

Commonwealth of Puerto Rico
Autonomous Municipality of Aguadilla
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013



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OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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INTRODUCTORY SECTION

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- ◆ Organization Chart
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Paseo Real Marina Boat Ramp, featuring a salt water fountain.



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LETTER OF TRANSMITTAL

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

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

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

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

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

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

THE REPORT

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

The Financial Section is prepared according to accounting principles generally accepted in the United States of America. This Section of the CAFR includes the

Management's Discussion and Analysis (MD&A), which can be found immediately following the report of the independent auditors, the basic financial statements and combining and individual fund statements and schedules, the Notes to the Basic Financial Statements and required supplementary information.

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

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





AN OVERVIEW OF THE MUNICIPALITY

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

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

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

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

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

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

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



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

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

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

SERVICES PROVIDED TO AGUADILLA'S CITIZENS

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

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

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



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

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

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

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

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



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

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

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

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

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

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

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

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



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



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

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

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

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

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

NEW PROJECTS



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

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

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

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

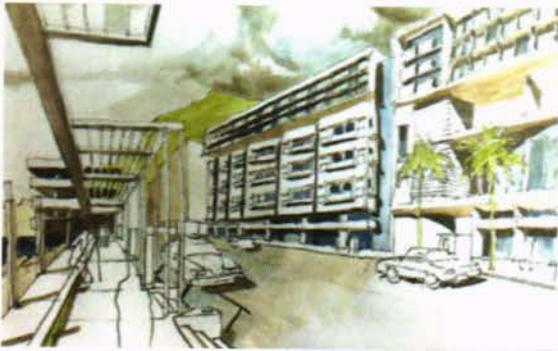
The **Ocean Dreams Apartments** consists of 40 units distributed along four floors. The complex will have 12 units with a construction area of 1,028 square feet, which includes 2 rooms and 2 bathrooms. The other 28 units will consist of 3 rooms and 2 bathrooms in a construction area of 1,117 square feet.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

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

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



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



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

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

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

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

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

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

SITES OF INTEREST

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

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

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

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

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



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

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

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

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

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

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



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

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

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

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

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

ECONOMIC FACTORS

Local Economy

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

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

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



Long – Term Financial Planning

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

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

Relevant Financial Policies

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

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

Major Initiatives

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

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

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

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

AWARDS AND ACKNOWLEDGMENTS

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

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

Respectfully submitted,

Mrs. Noemi Alfonso Valle
Finance Director

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2012



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement
for Excellence
in Financial Reporting

Presented to

Government of Puerto Rico,
Municipality of Aguadilla
Puerto Rico

Executive Director / CEO

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

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

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



HON. CARLOS MENDEZ MARTINEZ
MAYOR

CITY ADMINISTRATOR

HON. RAFAEL FERNANDEZ NADAL
MUNICIPAL LEGISLATURE PRESIDENT

CONSULTING OFFICES

PERMITS

HUMAN RESOURCES

PUBLIC RELATIONS

AUDITING

FINANCE

LAND PLANNING

PURCHASES

CENTRAL ARCHIVES

PROJECT PLANNING
AND
ADMINISTRATION

MAYOR'S OFFICE

CULTURE AND
TOURISM

LEGAL DIVISION

BUDGET

INTERNAL AUDITOR

ENVIRONMENTAL
CONTROL

OASIS

SPORTS & RECREATION

EMERGENCY CONTROL

GERIATRIC CENTER

SECTION 8 HOUSING
PROGRAM

MUNICIPAL SECRETARY

PUBLIC WORKS

MUNICIPAL POLICE

TECHNICAL SERVICES

TECHNOLOGICAL
DEVELOPMENT

FEDERAL PROGRAMS

SCHOOL
TRANSPORTATION

PUBLIC BUILDINGS

EMBELLISHMENT AND
MAINTENANCE

SANITATION

MUNICIPAL ENTERPRISES

RECYCLING

WATERFALLS AQUATIC
PARK

AGUADILLA BOWLING
ALLEY

FRANCHISE DIVISION

ICE SKATING ARENA

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MAYOR

HON. CARLOS MENDEZ MARTINEZ

MUNICIPAL LEGISLATURE

PRESIDENT

HON. RAFAEL FERNANDEZ NADAL

VICEPRESIDENT

HON. JOSE R. BARRADAS MEJIAS

LEGISLATORS

HON. ANA N. MENDEZ BARRETO

HON. MELVIN BARRETO RUIZ

HON. EDWIN MATOS CARDONA

HON. DAVID GONZALEZ PUMAREJO

HON. MIRTA SOTOMAYOR GONZALEZ

HON. ALBERTO L. TORRES TORRES

HON. EVELYN HERNANDEZ TALAVERA

HON. ISABEL GOMEZ ORTIZ

HON. RAFAEL CRESPO PADILLA

HON. MIRELYS CRUZ CORTES

HON. JOHN A. GONZALEZ LEON

HON. MILTON MORALES PEREZ

HON. NOEMI CABRERA

HON. EDGAR SANABRIA ALVAREZ

Appointed Officials



MS. WANDA I. PEREZ – MAYOR OFFICE DIRECTOR

MS. NOEMI ALFONSO VALLE – FINANCE DIRECTOR

MR. JOSE I. LACOURT RIVERA – AUDIT DEPARTMENT DIRECTOR

MS. DAMARIS MEDINA – MUNICIPAL SECRETARY

MS. LISSETTE FELICIANO – ASSISTANT TO THE MAYOR

MR. DAVID MORALES – CITY ADMINISTRATOR

MS. JESSICA ACEVEDO – PLANNING & BUDGET DEPARTMENT DIRECTOR

MS. NANNETTE GUEVARA – HUMAN RESOURCES DEPARTMENT DIRECTOR

ENG. ORLANDO GONZALEZ – PERMITS DEPARTMENT DIRECTOR

MR. JOSE CASTRO – PUBLIC WORKS DIRECTOR

MS. TERESA SOTO – CITY ENTERPRISES ADMINISTRATOR

FINANCIAL SECTION

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

Las Cascadas Hotel



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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

Emphasis-of-Matter

Newly Adopted Standards

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

Other Matters

Required Supplementary Information

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

Other Information

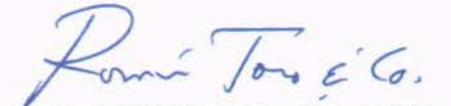
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Aguadilla, Puerto Rico's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are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

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered **Municipality's** internal control over financial reporting and compliance.


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

Yauco, Puerto Rico
December 20, 2013

Stamp #E75235 was affixed to
the original report

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

FINANCIAL HIGHLIGHTS

Government-wide Highlights

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

- Net Position of the **Municipality** Governmental Activities, on a government-wide basis, decreased at the close of fiscal year 2013 by (\$3,157,175), and 2012 increased by \$22,539,046, as restated.
- Net Position of the **Municipality** Business-Type Activities, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$11,425,619 and 2012 by \$10,963,464.
- Net Position of the **Municipality**, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$157,346,358, and 2012 by \$160,041,378, as restated.
- Total Revenues of the **Municipality** Governmental Activities, on a government-wide basis, decreased by \$9.3 million (14.8%) and expenses decreased \$351,494 million (0.006%) in comparison with year 2012.
- Total Revenues of the **Municipality** Business-Type Activities, on a government-wide basis, decreased by (\$789,820) (26.6%) and expenses decreased (\$1,233,816) (37.3%) in comparison with year 2012, due principally activities of a new enterprise.
- Total net change in net position, on a government-wide basis, amounted to (\$2,695,020), a decrease of (\$24,936,402) (925.3%) with respect to prior year (2012) net change, principally for a donated capital assets from the Commonwealth of Puerto Rico in 2012. Without the donated capital the decrease was (\$8,505,562).

Fund Highlights

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

- At the close of the current fiscal year, the **Municipality**'s governmental funds reported combined ending fund balances of \$38,865,908, an increase of \$422,857 in comparison with the prior year, as restated.
- The General Fund reported an excess of revenues over expenditures and other financing sources and uses of \$179,651 and unassigned fund balance of \$9,303,962.
- Proprietary funds reported combined fund net position of \$11,425,619, an increase of \$462,155 in comparison with prior year, after transfer of \$357,892 of contributed capital by the general fund. Without these transactions the result of operation of the proprietary funds was positive by \$104,263.
- The business-type activities of the **Municipality** include the Aguadilla City Enterprises as new enterprise to group the administration and operation of the Aguadilla's Waterfalls Aquatic Park, Aguadilla's Ice Skating Arena and others non-major enterprise funds.

continue

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2013 was \$123,136,358 (net of accumulated depreciation of \$57,567,382, related debt of \$84,579,829 and unspent capital debt proceeds of \$12,884,103), and \$9,608,418 (net of accumulated depreciation of \$4,959,505) from business-type activities.
- Long term debt general and special obligations bonds increased to \$86,094,829, approximately an increase of 5.8% (\$4,748,900) with respect to prior year balance.
- Other noncurrent liabilities increases and net reductions from payments amounted to \$2,179,698 and (\$1,000,288), respectively. Such increase is principally for Landfill Post-Closure Care Costs Obligation new estimate for the amount of \$1,675,885 during the fiscal year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$188,409, net of \$1,237,572 transfers out to other funds.
- Estimated Revenues increase by \$50,173 and total expenditures reflect economies of \$138,236. Total Variances amounted to \$188,409 or 0.6% of estimated resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

| | | | | |
|--|--|--------------------------------------|---|---|
|  | INTRODUCTORY SECTION | INTRODUCTORY SECTION | | |
| | + | | MANAGEMENT'S DISCUSSION AND ANALYSIS | |
| | FINANCIAL SECTION | GOVERNMENT-WIDE FINANCIAL STATEMENTS | FUND FINANCIAL STATEMENTS | |
| | | STATEMENT OF NET POSITION | GOVERNMENTAL FUNDS | PROPRIETARY FUNDS |
| | | | BALANCE SHEET | STATEMENT OF NET POSITION |
| | | STATEMENT OF ACTIVITIES | STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES | STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION |
| | | | STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND | STATEMENT OF CASH FLOWS |
| | | NOTES TO BASIC FINANCIAL STATEMENTS | | |
| | INFORMATION ON INDIVIDUAL NON-MAJOR FUNDS AND OTHER SUPPLEMENTARY INFORMATION THAT IS NOT REQUIRED | | | |
| | + | | STATISTICAL SECTION | |
| STATISTICAL SECTION | | | | |

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

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

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

Basic Financial Statements

- **Government-Wide Financial Statements**

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

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

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

continue

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

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

Fund Financial Statements

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

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

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

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the **Municipality's** governmental funds reported combined ending fund balances of \$38.9 million. Approximately 18.4% of this amount is available for spending at the government's discretion (Unassigned Fund Balance). The remainder of fund balance is restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

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

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

continue

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

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

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

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

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

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

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

- **Notes to Basic Financial Statements**

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

- **Combining Statements**

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-Wide Financial Statements Analysis

