 2006:

DESCRIPTION	BALANCE JULY 1, 2005	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2006	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
General.....	\$33,430,000	\$ -	\$ 1,775,000	\$31,655,000	\$ 1,500,000	\$30,155,000
Special.....	23,740,000	6,541,446	941,000	29,340,446	954,000	28,386,446
Others.....	<u>4,520,456</u>	<u>1,897,293</u>	<u>903,328</u>	<u>5,514,421</u>	<u>4,030,960</u>	<u>1,483,461</u>
TOTAL	<u>\$61,690,456</u>	<u>\$ 8,438,739</u>	<u>\$ 3,619,328</u>	<u>\$66,509,867</u>	<u>\$ 6,484,960</u>	<u>\$60,024,907</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
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NOTE 9 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 the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality (See Note 10).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality (See Note 8). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 10 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The 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 belong to the Commonwealth of Puerto Rico and 7.50% and 5.50%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund.

The remaining portion belonging to the Municipality of 1.50% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the debt service fund (See Note 9). 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. The Municipal Revenue Collection Center, 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. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 11 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.

NOTE 12 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 13 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 EMPLOYEE'S RETIREMENT PLAN (continuation)

Contributions in 2006 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.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2006 was as follow:

	LAW NO. 447	SYSTEM 2000
Required	<u>\$612,000</u>	<u>\$321,082</u>
Actual	<u>\$612,000</u>	<u>\$321,082</u>

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, 2006. 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 14 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. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 15 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.

As of June 30, 2002, the Municipality proceeds with the rehabilitation of an inactive landfill. According with the study performed the landfill qualify to received additional waste material during a maximum of estimated useful life of 40 months. At the end of fiscal year 2004, the total estimated closing and postclosing costs in accordance with the study is \$1,250,000 which was recognized in the financial statements as require by this accounting policy. During fiscal year 2004-2005, this amount was reevaluated and increased for a new total of \$2,102,250. The Municipality contracted a private company that should be paid when the closing is performing during the period ended on November 2006. As of July 2006, a total of \$1,762,250 had already been paid by the Municipality. According to this new estimate, the Municipality will pay the remaining amount of \$340,000 during this period in 5 monthly payments of \$68,000.

NOTE 16 NET ASSETS AND FUND BALANCES RESTATEMENTS

During fiscal year 2003-2004, 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 2005-2006, the Municipality continued the documentation of capital assets not previously reported and the inventory of infrastructure. In addition, the Governmental Activities of the Municipality transferred to the Proprietary funds (as capital contributions) capital assets.

The following schedule reconciles the June 30, 2005 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2005, for Governmental and Business Type Activities.

	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES
Net Assets, as Previously Reported, At June 30, 2005	\$89,969,867	\$ -
Capital Contribution to Proprietary Funds.....	(10,344,807)	10,344,807
Adjustment to Capital Assets.....	9,938,009	-
Unamortized Bond Issue Costs at 06/30/05	184,117	-
Adjustment to Head Start Revenues (Grant 2005-2006).....	147,122	-
Adjustment to Head Start Expenditures.....	68,325	-
Interest Payment of Bond of \$9,340M	148,500	-
Net Assets of Proprietary Funds at 06/30/05.....	(526,802)	526,802
Expenditures not recognized on prior year	<u>(27,649)</u>	<u>-</u>
Beginning Net Assets, as Restated, At July 1, 2005	<u>\$89,556,682</u>	<u>\$10,871,609</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 16 NET ASSETS AND FUND BALANCES RESTATEMENTS (continuation)

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

	FUND BALANCE RESTATED	
	OTHER GOVERNMENTAL FUND	DEBT SERVICE FUND
Fund Balance, as Previously Reported, At June 30, 2005.....	\$13,442,563	\$ 1,900,561
Net Assets of Proprietary Funds at 06/30/05.....	(526,802)	-
Interest Payment of Bond of \$9,340M	-	148,500
Beginning Fund Balance, as Restated, At July 1, 2005	<u>\$12,915.761</u>	<u>\$ 2,049.061</u>

NOTE 17 FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) issued the following pronouncement that does not apply to the **Municipality**:

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Period beginning after December 15, 2006)

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

GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension* (Period beginning after December 15, 2007)

GASBS No. 47, *Accounting for Termination Benefit* (Period beginning after June 15, 2005)

END OF NOTES

MUNICIPALITY OF AGUADILLA, PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