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

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

Analysis of Net Position

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

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

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

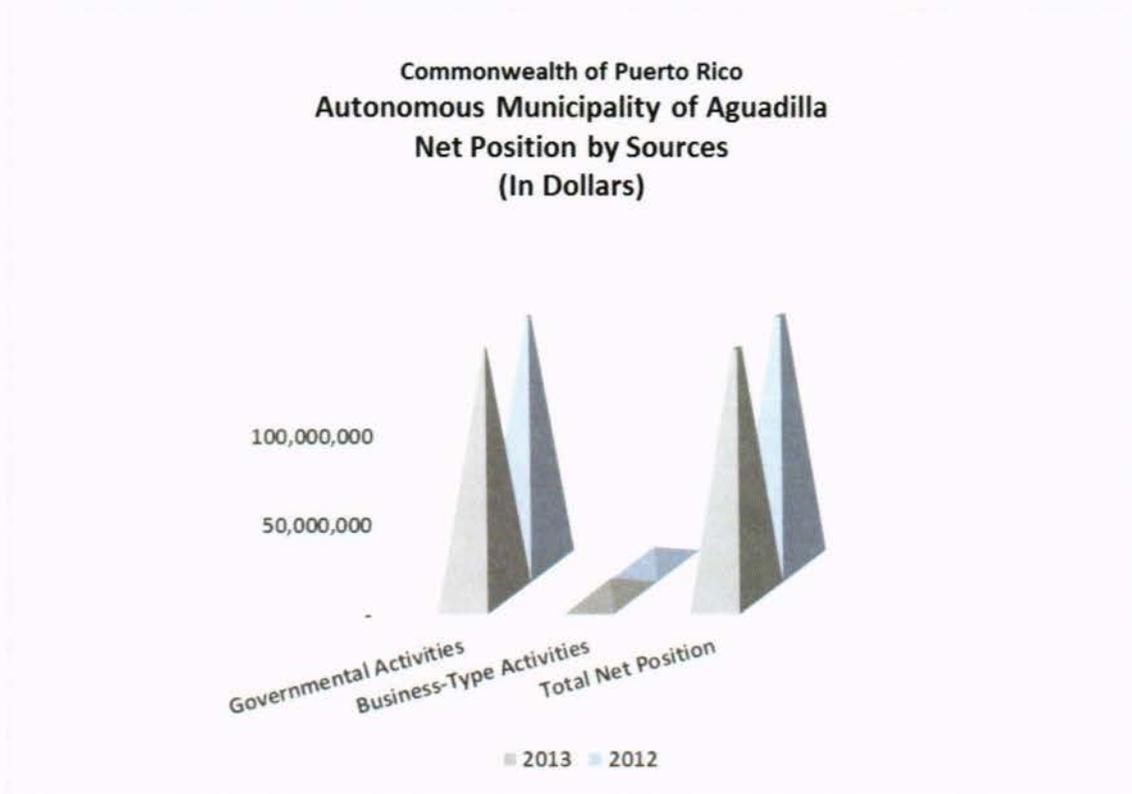
Unrestricted net position are the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

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

continue

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

FIGURE 1



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Changes in Net Position

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

| Commonwealth of Puerto Rico Autonomous Municipality of Aguadilla Changes in Net Position For the Years Ended June 30, | | | | | | |
|--|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,854,693 | \$ 1,103,816 | \$ 2,179,690 | \$ 2,969,510 | \$ 4,034,383 | \$ 4,073,326 |
| Operating Grants and Contributions | 8,907,699 | 14,071,839 | - | - | 8,907,699 | 14,071,839 |
| Capital Grants and Contributions | 72,305 | 102,123 | - | - | 72,305 | 102,123 |
| General Revenues: | | | | | | |
| Property Taxes | 13,686,377 | 13,913,645 | - | - | 13,686,377 | 13,913,645 |
| Volume of Business Taxes | 10,816,480 | 7,802,098 | - | - | 10,816,480 | 7,802,098 |
| Sales and Usage Taxes | 4,408,603 | 3,508,085 | - | - | 4,408,603 | 3,508,085 |
| Construction Excise Taxes | 2,039,815 | 2,359,751 | - | - | 2,039,815 | 2,359,751 |
| Intergovernmental | 10,873,228 | 18,599,336 | - | - | 10,873,228 | 18,599,336 |
| Interests | 405,120 | 538,139 | - | - | 405,120 | 538,139 |
| Other General Revenues | 409,439 | 776,279 | - | - | 409,439 | 776,279 |
| Total Revenues | 53,473,759 | 62,775,111 | 2,179,690 | 2,969,510 | 55,653,449 | 65,744,621 |
| Governmental Activities Expenses: | | | | | | |
| General Administration | 19,661,483 | 19,185,290 | - | - | 19,661,483 | 19,185,290 |
| Public Safety | 1,979,991 | 2,029,544 | - | - | 1,979,991 | 2,029,544 |
| Public Works | 3,202,954 | 2,741,210 | - | - | 3,202,954 | 2,741,210 |
| Culture and Recreation | 1,327,961 | 1,322,936 | - | - | 1,327,961 | 1,322,936 |
| Health and Sanitation | 4,520,704 | 4,610,810 | - | - | 4,520,704 | 4,610,810 |
| Landfill Post-Closure Care Costs | 1,675,885 | - | - | - | 1,675,885 | - |
| Public Instruction | 6,130,946 | 5,975,579 | - | - | 6,130,946 | 5,975,579 |
| Human Services and Welfare | 7,743,953 | 7,087,321 | - | - | 7,743,953 | 7,087,321 |
| Urban Development | 6,251,920 | 7,944,350 | - | - | 6,251,920 | 7,944,350 |
| Reimbursement to Grantor Agency | - | 230,542 | - | - | - | 230,542 |
| Loss on Disposition of Asset | 21,249 | 50,034 | - | - | 21,249 | 50,034 |
| Interest Costs | 3,755,996 | 5,446,920 | - | - | 3,755,996 | 5,446,920 |
| Total Expenses | 56,273,042 | 56,624,536 | - | - | 56,273,042 | 56,624,536 |
| Business-Type Activities Expenses: | | | | | | |
| Aguadilla City Enterprises | - | - | 2,075,427 | 3,309,243 | 2,075,427 | 3,309,243 |
| Total Expenses | - | - | 2,075,427 | 3,309,243 | 2,075,427 | 3,309,243 |
| Increase (Decrease) in Net Position Before Capital Contribution and Transfer | | | | | | |
| | (2,799,283) | 6,150,575 | 104,263 | (339,733) | (2,695,020) | 5,810,842 |
| Capital Contributions | (357,892) | (142,912) | 357,892 | 142,912 | - | - |
| Special Item - Donated Capital Asset | - | 16,430,840 | - | - | - | 16,430,840 |
| Transfer-in (Out) | - | 100,543 | - | (100,543) | - | - |
| Changes in Net Position | (3,157,175) | 22,539,046 | 462,155 | (297,364) | (2,695,020) | 22,241,682 |
| Net Position - Beginning | 149,077,914 | 126,538,868 | 10,963,464 | 11,260,828 | 160,041,378 | 137,799,696 |
| Net Position - Ending | \$ 145,920,739 | \$ 149,077,914 | \$ 11,425,619 | \$ 10,963,464 | \$ 157,346,358 | \$ 160,041,378 |

continue

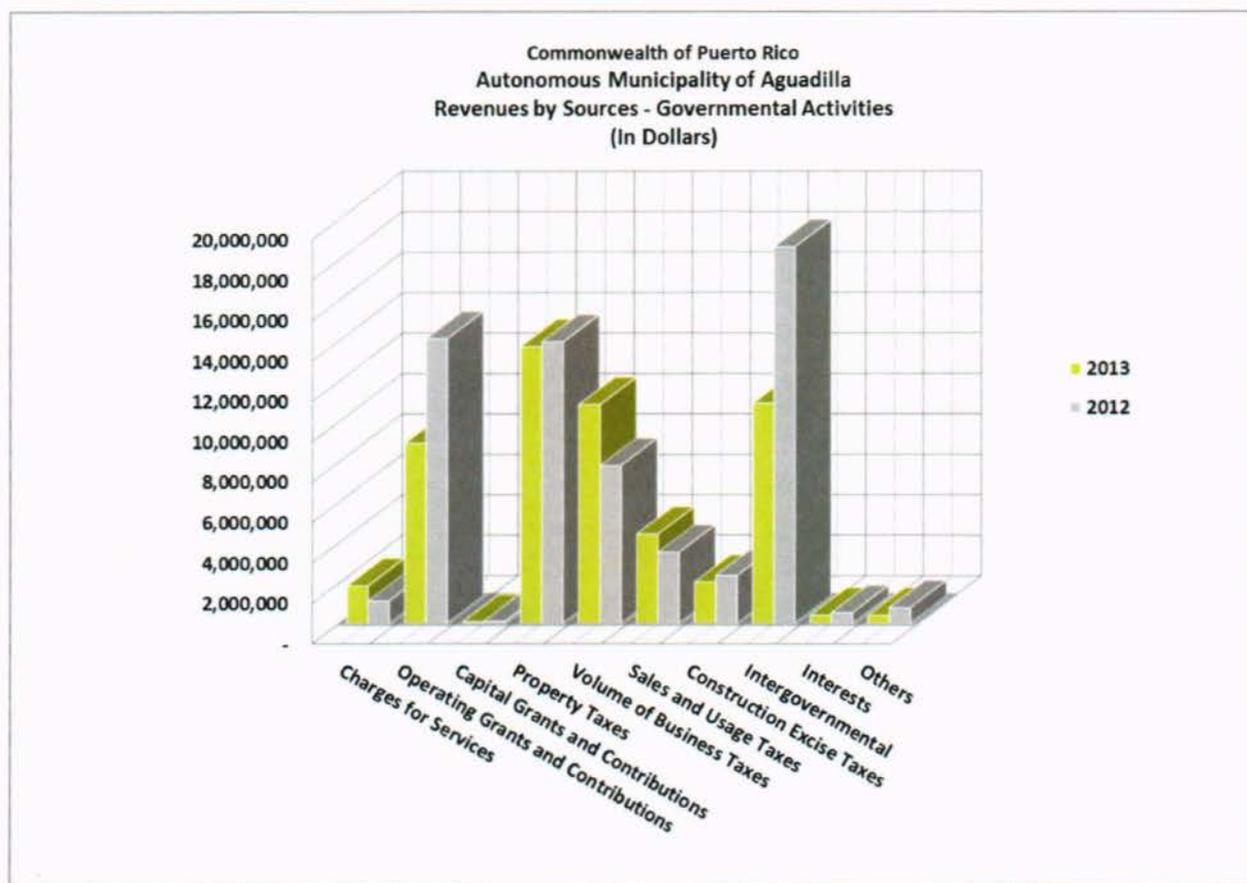
Analysis of Changes in Net Position

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

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

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

FIGURE 2

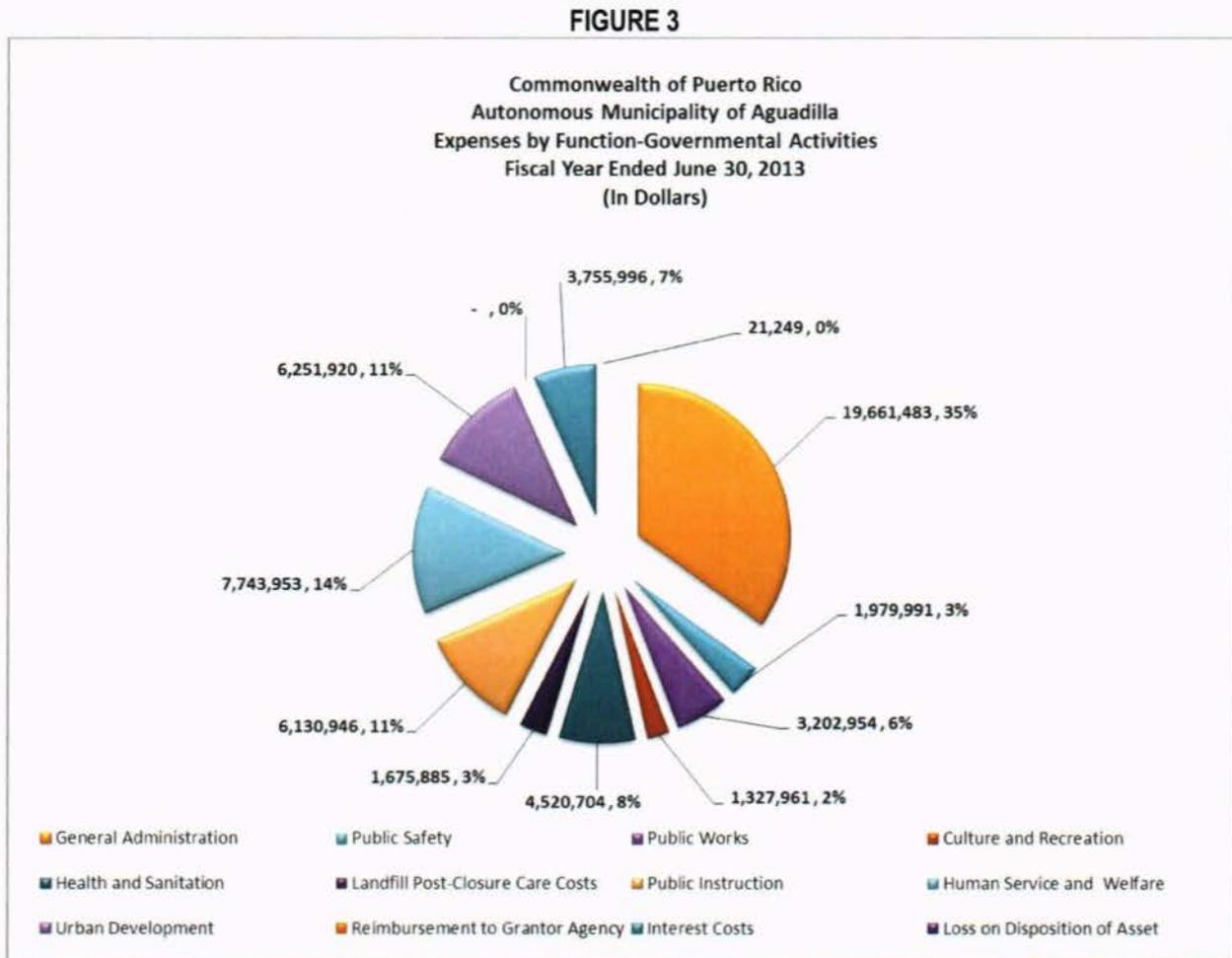


Approximately 17% of the **Municipality's** revenues came from grants and contributions, 25.5% from property taxes, volume of business taxes 20.2%, intergovernmental 20.3%, and 17% from other sources. The **Municipality's** expenses cover a range of services. The largest expenses are general administration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

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

continue

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

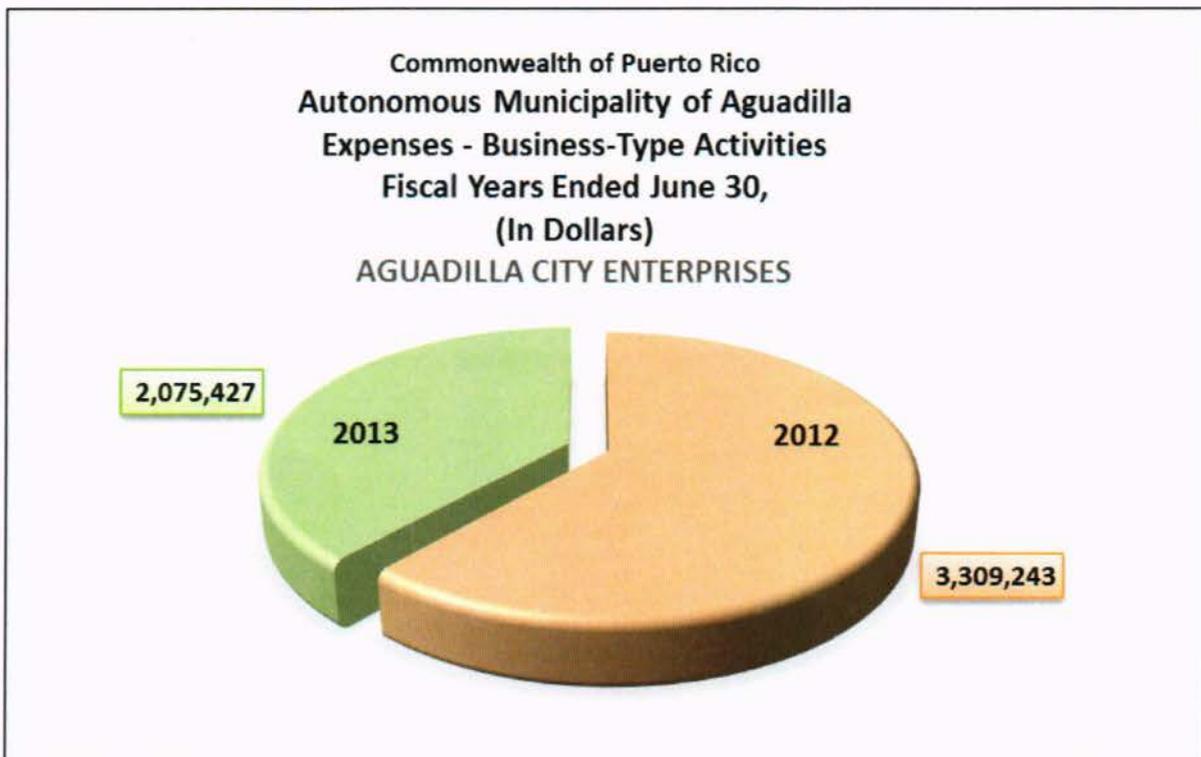
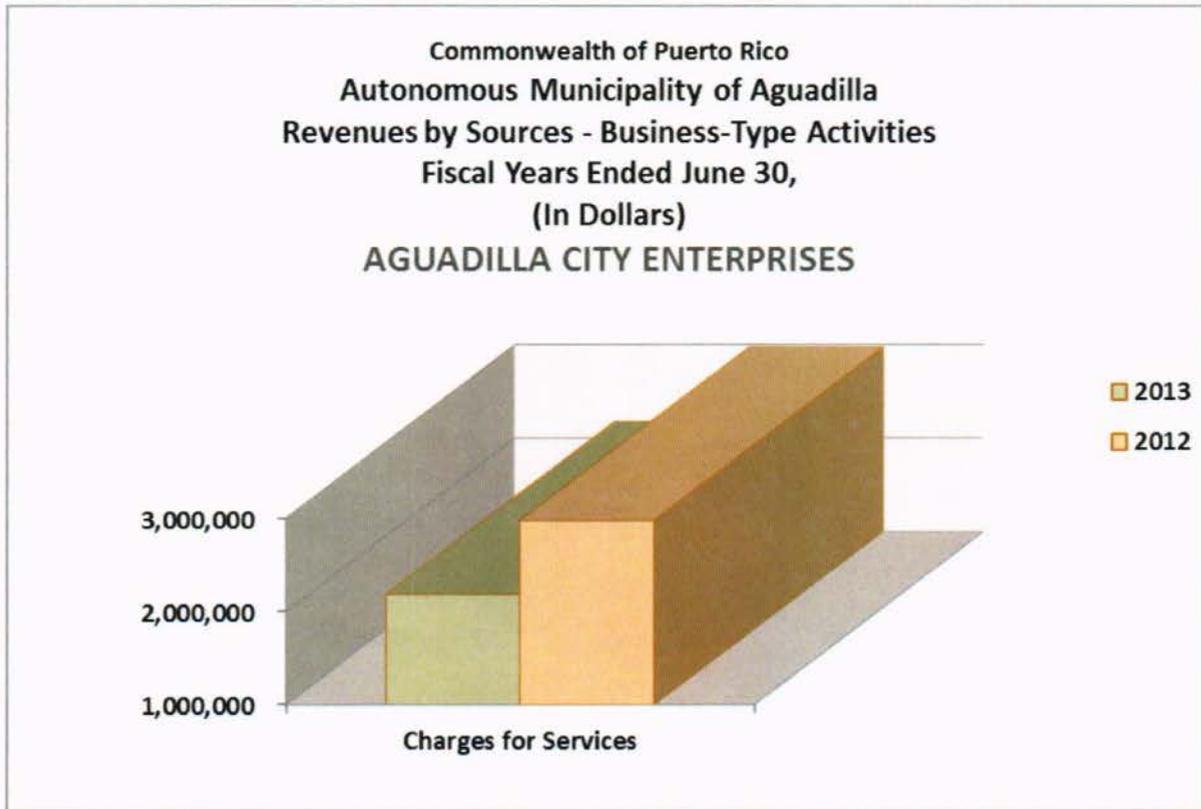


Business-Type Activities. The proprietary fund net position increased by \$462,155 during the current fiscal year, after a capital contributions of \$357,892 from general fund. The decrease in charges for services and corresponding reduction in expenses was due to a partial closure of the Aguadilla Waterfalls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

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

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

FIGURES 4



continue

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

Table 3

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

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

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental Funds

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

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

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

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

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

Table 5

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

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

Proprietary Funds

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

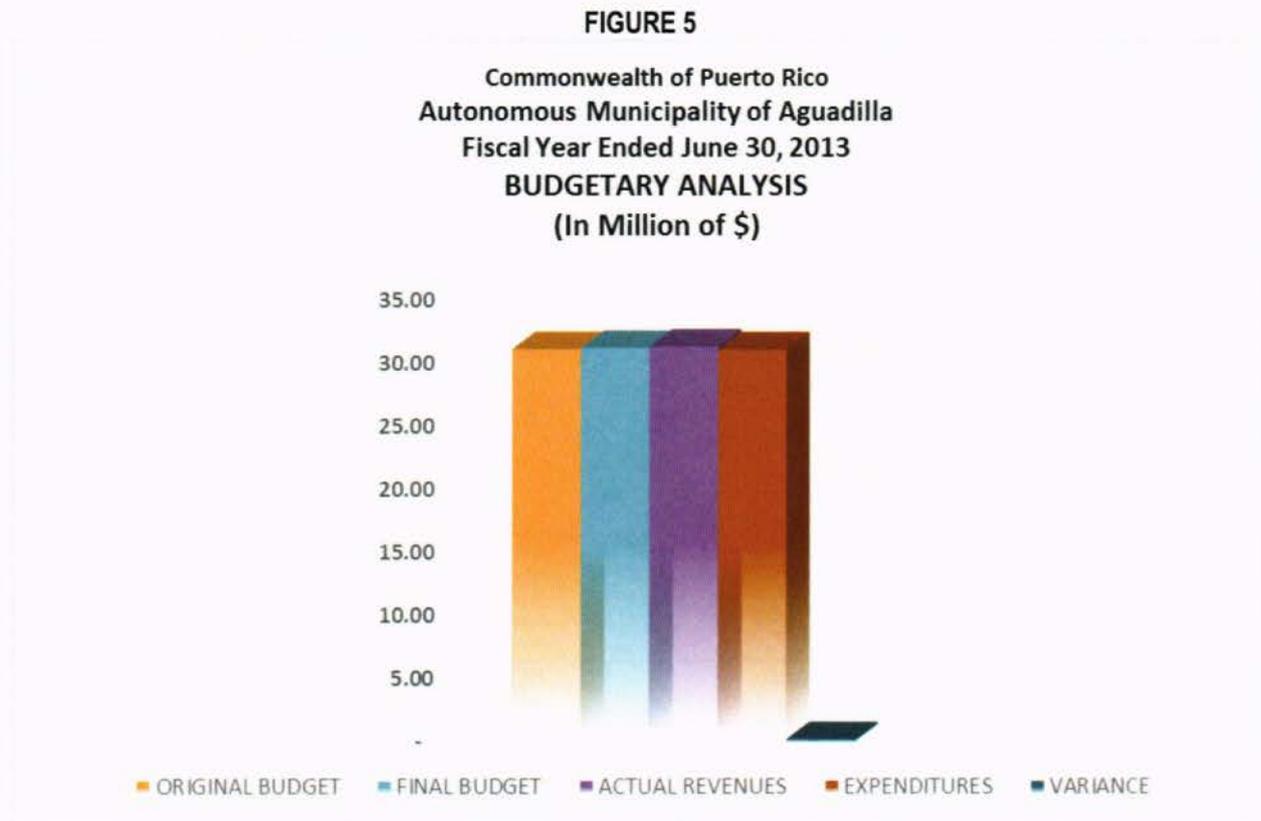
GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