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

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
BUDGETARY FUND BALANCE, JULY 1, 2005.....	\$ 1,287,723	\$ 1,287,723	\$ 1,287,723	\$ -
Resources (Inflows):				
Property Taxes	8,723,373	8,723,373	8,723,643	270
Volume of Business Taxes	6,108,479	9,777,123	10,016,589	239,466
Intergovernmental Revenues	6,314,857	6,314,857	6,857,113	542,256
License and Permits	1,020,000	1,700,785	2,632,322	931,537
Rent	105,000	105,000	238,491	133,491
Miscellaneous	1,384,800	2,303,800	2,325,144	21,344
Total Resources (Inflows)	23,656,509	28,924,938	30,793,302	1,868,364
Amounts Available for Appropriation.....	24,944,232	30,212,661	32,081,025	1,868,364
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature.....	1,517,160	1,602,030	1,480,533	121,497
General Government	10,340,369	12,460,673	12,647,385	(186,712)
Public Safety.....	1,792,444	1,733,417	1,742,758	(9,341)
Public Works.....	1,563,278	1,633,689	1,592,020	41,669
Culture and Recreation.....	1,421,973	1,348,303	1,318,098	30,205
Health and Sanitation	2,656,584	2,580,972	2,469,874	111,098
Human Services and Welfare.....	3,350,122	3,182,593	3,024,944	157,649
Urban Development.....	536,300	3,464,576	3,459,709	4,867
Capital Outlays	87,329	346,521	114,428	232,093
Transfers to Other Funds	390,950	1,512,164	1,511,164	1,000
Total Charges to Appropriations.....	23,656,509	29,864,938	29,360,913	504,025
BUDGETARY FUND BALANCE, JUNE 30, 2006.....	\$ 1,287,723	\$ 347,723	\$ 2,720,112	\$ 2,372,389

See accompanying Notes to Required Supplementary Information

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

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 49)	\$ 32,081,025
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>(1,287,723)</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	<u>\$ 30,793,302</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 49)	\$ 29,360,913
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.	(3,656,857)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes.....	1,677,412
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(1,511,164)</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 21)	<u>\$ 25,870,304</u>

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

Budgetary Fund Balance, June 30, 2006 (See Page 49)	\$ 2,720,112
Timing Differences:	
Cancellation of Prior Year Encumbrances	503,142
Change in Encumbrances.....	<u>1,407,112</u>
Unrestricted Fund Balance, June 30, 2006 (See Page 19)	<u>\$ 4,630,366</u>

END OF THIS SECTION

MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2006

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Administration of Families and Children:			
Child and Adult Care Food Program (USDA).....	10.558	CCC-07-AG	\$ 508,537
Pass-Through Office of the Governor – Elderly Office			
Child and Adult Care Food Program (USDA).....	10.558	N/AV	<u>17,701</u>
Total U.S. Department of Agriculture			<u>526,238</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants (CDBG).....	14.218		1,278,888
Urban Development Action Grant	14.221		61,932
Emergency Shelter Grant Program.....	14.231		89,749
Home Investment Partnership Program (HOME)	14.239		580,143
Section 8 Rental Housing Choice Vouchers	14.871		1,079,124
Pass-Through Puerto Rico Department of Housing:			
Section 8 Low Rent	14.850	N/AV	<u>266,932</u>
Total U.S. Department of Housing and Urban Development			<u>3,356,768</u>
U.S. Department of Justice:			
Direct Programs:			
Weed and Seed.....	16.595		<u>195,592</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward)			<u>\$4,078,598</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal of Expenditures of Federal Awards (Balance Brought Forward)			<u>\$ 4,078,598</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	166,487
Special Program for Aging, Title III, Part C	93.045	N/AV	148,495
Pass-Through Administration for the Childhood Care and Integral Development:			
Head Start Program.....	93.600	02-CH-0483-37	
	93.600	02-CH-0483-38	<u>5,513,265</u>
Total U. S. Department of Health and Human Services			<u>5,828,247</u>
U.S. Department of Homeland Security:			
Pass-Through Office of the Governor Authorized Representative (GAR):			
Homeland Security Program	97.067	N/AV	205,602
Public Assistant Grants	97.036	N/AV	<u>1,292</u>
Total U. S. Department of Homeland Security			<u>206,894</u>
Corporation for National and Community Service (CNS):			
Vista Project Support	94.013	N/AV	<u>9,417</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$10,123,156</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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.