continue

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



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

Governmental Activities

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

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

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

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

continue

Business-Type Activities

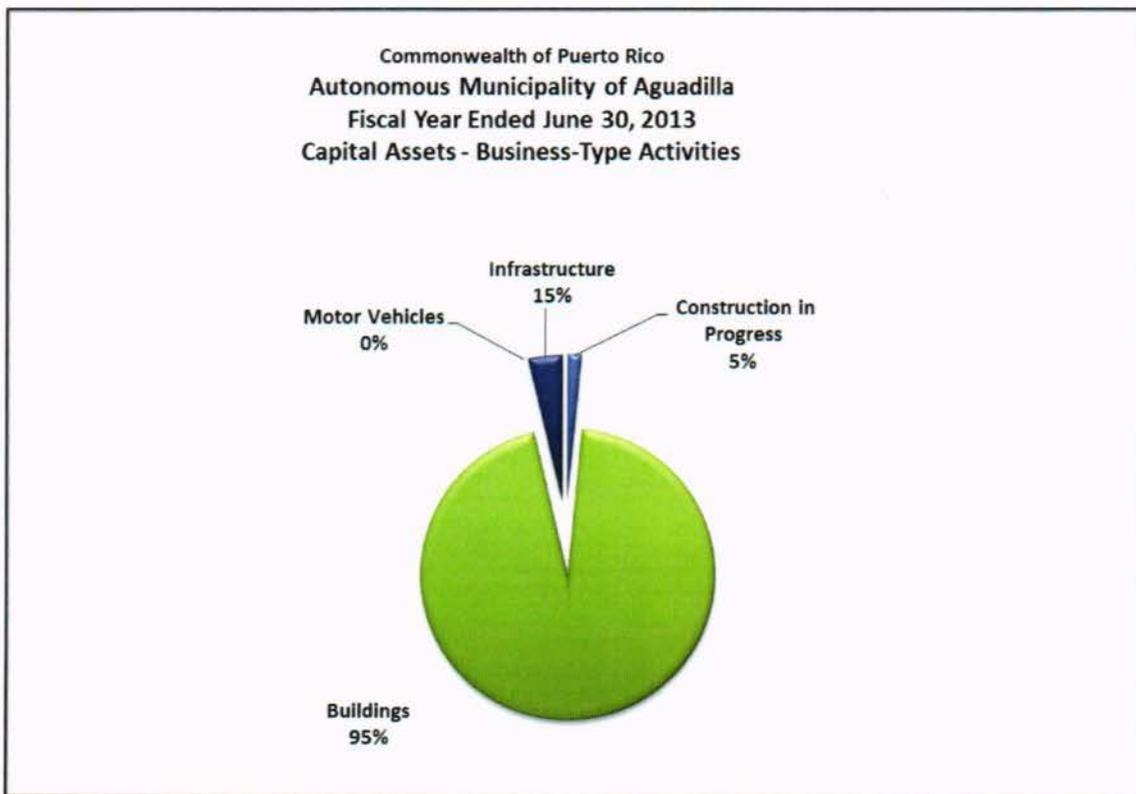
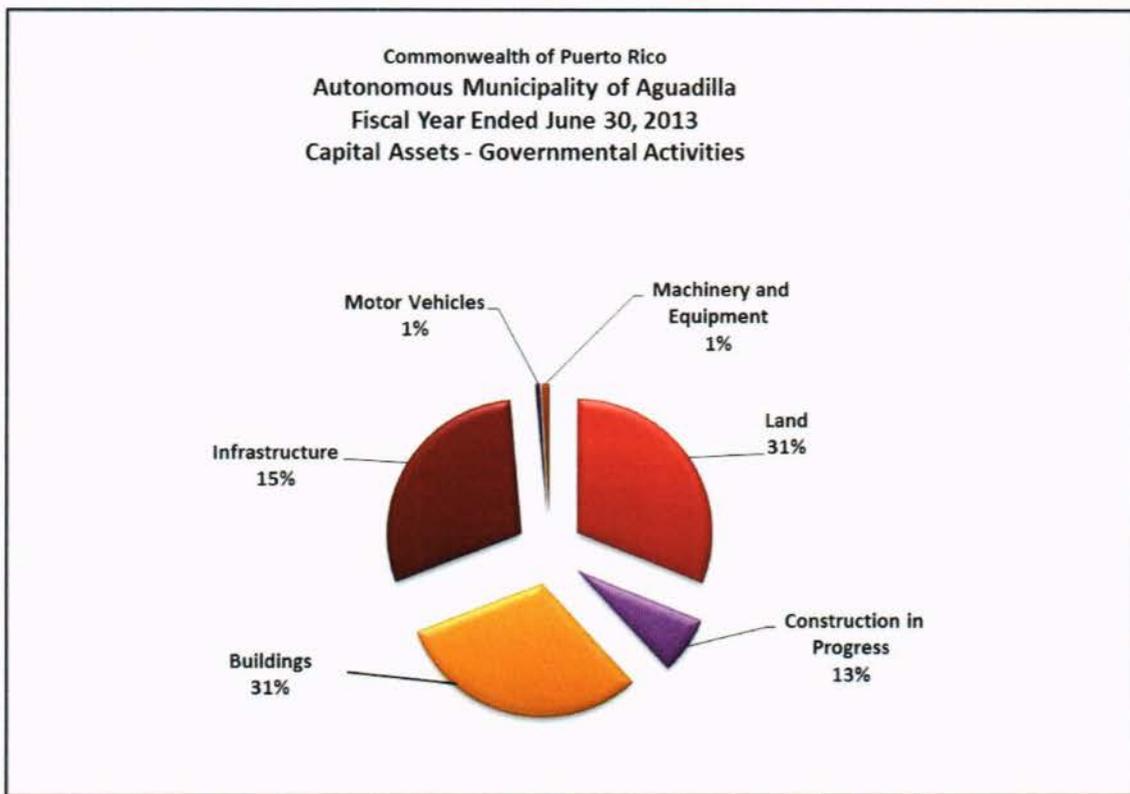
- Construction in progress of buildings – \$357,892 (\$238,141 was terminated and presented as addition to buildings)
- Acquisition of Equipment – \$12,454

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

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

| Table 6 Commonwealth of Puerto Rico Autonomous Municipality of Aguadilla Capital Assets, Net As of June 30, | | |
|--|------------------------------|------------------------------|
| Description | <u>2013</u> | <u>2012</u> |
| Governmental Activities: | | |
| Non-Depreciable Capital Assets: | | |
| Land | \$ 60,700,758 | \$ 60,697,652 |
| Construction in Progress | 13,714,519 | 10,605,833 |
| Depreciable Capital Assets (Net): | | |
| Buildings | 60,269,752 | 56,863,797 |
| Infrastructure | 57,457,692 | 58,562,607 |
| Motor Vehicles | 1,053,327 | 1,509,850 |
| Machinery and Equipment | <u>1,636,036</u> | <u>1,995,650</u> |
| Total Governmental Capital Assets | <u>194,832,084</u> | <u>190,235,389</u> |
| Business-Type Activities: | | |
| Non-Depreciable Capital Assets: | | |
| Construction in Progress | 143,330 | 23,579 |
| Depreciable Capital Assets (Net): | | |
| Buildings | 9,108,971 | 9,105,600 |
| Motor Vehicles | 7,348 | 10,497 |
| Equipment | <u>348,769</u> | <u>448,305</u> |
| Total Business-Type Capital Assets | <u>9,608,418</u> | <u>9,587,981</u> |
| Total | <u>\$ 204,440,502</u> | <u>\$ 199,823,370</u> |

FIGURES 6



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

continue

Noncurrent Liabilities

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

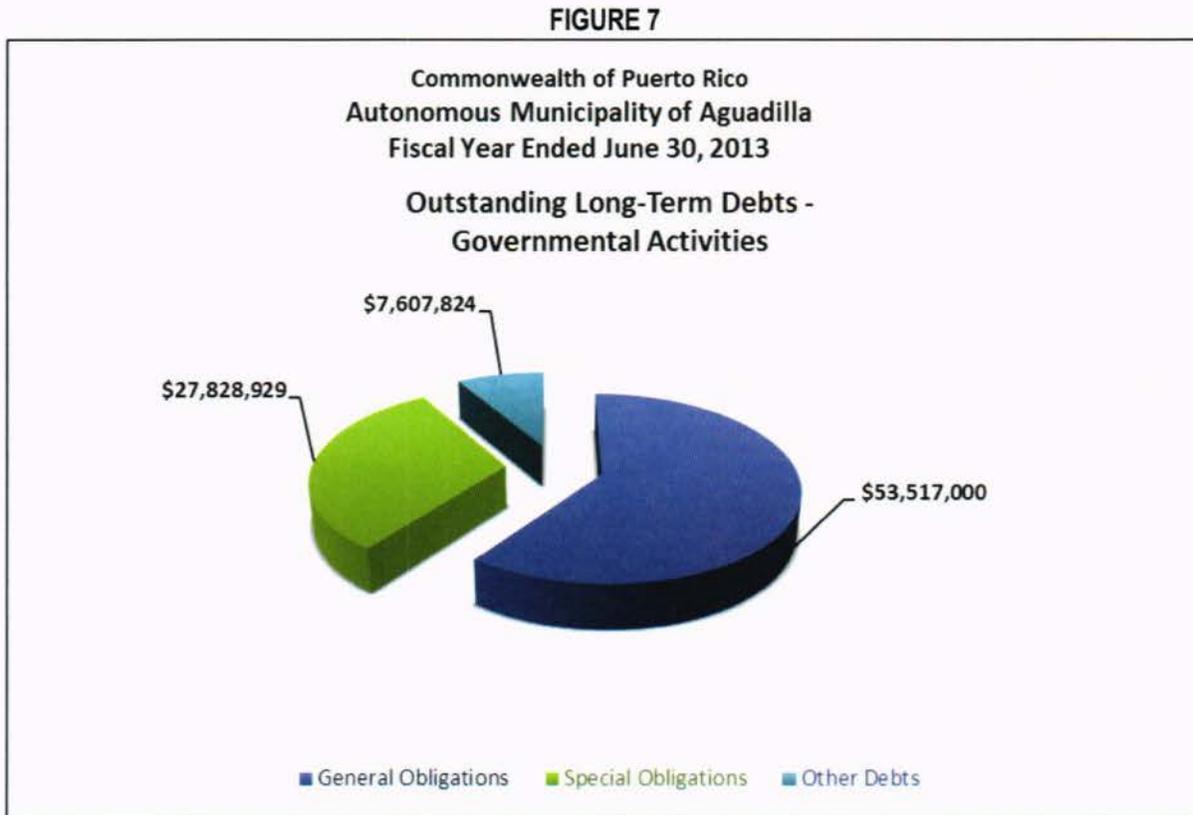
At year-end, the **Municipality** had \$86,094,829 in general and special obligations bonds, an increase of 5.8% with respect to prior year. Following is a summary of the **Municipality's** outstanding debt as of June 30, 2013 and 2012:

| Table 7 | | |
|---|----------------------|----------------------|
| Commonwealth of Puerto Rico | | |
| Autonomous Municipality of Aguadilla | | |
| Outstanding Long-Term Debts | | |
| As of June 30, | | |
| | <u>2013</u> | <u>2012</u> |
| Governmental Activities: | | |
| General and Special Obligation Bonds | \$ 86,094,829 | \$ 81,345,929 |
| Law Number 146 - MRCC | 180,519 | 190,019 |
| MRCC Liquidation | 905,074 | 920,732 |
| Deferred Credits | 36,819 | 36,819 |
| Landfill Obligation | 3,054,578 | 1,470,469 |
| Claims and Judgments | 35,574 | 266,095 |
| Compensated Absences | 4,574,670 | 4,723,690 |
| Total | <u>\$ 94,882,063</u> | <u>\$ 88,953,753</u> |
| Business-Type Activities: | | |
| Compensated Absences | <u>\$ 37,332</u> | <u>\$ 61,007</u> |

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

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



ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

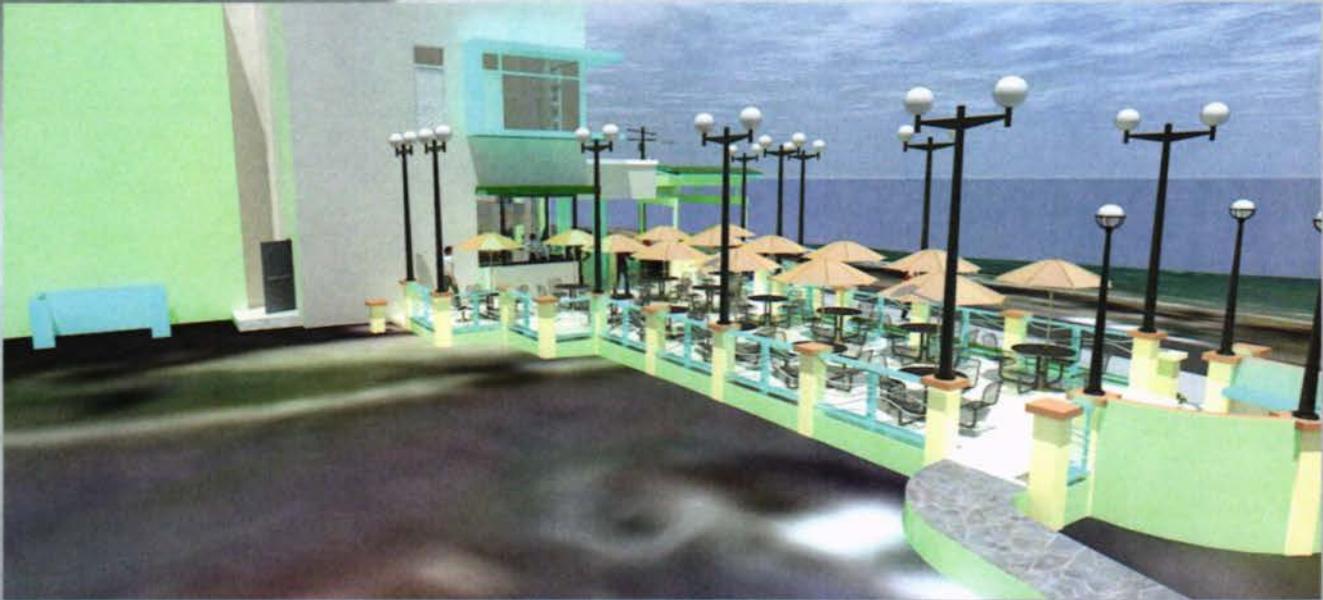
The **Municipality's** selected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The **Municipality's**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

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

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS



BBQ Patio Grill Restaurant



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

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



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

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



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

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



Total Fund Balances – Governmental Funds (Page 26) \$ 38,865,908

Amounts reported for Governmental Activities in the Statement of Net Position (Page 24) are different because:

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

| | | |
|--------------------------------------|---------------------|-------------|
| Non Depreciable Capital Assets | \$ 74,415,277 | |
| Depreciable Capital Assets | 177,984,189 | |
| Accumulated Depreciation..... | <u>(57,567,382)</u> | |
| Total Capital Assets | | 194,832,084 |

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

| | | |
|--|----------------|-----------|
| Head Start Program..... | 4,235,911 | |
| Community Development Block Grant Program..... | <u>208,899</u> | |
| Total Unavailable Revenues | | 4,444,810 |

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

| | | |
|-----------------------------------|--------------------|---------------------|
| General Obligation Bonds | (57,199,250) | |
| Special Obligation Bonds | (26,235,579) | |
| Other Obligations..... | <u>(8,787,234)</u> | |
| Total Noncurrent Liabilities..... | | <u>(92,222,063)</u> |

Total Net Position of Governmental Activities (Page 24) \$145,920,739



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



STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE – GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | GENERAL FUND | HEAD START FUND | CONSTRUCTION & IMPROVEMENT OF RECREATIONAL FACILITIES FUND | REAL MARINA FUND | DEBT SERVICE FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|----------------------|--------------------|---|---------------------|----------------------|--------------------------------|--------------------------------|
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Proceed of Bonds..... | \$ - | \$ - | \$ 8,530,000 | \$ - | \$ - | \$ - | \$ 8,530,000 |
| Refinancing of Bond..... | - | - | - | - | 3,798,900 | - | 3,798,900 |
| Refinancing of Bond..... | - | - | - | - | (3,780,000) | - | (3,780,000) |
| Transfers – In..... | - | - | 181,584 | 996,979 | 2,686,889 | 340,261 | 4,205,713 |
| Transfers – Out..... | (1,557,443) | - | (170,610) | (1,040,897) | - | (1,794,655) | (4,563,605) |
| Total Other Financing Sources and (Uses)..... | (1,557,443) | - | 8,540,974 | (43,918) | 2,705,789 | (1,454,394) | 8,191,008 |
| Net Change in Fund Balances..... | 179,651 | - | 5,538,589 | (962,420) | 562,222 | (4,895,185) | 422,857 |
| Fund Balances – Beginning, As Restated..... | 10,191,902 | - | 2,716,737 | 10,058,105 | 7,265,500 | 8,210,807 | 38,443,051 |
| FUND BALANCES – ENDING..... | \$ 10,371,553 | \$ - | \$ 8,255,326 | \$ 9,095,685 | \$ 7,827,722 | \$ 3,315,622 | \$ 38,865,908 |

OK flow
11/20/2013

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



Net Change in Fund Balances – Total Governmental Funds (Page 29) \$ 422,857

Amounts reported for Governmental Activities in the Statement of Activities (Page 25) are different because:

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

| | | |
|--|--------------------|-----------|
| Capital Assets | \$ 8,080,465 | |
| Depreciation Expense | <u>(3,462,521)</u> | |
| Excess of Capital Assets over Depreciation Expense | | 4,617,944 |

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset (21,249)

Revenues that provide current financial resources received in advance in prior fiscal year and recognized in the Statement of Activities, are reported as revenues in the governmental funds in current period:

| | | |
|---|--------------------|-------------|
| Community Development Block Grant | (1,001,645) | |
| Head Start Program..... | <u>(1,566,772)</u> | |
| Total of Revenues | | (2,568,417) |

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long-Term Liabilities in the Statement of Net Position. In the current period, proceeds received was..... (8,548,900)

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Noncurrent Liabilities in the Statement of Net Position. In the current year the repayments were..... 4,129,500

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | |
|--|----------------|--------------------|
| Increase in Landfill Post-Closure Care Costs | (1,584,109) | |
| Decrease in MRCC..... | 15,658 | |
| Decrease in Claims and Judgments..... | 230,521 | |
| Decrease in Compensated Absences | <u>149,020</u> | |
| Total Additional Expenditures..... | | <u>(1,188,910)</u> |

Change in Net Position of Governmental Activities (Page 25)..... (\$ 3,157,175)

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



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF AGUADILLA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Explanation of Differences:

- (A) Encumbrances for equipment and supplies ordered but not received are reported in the year. The orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes.
- (B) Non-Budgetary Items.
- (C) The amount reported as "Fund Balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Municipality's budget. (See Note 2.C. for the description of the Municipality's budgetary accounting method.) This amount differs from the fund balance reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balance* because of the cumulative effect of transactions such as those described above.

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



Las Cascadas

Water Park



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



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



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

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1. FINANCIAL REPORTING ENTITY

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

A. Organization

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

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

B. Reporting Entity

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Statement Presentation

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

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

Required Supplementary Information – Management's Discussion and Analysis

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

Government-wide Financial Statements (GWFS)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

Governmental Funds and Proprietary Fund Financial Statements (GFFS)

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

The financial statements of the proprietary funds are the following:

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

Notes to Basic Financial Statements

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

Required Supplementary Information

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

B. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Financial Statements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Governmental Funds Financial Statements

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

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

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

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

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

C. Stewardship, Compliance, and Accountability

Budgetary Information

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Final Budget

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

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

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

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

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

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

D. Assets, Liabilities, and Net Position

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

2) *Receivables and Payables*

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

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

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

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

3) *Inventories*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

4) *Capital Assets*

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

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

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

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

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

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various function/programs but reported as direct expense of the public works and urban development functions.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**5) Deferred Outflows/Inflows of Resources**

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

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

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

6) Unearned Revenues

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

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

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

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

8) Compensated Absences

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

9) *Claims and Judgments*

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

10) *Accounting for Pension Costs*

The **Municipality** accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the **Municipality** participate. The **Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 18).

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

11) *Landfill*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

12) Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

13) Net Position/Fund Balance

A) Net Position

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

Net Position Flow Assumption

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

B) Fund Balance

Fund Balance Classification

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

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

Fund Balance Flow Assumption

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

Fund Balance Policy

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Committing Funds

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

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

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

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

Policy on Assigning Funds

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

Policy on Unassigned General Fund Balance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

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

E. Interfund Transactions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

F. Risk Financing

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

G. Cash Flows

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

H. Use of Estimates

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

I. Reclassifications

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

J. Future Adoption of Accounting Pronouncements

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

| | |
|---|------------------------------|
| Cost of Capital Assets | \$252,399,466 |
| Accumulated Depreciation | <u>(57,567,382)</u> |
| Net adjustment to increase <i>Fund Balance – Governmental Funds</i> to arrive at <i>Net Position – Governmental Activities</i> | <u>\$194,832,084</u> |

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

| | |
|---|---------------------|
| Unavailable Revenues – Federal Grants | <u>\$ 4,444,810</u> |
|---|---------------------|



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

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

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

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

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

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

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

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

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

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

| | |
|----------------------|-----------------------|
| Federal Grants | <u>(\$ 2,568,417)</u> |
|----------------------|-----------------------|

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

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

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

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



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

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

Principal Payment Made (\$ 4,129,500)

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

| | |
|---|------------------|
| Landfill Post-Closure Care Costs (including interest expense of \$101,021)..... | <u>1,584,109</u> |
| MRCC Liquidation | (15,658) |
| Claims and Judgments..... | (230,521) |
| Compensated Absences | <u>(149,020)</u> |
| | <u>(395,199)</u> |

Net adjustment to decrease *Net Changes in Fund Balance – Total Governmental Funds* to arrive at *Changes in Net Position – Governmental Activities* (\$ 2,940,590)

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

| | |
|--|----------------|
| General Obligation Bonds | (\$ 8,530,000) |
| General Obligation Bonds [Net of Refinancing – (\$1,850,000 - \$1,859,250)] ... | (9,250) |
| Special Obligation Bonds [Net of Refinancing – (\$1,930,000 - \$1,939,650)] | <u>(9,650)</u> |

Net adjustment to decrease *Net Changes in Fund Balance – Total Governmental Funds* to arrive at *Changes in Net Position – Governmental Activities* (\$ 8,548,900)

4. CASH AND INVESTMENTS

Cash in Banks

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

4. CASH AND INVESTMENTS – continuation

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The **Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. Under the laws and regulations of the Commonwealth, public funds deposited by the **Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the **Municipality's** name.