NOTE 5 SUBRECIPIENTS

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

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
Community Development Block Grant-Entitlement Grants (CDBG)	14.218	\$ 37,329
Emergency Shelter Grant Program (ESG)	14.231	89,170
HOME Investment Partnership Program (HOME)	14.239	<u>93,473</u>
TOTAL		<u>\$219,972</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, 2006, which collectively comprise Municipality of Aguadilla's basic financial statements and have issued our report thereon dated December 12, 2006. 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.

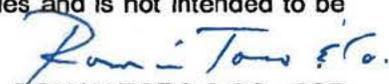
Internal Control Over Financial Reporting

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., CSP
LICENSE #35 – IN FORCE

Yauco, Puerto Rico
December 12, 2006

Stamp #2181442 was affixed to
the original of this report



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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, 2006. 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, 2006. However, the results of our auditing procedures disclosed instance of non compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of finding and questioned costs as item 2006-1.

Internal Control Over Compliance

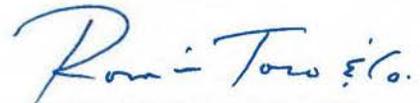
The management of Municipality of Aguadilla, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality 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, 2006

Stamp #2181443 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, 2006**

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
14.218	Community Development Block Grant
93.600	Head Start Program
14.871	Section 8 – Rental Housing Choice Vouchers
10.558	Child And Adult Care Food Program
14.239	Home Investment Partnership Program (Home)

Dollar threshold used to distinguish between Type A and Type B Programs:

\$303,695

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, 2006**

2006-1 Proper allocation of indirect employee salaries

Federal Program: Community Development Block Grant/Entitlement Grants (14.218)

Type: Compliance

Compliance Requirements: Allowable Costs and Cost Principles (B)

Prior-Year(s) Audit Finding(s): None.

Condition:

The Municipality did not properly track its employee's time by program activity and did not implement an Indirect Cost Allocation Plan (ICAP) to allocate administrative and other indirect salaries among federal programs, especially (but not exclusively) HUD programs, for the fiscal year ended on June 30, 2006. It charged the full salary of at least six employees to the Community Development Block Grant (CDBG) program even though they performed additional tasks and functions not related to the program. These salaries have not been allocated, either proportionately or in any other means allowed by the cognizant agency, amongst the other federal programs benefited because of the situation mentioned above. Because the Municipality did not track the time of the additional functions and tasks, questioned costs could not be determined as of our audit date. The federal programs which benefited from these employees' services are listed as follows:

1. Home Investment Partnership Program (14.239)
2. Urban Development Action Grant (14.221)
3. Community Capacity Development Office, also known as "Weed and Seed" (16.595)
4. Substance Abuse and Mental Health Services Projects of Regional and National Significance, also known as the "ADI Program" (93.243)
5. Volunteers in Service to America, also known as the "AmeriCorps VISTA" program (94.013)

Criteria:

OMB Circular A-87, Attachment A: General Principles for Determining Allowable Costs, in section E. Direct Costs, subtitle (2)(a) states that "typical direct costs chargeable to Federal awards [include] compensation of employees for the time devoted and identified **specifically** to the performance of those awards [which were charged]."

Cause:

Nearly all of the Municipality's programs that are funded with direct federal assistance are administered by the Municipality's Federal Funds Department (the Department), with the exception of the Section 8 Housing Choice Vouchers program which has its own director, accountant, and other administrative personnel. For all other direct federal programs, the Department provides accounting services and purchasing services (including reconciling bank accounts, obtaining price quotes and proposals from vendors, preparing purchase orders, performing data entry, and preparing disbursements), inspection services, and certain administrative services (including decision-making, preparation of reports, etc.) However, the salaries of the Department's six employees who perform these additional functions are allocated solely to the CDBG program.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006**

2006-1 Proper allocation of indirect employee salaries, continued

In addition to the causes mentioned in the previous paragraph, the CDBG program had a significant reduction in activities for the 2005-2006 fiscal year given that a great portion of current-year program funds were dedicated to the repayment of the Section 108 Loan Guarantee, allowing these employees to dedicate more time to other federal programs.

Effect:

This situation leads to charging payroll expenditures in excess to the CDBG program, while at the same time failing to recognize activities, tasks, functions, and services incurred by other federal programs since they are neither charged to program funds nor reported to the programs' grantors.