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

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

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

Credit Risk

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

Custodial Credit Risk

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

4. CASH AND INVESTMENTS – continuation

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **Municipality** manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2013, the interest risk associated with the **Municipality's** cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the **Municipality**, the **Municipality** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **Municipality's** deposits is considered low at June 30, 2013.

5. RECEIVABLES

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

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

6. UNEARNED REVENUES

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

| Governmental Funds: | |
|--------------------------|---------------------|
| Volume of Business Taxes | \$ 9,227,793 |
| Federal Grants | <u>148,644</u> |
| Total Unearned Revenues | <u>\$ 9,376,437</u> |

7. DEFERRED INFLOWS OF RESOURCES

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

| Governmental Funds: | |
|-------------------------------------|---------------------|
| Federal Grants: | |
| Head Start Program | \$ 4,235,911 |
| Other Governmental Funds | <u>208,899</u> |
| Total Deferred Inflows of Resources | <u>\$ 4,444,810</u> |

8. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

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

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

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

B. Interfund Transfers

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

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

9. DUE TO GOVERNMENTAL UNITS

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

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

10. CAPITAL ASSETS

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

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

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10. CAPITAL ASSETS – continuation

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

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

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

11. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

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

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

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

11. NONCURRENT LIABILITIES – continuation

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

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

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

Current Refunding

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

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

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

11. NONCURRENT LIABILITIES – continuation

B. Legal Debt Limit and Legal Debt Margin

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

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

C. Other Noncurrent Liabilities

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

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

Borrowing from MRCC

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

Landfill Obligation

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

11. NONCURRENT LIABILITIES – continuation

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

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

Claims

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

Compensated Absences

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

D. Changes in Noncurrent Liabilities

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

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

11. NONCURRENT LIABILITIES – continuation

E. Debt Compliance

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

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

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

12. DEBT RETIREMENT

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

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

13. PROPERTY TAXES

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

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

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

13. PROPERTY TAXES – continuation

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

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

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

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

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

14. VOLUME OF BUSINESS TAXES

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

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

14. VOLUME OF BUSINESS TAXES – continuation

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

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

15. SALES AND USAGE TAXES

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

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

- a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;
- b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and
- c. 0.1% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects. These funds will be distributed based on legislation from the Commonwealth's Legislature.

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

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

16. CONSTRUCTION EXCISE TAXES

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

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

16. CONSTRUCTION EXCISE TAXES – continuation

- a. All construction, repair, addition, demolition or improvement to a single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, with a total cost up to \$80,000, will pay 2.5% of construction excise taxes. This project is exempt of the construction excise taxes for the first \$5,000 of the project construction costs.
- b. All construction projects in excess of \$80,000, but equal or less than \$300,000, will pay 3.5%. In excess of \$300,000 the construction excise tax will be 4.00%. Both types of construction projects do not qualify for the exemption of \$5,000 granted to the single-family residential projects.
- c. All construction projects carried out by civic Non-for-Profit Organization, affiliated to councils and associations of their representative institutions, registered with the Commonwealth's State Department, have full exemption to the construction excise taxes.

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

17. INTERGOVERNMENTAL REVENUES

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

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

18. PENSION PLAN**A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico*****Description of the Plan***

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

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

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

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

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

18. PENSION PLAN – continuation

- (b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)
- (c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

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

Participant of the Program

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

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

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

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

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

18. PENSION PLAN – continuation***Annuity for Years of Service***

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

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

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

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

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

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

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

18. PENSION PLAN – continuation

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

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

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

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

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

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.
 - (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

18. PENSION PLAN – continuation

- (4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
 - (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

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

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

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

18. PENSION PLAN – continuation

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

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

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

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

Funding Policy

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

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

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

18. PENSION PLAN – continuation

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:
 - (1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars (\$550) and ten percent (10%) of their monthly salaries in excess of said amount.
 - (3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

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

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

Employer Contributions to the System (ERS and Hybrid Program)

Every employer shall mandatorily contribute to the System the following:

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

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

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

18. PENSION PLAN – continuation

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

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

Death, Disability or Terminal Illness Benefits**Death of a Participant in Active Service**

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

Death of a Pensioner

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

Separation from Service for Disability or Terminal Illness

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

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

18. PENSION PLAN – continuation

Disability Insurance

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

Additional Benefits Program

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

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

- (a) A Medication Bonus equal to one hundred (\$100), which shall be paid no later than July 15 of each year;
- (b) A Christmas Bonus equal to two hundred dollars (\$200), which shall be paid no later than December 20 of each year; and
- (c) A Commonwealth contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars (\$100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

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

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

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

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

FINANCIAL TRENDS



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

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

^(a) Increase in Total Net Position due to recognition of infrastructure, and the construction in progress of new projects.

^(b) Decrease in Unrestricted Net Position due to the recognition of Landfill Closure and Post-Closure Costs Liability.

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



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

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

^(a) Increase in Total Net Position due to recognition of infrastructure, and the construction in progress of new projects.

^(b) Decrease in Unrestricted Net Position due to the recognition of Landfill Post-Closure Costs Liability.

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



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF AGUADILLA

NET POSITION TREND BY COMPONENT FOR THE LAST EIGHT FISCAL YEARS
BUSINESS – TYPE ACTIVITIES

| | 2012 | | | 2011 | | | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | | |
|----------------------------------|------------------------------|-------------------------------------|-------------------------------|-------------------------|-------------------------------------|-------------------------------|--|-------------------------------------|-------------------------------|--|-------------------------------|-------------------------------------|-------------------------------|--|-------------------------------|-------------------------------------|-------------------------------|
| | AGUADILLA'S CITY ENTERPRISES | AGUADILLA'S WATERFALLS AQUATIC PARK | AGUADILLA'S ICE SKATING ARENA | OTHER PROPRIETARY FUNDS | AGUADILLA'S WATERFALLS AQUATIC PARK | AGUADILLA'S ICE SKATING ARENA | OTHER PROPRIETARY FUNDS ^(b) | AGUADILLA'S WATERFALLS AQUATIC PARK | AGUADILLA'S ICE SKATING ARENA | AGUADILLA'S WATERFALLS AQUATIC PARK ^(a) | AGUADILLA'S ICE SKATING ARENA | AGUADILLA'S WATERFALLS AQUATIC PARK | AGUADILLA'S ICE SKATING ARENA | AGUADILLA'S WATERFALLS AQUATIC PARK ^(a) | AGUADILLA'S ICE SKATING ARENA | AGUADILLA'S WATERFALLS AQUATIC PARK | AGUADILLA'S ICE SKATING ARENA |
| NET POSITION: | | | | | | | | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 8,608,418 | \$ 3,385,324 | \$ 5,777,741 | \$ 424,916 | \$ 3,321,300 | \$ 5,935,921 | \$ 482,358 | \$ 3,839,842 | \$ 6,049,407 | \$ 3,943,828 | \$ 6,192,410 | \$ 4,052,196 | \$ 5,750,705 | \$ 4,080,048 | \$ 5,755,243 | \$ 4,211,713 | \$ 5,870,801 |
| Unrestricted | 1,817,201 | 880,289 | 282,374 | 232,820 | 897,345 | 196,962 | 427,342 | 643,657 | 245,714 | 366,765 | 93,277 | 1,445,284 | 109,768 | 829,119 | 91,318 | 1,413,131 | 81,199 |
| TOTAL NET POSITION | \$ 11,425,619 | \$ 4,245,613 | \$ 6,060,115 | \$ 657,736 | \$ 4,218,645 | \$ 6,132,883 | \$ 909,700 | \$ 4,483,499 | \$ 6,295,121 | \$ 4,310,593 | \$ 6,285,687 | \$ 5,497,480 | \$ 5,860,473 | \$ 4,909,167 | \$ 5,846,561 | \$ 5,624,844 | \$ 5,952,000 |

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

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

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



GOVERNMENT OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

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

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Mayor and Municipal Legislature | \$ 1,420,810 | \$ 1,374,184 | \$ 1,263,729 | \$ 1,353,353 | \$ 2,243,847 | \$ 1,514,767 | \$ 1,549,319 | \$ 1,455,224 | \$ 1,572,271 | \$ 2,588,597 |
| General Government | 18,240,673 | 17,811,106 | 16,991,843 | 17,319,708 | 17,416,165 | 18,759,422 | 18,433,566 | 17,639,130 | 18,691,822 | 12,285,179 |
| Public Safety | 1,979,991 | 2,029,544 | 1,885,212 | 1,826,605 | 1,845,635 | 1,763,964 | 1,666,842 | 1,776,161 | 1,712,299 | 1,626,191 |
| Public Works | 3,202,954 | 2,741,210 | 1,472,237 | 1,697,101 | 1,821,141 | 1,858,104 | 1,874,964 | 1,800,400 | 1,858,805 | 1,679,448 |
| Culture and Recreation | 1,327,961 | 1,322,936 | 998,967 | 1,260,932 | 1,063,943 | 1,105,616 | 979,368 | 1,361,111 | 3,214,666 ^(a) | 2,571,398 ^(a) |
| Health and Sanitation | 4,520,704 | 4,610,810 | 4,309,372 | 4,387,430 | 7,517,663 ^(b) | 4,046,193 | 3,057,282 | 2,135,284 | 3,434,882 | 3,670,056 |
| Public Instruction | 6,130,946 | 5,975,579 | 6,534,940 | 5,717,719 | 5,371,819 | 6,046,261 | 5,381,175 | 7,057,884 | 5,509,806 | 5,831,190 |
| Landfill Post-Closure Care Costs | 1,675,885 | - | - | - | - | - | - | - | - | - |
| Human Services and Welfare | 7,743,953 | 7,087,321 | 6,724,421 | 7,259,936 | 5,090,701 | 4,792,506 | 5,582,451 | 4,780,771 | 4,991,988 | 4,426,804 |
| Urban Development | 6,251,920 | 7,944,350 | 9,165,696 | 4,421,722 | 13,031,468 | 4,222,382 | 4,826,215 | 4,905,990 | 1,897,109 | 5,274,018 |
| Reimbursement to Grantor Agency | - | 230,542 | - | - | - | - | - | - | - | - |
| Loss on disposition of Asset | 21,249 | 50,034 | - | - | 57,393 | - | 135,122 | - | - | - |
| Interest on Long-Term Debt | 3,755,996 | 5,446,920 | 2,634,339 | 2,812,231 | 3,804,291 | 2,572,880 | 2,544,588 | 2,359,767 | 2,065,212 | 1,341,702 |
| Total Governmental Activities | <u>56,273,042</u> | <u>56,624,536</u> | <u>51,980,756</u> | <u>48,056,737</u> | <u>59,264,066</u> | <u>46,682,095</u> | <u>46,030,892</u> | <u>45,271,722</u> | <u>44,948,860</u> | <u>41,294,583</u> |
| Business Type Activities: | | | | | | | | | | |
| Aguadilla City Enterprises ^(a) | 2,075,427 | - | - | - | - | - | - | - | - | - |
| Aguadilla's Waterfalls Aquatic Park | - | 1,814,125 | 2,021,368 | 1,375,249 | 1,955,310 | 1,396,436 | 1,373,748 | 1,182,640 | - | - |
| Aguadilla's Ice Skating Arena | - | 604,460 | 760,657 | 661,247 | 787,478 | 733,245 | 1,072,889 | 1,163,757 | - | - |
| Other Non-Major Enterprise Funds | - | 890,658 | 305,187 | - | - | - | - | - | - | - |
| Total Business-Type Activities | <u>2,075,427</u> | <u>3,309,243</u> | <u>3,087,212</u> | <u>2,036,496</u> | <u>2,742,788</u> | <u>2,129,681</u> | <u>2,446,637</u> | <u>2,346,397</u> | - | - |
| Total primary government expenses | <u>58,348,469</u> | <u>59,933,779</u> | <u>55,067,968</u> | <u>50,093,233</u> | <u>62,006,854</u> | <u>48,811,776</u> | <u>48,477,529</u> | <u>47,618,119</u> | <u>44,948,860</u> | <u>41,294,583</u> |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services | | | | | | | | | | |
| General Government | 1,112,638 | 223,638 | 52,030 | 248,430 | 127,598 | 228,803 | 228,940 | 176,743 | 160,444 | 148,552 |
| Culture and Recreation | 17,641 | - | - | - | - | - | - | - | - | 1,060,071 ^(a) |
| Health and Sanitation | 724,414 | 880,178 | 1,796,421 | 1,275,358 | 919,991 | 547,949 | 362,794 | 236,586 | 258,976 | 230,148 |
| Operating Grants and Contributions | 8,907,699 | 14,071,839 | 10,019,002 | 12,352,994 | 12,047,401 | 10,428,588 | 10,435,747 | 9,921,342 | 10,655,352 | 11,251,174 |
| Capital Grants and Contributions | 72,305 | 102,123 | 137,956 | 143,179 | 108,064 | 114,567 | 124,280 | 280,850 | 144,868 | 208,654 |
| Total Governmental Activities | <u>10,834,697</u> | <u>15,277,778</u> | <u>12,005,409</u> | <u>14,019,961</u> | <u>13,203,054</u> | <u>11,319,907</u> | <u>11,151,761</u> | <u>10,815,521</u> | <u>11,219,640</u> | <u>12,898,599</u> |
| Business Type Activities: | | | | | | | | | | |
| Charges for Services | | | | | | | | | | |
| Aguadilla City Enterprises ^(a) | 2,179,690 | - | - | - | - | - | - | - | - | - |
| Aguadilla's Waterfalls Aquatic Park | - | 1,798,724 | 1,816,609 | 1,593,627 | 1,769,445 | 2,298,276 | 2,107,900 | 1,961,850 | - | - |
| Aguadilla's Ice Skating Arena | - | 659,730 | 598,019 | 670,681 | 642,211 | 655,224 | 967,450 | 1,306,567 | - | - |
| Other Non-Major Enterprise Funds | - | 511,056 | 376,831 | - | - | - | - | - | - | - |
| Total Business-Type Activities | <u>2,179,690</u> | <u>2,969,510</u> | <u>2,791,459</u> | <u>2,264,308</u> | <u>2,411,656</u> | <u>2,953,500</u> | <u>3,075,350</u> | <u>3,268,417</u> | - | - |
| Total primary government program revenues | <u>13,014,387</u> | <u>18,247,288</u> | <u>14,796,868</u> | <u>16,284,269</u> | <u>15,614,710</u> | <u>14,273,407</u> | <u>14,227,111</u> | <u>13,883,938</u> | <u>11,219,640</u> | <u>12,898,599</u> |



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

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

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

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

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

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

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

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



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

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

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



GOVERNMENT OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO

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

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

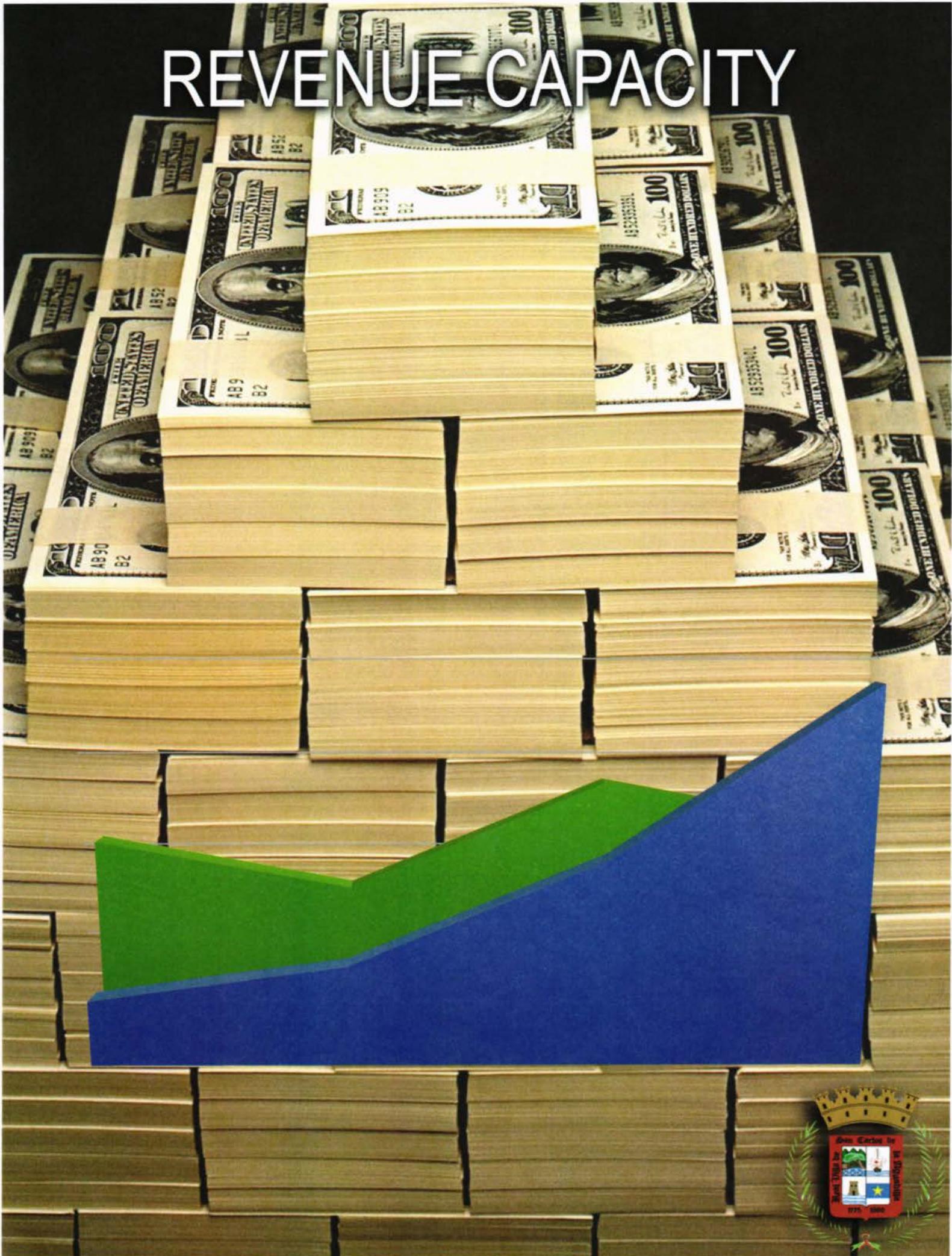


| | 2012 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|--------------------|-----------------------|---------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|
| Debt Service: | | | | | | | | | | |
| Principal Retirement | 4,129,500 | 4,371,082 | 3,294,377 | 6,716,664 | 3,467,334 | 2,902,364 | 2,642,233 | 2,441,000 | 2,520,000 | 1,595,000 |
| Interest and Other Charges | 3,654,975 | 5,446,920 | 2,634,339 | 2,812,231 | 3,804,291 | 2,572,880 | 2,544,588 | 2,359,767 | 2,065,212 | 1,341,702 |
| Bond Issue Costs | 50,480 | 11,595 | 28,123 | 28,615 | 16,201 | 51,269 | - | 35,135 | - | - |
| Total Expenditures | <u>63,810,327</u> | <u>63,828,800</u> | <u>59,308,184</u> | <u>64,636,099</u> | <u>67,969,927</u> | <u>58,570,801</u> | <u>55,082,985</u> | <u>49,329,942</u> | <u>44,372,539</u> | <u>44,130,988</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | | | | | | | |
| | <u>(7,768,151)</u> | <u>(3,593,377)</u> | <u>(4,899,438)</u> | <u>(14,218,661)</u> | <u>(11,686,613)</u> | <u>(9,194,419)</u> | <u>(7,307,408)</u> | <u>(2,421,886)</u> | <u>(3,964,255)</u> | <u>(1,059,987)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Proceed of Bonds | 12,328,900 | 2,295,576 | 5,206,379 | 8,218,075 | 7,780,073 | 16,207,985 | 1,529,712 | 6,541,446 | 12,060,000 | 7,220,000 |
| Refinancing of Bonds | (3,780,000) | - | - | - | - | - | - | - | - | - |
| Transfer-In | 4,205,713 | 5,789,689 | 2,076,938 | 6,089,068 | 5,376,858 | 2,441,916 | 3,534,896 | 2,994,757 | 559,168 | 1,952,768 |
| Transfer-Out | <u>(4,563,605)</u> | <u>(5,832,058)</u> | <u>(2,713,475)</u> | <u>(6,043,596)</u> | <u>(4,375,836)</u> | <u>(2,128,389)</u> | <u>(2,035,476)</u> | <u>(2,777,972)</u> | <u>(559,168)</u> | <u>(1,952,768)</u> |
| Total Other Financing Sources and Uses | <u>8,191,008</u> | <u>2,253,207</u> | <u>4,569,842</u> | <u>8,263,547</u> | <u>8,781,095</u> | <u>16,521,512</u> | <u>3,029,132</u> | <u>6,758,231</u> | <u>12,060,000</u> | <u>7,220,000</u> |
| SPECIAL ITEM | | | | | | | | | | |
| Proceeds from Sale | - | - | - | - | - | - | - | 919,000 | - | - |
| NET CHANGE IN FUND BALANCES | \$ 422,857 | \$ (1,340,170) | \$ (329,596) | \$ (5,955,114) | \$ (2,905,518) | \$ 7,327,093 | \$ (4,278,276) | \$ 5,255,345 | \$ 8,095,745 | \$ 6,160,013 |
| Debt service as a percentage of non capital expenditures ^(a) | | | | | | | | | | |
| | 16.24% | 21.03% | 12.66% | 22.03% | 14.79% | 13.30% | 12.92% | 12.25% | 11.87% | 7.26% |

^(a) This calculation was made based on Total Expenditures less Debt Service and Capital Outlay Expenditures divided by Total Expenditures.

^(b) Increases in Urban Development Expense and Intergovernmental Revenue are explained in details in the Management's Discussion and Analysis.

REVENUE CAPACITY



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REAL PROPERTY TAX VALUATION

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

PERSONAL PROPERTY TAX VALUATION

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



TOTAL PROPERTY TAX VALUATION

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

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

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

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

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

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



REAL PROPERTY

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

PERSONAL PROPERTY

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



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

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



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

SOURCE: Department of Finance of the Municipality.



2013

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

2012

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

2011

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

2010

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

2009

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

2008

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



2007

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

2006

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

2005

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



2004

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



| FISCAL YEAR | FINANCIAL INSTITUTIONS ^(a) | | OTHER ORGANIZATIONS | |
|------------------------|--|--------------------------------|----------------------------|--------------------------------|
| | RATE | DISCOUNT ^(b) | RATE | DISCOUNT ^(b) |
| 2013 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2012 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2011 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2010 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2009 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2008 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2007 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2006 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2005 | 1.50% | 5.00% | 0.40% | 5.00% |
| 2004 | 1.50% | 5.00% | 0.40% | 5.00% |

^(a) This rate applies to Financial Institutions and Savings and Loan Associations.