Recommendation

The Municipality must not continue charging the entire salary and related expenses of personnel solely to one federal program if such personnel provide additional functions and tasks to other federal programs in order to comply with Cost Principles compliance requirements. The Municipality should implement either a system which would track employees' time dedicated to federal programs and subsequently charge the programs for the services rendered, or implement an Indirect Cost Allocation Plan (ICAP) pursuant to OMB Circular A-87 Attachment and cognizant agency approval.

Questioned Costs: Not determinable.

**MUNICIPALITY OF AGUADILLA, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

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

FORM SF-SAC (5-2004)

U.S. DEPT. OF COMM. - Econ. and Stat. Admin. - U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2004, 2005, or 2006

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO

Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)

1. Fiscal period ending date for this submission: Month 06, Day 30, Year 2006. 2. Type of Circular A-133 audit: 1 [X] Single audit, 2 [] Program-specific audit.

3. Audit period covered: 1 [X] Annual, 2 [] Biennial, 3 [] Other - [] Months. 4. FEDERAL GOVERNMENT USE ONLY: Date received by Federal clearinghouse.

5. Auditee Identification Numbers: a. Primary Employer Identification Number (EIN): 66-0433570. b. Are multiple EINs covered in this report? 1 [] Yes, 2 [X] No.

d. Data Universal Numbering System (DUNS) Number: []-[]-[]. e. Are multiple DUNS covered in this report? 1 [] Yes, 2 [X] No.

6. AUDITEE INFORMATION: a. Auditee name: MUNICIPALITY OF AGUADILLA. b. Auditee address: PO BOX 1008, AGUADILLA, PR. c. Auditee contact: HON. CARLOS MENDEZ MARTINEZ, MAYOR.

7. AUDITOR INFORMATION (To be completed by auditor): a. Auditor name: ROMAN TORO & CO., CSP. b. Auditor address: PO BOX 3043, YAUCO, PR. c. Auditor contact: CPA JOSE D. ROMAN, PARTNER.

9. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct. Signature of certifying official: Carlos Méndez Martínez, Date: 12/19/06.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. Signature of auditor: Roman Toro & Co., Date: 12/19/2006.

OFFICINA DEL COMISIONADO MUNICIPAL DE YAUCO UNIDAD DE COLEGIO 20 DEC 20 06 3:30 PM

3-47

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b)) \$ 303,695

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1 Yes 2 No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1 Yes 2 No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1 Yes 2 No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | | <input type="checkbox"/> Otr |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | |
| | 09 <input type="checkbox"/> Legal Services Corporation | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting package

(5-2004)

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

10. AUDIT FINDINGS

CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)	
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)			
1	0	.558	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 526,238 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	U	O	N/A
1	4	.218	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT	\$ 1,278,888 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	U	B	2006-1
1	4	.221	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	URBAN DEVELOPMENT ACTION GRANT	\$ 61,932 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
1	4	.231	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	EMERGENCY SHELTER GRANT PROGRAM	\$ 89,749 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
1	4	.239	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	HOME INVESTMENT PARTNERSHIP PROGRAM	\$ 580,143 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	U	O	N/A
1	4	.871	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 1,079,124 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	U	O	N/A
1	4	.850	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SECTION 8 LOW RENT	\$ 266,932 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
1	6	.595	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	WEED AND SEED	\$ 195,592 .00	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
9	3	.044	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR THE AGING, TITLE III, PART B	\$ 166,487 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
9	3	.045	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR THE AGING, TITLE III, PART C	\$ 148,495 .00	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED →					\$ 10,123,156 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- | | | | |
|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility | I. Procurement and suspension and debarment | L. Reporting |
| B. Allowable costs/cost principles | F. Equipment and real property management | J. Program income | M. Subrecipient monitoring |
| C. Cash management | G. Matching, level of effort, earmarking | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act | H. Period of availability of Federal funds | | O. None |
| ⁵ N/A for NONE | | | P. Other |

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)		
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 5,513,265 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
9	7 .067	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOMELESS SECURITY PROGRAM	\$ 205,602 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	7 .036	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANT GRANTS	\$ 1,292 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	4 .013	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	VISTA PROJECT SUPPORT	\$ 9,417 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED →				\$ 10,123,156 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

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⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None

⁵ N/A for NONE

P. Other

Page 3