^(b) See Notes to the Basic Financial Statements.

DEBT CAPACITY



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

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

OUTSTANDING DEBT RATIO - PER PERSONAL INCOME

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

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

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

OUTSTANDING DEBT RATIO - PER CAPITA

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

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

Note 1: Per Capita data can be found in the Schedule of Demographic and Economic Statistics.

OUTSTANDING DEBT RATIO - PER PROPERTY TAX ASSESSED VALUE

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

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

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



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

Source: Department of Finance of the Municipality.



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

Source: Department of Finance of the Municipality.

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

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



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

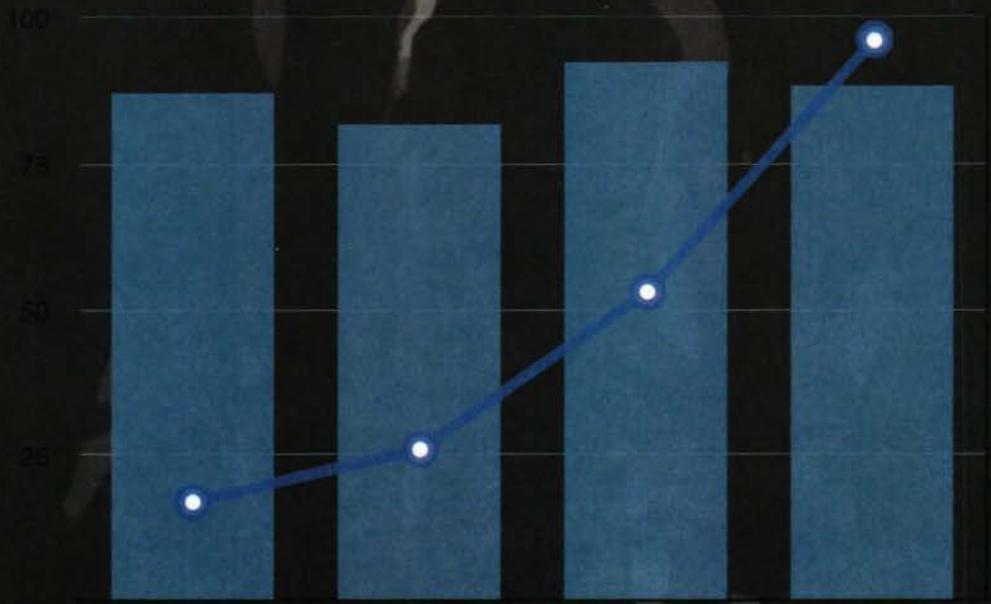


| <i>FISCAL YEAR</i> | <i>LEGAL DEBT LIMIT</i> | <i>TOTAL NET DEBT APPLICABLE TO LIMIT</i> | <i>LEGAL DEBT MARGIN ⁽¹⁾</i> | <i>TOTAL NET DEBT APPLICABLE TO THE LIMIT AS A PERCENTAGE OF DEBT LIMIT</i> |
|------------------------|---------------------------------|---|---|---|
| 2013 | \$ 353,437,818 |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

Source: Department of Finance of the Municipality.

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

DEMOGRAPHIC INFORMATION



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LAST TEN FISCAL YEARS

| <i>FISCAL YEAR</i> | <i>POPULATION</i> | <i>PERSONAL INCOME</i> | <i>PER CAPITA¹</i> | <i>INFLATION RATE</i> | <i>LABOR FORCE²</i> | <i>EMPLOYMENT²</i> | <i>UNEMPLOYMENT RATE</i> |
|--------------------|-------------------|------------------------|-------------------------------|-----------------------|--------------------------------|-------------------------------|--------------------------|
| 2013 | 59,453 | \$ 1,246,907,769 | \$ 20,973 | 1.80% | 19,069 | 16,294 | 14.55% |
| 2012 | 60,316 | 1,291,556,159 | 21,413 | 1.90% | 20,442 | 17,376 | 15.00% |
| 2011 | 60,949 | 1,208,435,823 | 19,827 | 1.75% | 20,881 | 17,415 | 16.60% |
| 2010 | 67,745 | 1,241,359,380 | 18,324 | 4.50% | 20,985 | 16,977 | 19.10% |
| 2009 | 67,491 | 1,087,684,956 | 16,116 | 2.70% | 20,906 | 17,185 | 17.80% |
| 2008 | 67,181 | 952,223,494 | 14,174 | 6.50% | 23,400 | 20,475 | 12.50% |
| 2007 | 67,167 | 834,415,641 | 12,423 | 11.90% | 23,546 | 20,720 | 12.00% |
| 2006 | 66,926 | 732,521,130 | 10,945 | 8.17% | 23,452 | 20,239 | 13.70% |
| 2005 | 69,920 | 702,746,721 | 10,051 | 4.31% | 23,362 | 20,395 | 12.70% |
| 2004 | 66,363 | 436,612,937 | 9,306 | 7.66% | 22,066 | 18,955 | 14.10% |

Note 1: Per capita data was computed using US Census Bureau and ZIP Atlas.

Note 2: Labor force data was provided by the Workforce Development Administration of Puerto Rico.



| <u>Type of Employer - Industry</u> | <u>2013</u> | | <u>2004</u> | |
|------------------------------------|----------------------------------|---|----------------------------------|---|
| | <i>Number of Employments</i> | <i>Percentage of Total Employment</i> | <i>Number of Employments</i> | <i>Percentage of Total Employment</i> |
| Professional Technical Services | 730 | 4% | N/AV | N/AV |
| Real State | 382 | 2% | N/AV | N/AV |
| Manufacturing | 2,477 | 15% | N/AV | N/AV |
| Retail | 1,319 | 8% | N/AV | N/AV |
| Wholesale | 252 | 2% | N/AV | N/AV |
| Construction | 999 | 6% | N/AV | N/AV |
| Educative Services | 2,313 | 14% | N/AV | N/AV |
| Transportation & Warehousing | 654 | 4% | N/AV | N/AV |
| Hotels and Restaurants | 893 | 5% | N/AV | N/AV |
| Government | <u>2,542</u> | <u>16%</u> | N/AV | N/AV |
| Ten largest industries | 12,561 | 77% | | |
| All other industries | <u>3,733</u> | <u>23%</u> | | |
| Total employments by industries | <u>16,294</u> | <u>100%</u> | | |

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

OPERATING INFORMATION

| | |
|-----------|-----------|
| 152853-20 | 16713-75 |
| 562244-61 | 8120-04 |
| 562244-61 | 8120-04 |
| 24036-00 | |
| 24036-00 | |
| 742305-73 | 8609-9 |
| 16540-56 | 860 |
| 758846-29 | |
| 20340-00 | |
| 393464-30 | |
| 75907-39 | |
| 489711-69 | |
| 21720-15 | 700 |
| 1167-47 | 7080-23 |
| 3955-27 | 2301-48 |
| 4190-91 | 2690-30 |
| 5338-00 | 2923 |
| 9369-49 | 59 |
| 9707-15 | 60 |
| 11878-46 | |
| 1839-64 | |
| 50717-99 | |
| 749-70 | |
| 2804 | |
| 2172-02 | 34 |
| 116-74 | 271 |
| 395-56 | 1304 |
| 419-09 | 494-4 |
| 533-80 | 523-87 |
| 2936-95 | |
| 970-72 | 5500-61 |
| | 1213-39 |
| 17297-93 | 8587-52 |
| 583266-30 | 23759-61 |
| | 800065-59 |
| | 106 |



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| FUNCTIONS | FISCAL YEARS | | | | | | | | | |
|---------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Mayor and Municipal Legislature | 51 | 53 | 45 | 64 | 60 | 69 | 50 | 65 | 71 | 72 |
| General Government | 178 | 181 | 176 | 183 | 167 | 177 | 143 | 184 | 203 | 185 |
| Public Safety | 60 | 68 | 64 | 66 | 63 | 66 | 62 | 64 | 61 | 61 |
| Public Works | 58 | 59 | 52 | 56 | 82 | 44 | 34 | 39 | 36 | 39 |
| Culture and Recreation | 45 | 46 | 46 | 43 | 37 | 36 | 58 | 31 | 30 | 64 |
| Health and Sanitation | 124 | 124 | 112 | 124 | 136 | 162 | 138 | 139 | 122 | 77 |
| Human Services and Welfare | 102 | 109 | 113 | 115 | 100 | 101 | 88 | 90 | 60 | 76 |
| Urban Development | 43 | 45 | 44 | 53 | 49 | 64 | 55 | 51 | 62 | 53 |
| TOTAL | 661 | 685 | 652 | 704 | 694 | 719 | 628 | 663 | 645 | 627 |

Source: Office of Human Resources of the Municipality.

Note: A regular employee is scheduled to work seven and a half (7.5) hours per day.



| FUNCTIONS | FISCAL YEARS | | | | | | |
|----------------------------|--------------|-------|-------|-------|-------|-------|-------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Public Safety | | | | | | | |
| Patrol Units | 32 | 31 | 33 | 32 | 33 | 30 | 29 |
| Motorcycle | 4 | 10 | 9 | 9 | 9 | 9 | 9 |
| Public Works | | | | | | | |
| Bridges | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Vehicles | 56 | 56 | 57 | 55 | 57 | 57 | 57 |
| Equipment | 2,146 | 2,591 | 2,508 | 2,418 | 2,433 | 2,407 | 2,420 |
| Culture and Recreation | | | | | | | |
| Parks | 58 | 58 | 58 | 58 | 58 | 58 | 58 |
| Community Centers | 14 | 14 | 14 | 14 | 14 | 14 | 13 |
| Public Instruction | | | | | | | |
| Head Start Centers | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Health and Sanitation | | | | | | | |
| Buildings | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Human Services and Welfare | | | | | | | |
| Cemeteries | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Geriatrics Centers | 6 | 6 | 6 | 6 | 6 | 5 | 4 |
| Urban Development | | | | | | | |
| Buildings | 6 | 6 | 6 | 6 | 6 | 5 | 4 |

Note: Information from prior years was not available. In addition, no capital assets statistics are available for the General Government and Mayor and Municipal Legislature functions.



| FUNCTIONS | FISCAL YEARS | | | |
|-------------------------------------|--------------|------|------|------|
| | 2013 | 2012 | 2011 | 2010 |
| Public Safety | | | | |
| Police Officers | 46 | 68 | 64 | 66 |
| Public Works | | | | |
| Collection of Debris - Worked Cases | 551 | 533 | 670 | 889 |
| Culture and Recreation | | | | |
| Rentals of Community Centers | 724 | 375 | 375 | 375 |
| Health and Sanitation | | | | |
| Collected Stray Dogs and Cats | 274 | 320 | 298 | 426 |
| Human Services and Welfare | | | | |
| Donations Made | 101 | 83 | 55 | 88 |

Note: Information from prior years was not available. In addition, the **Municipality** is working to obtain additional relevant data, including the General Government and Mayor and Municipal Legislature functions.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Aguadilla, Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Aguadilla, Puerto Rico's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality of Aguadilla, Puerto Rico's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Aguadilla, Puerto Rico's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Aguadilla, Puerto Rico's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Aguadilla, Puerto Rico's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002.

The Municipality of Aguadilla's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality of Aguadilla's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Yauco, Puerto Rico
December 20, 2013

Stamp #E93365 was affixed to
the original report

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

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

Report on Compliance for Each Major Federal Program

We have audited Municipality of Aguadilla, Puerto Rico's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Aguadilla, Puerto Rico's major federal programs for the year ended June 30, 2013. Municipality of Aguadilla, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality of Aguadilla, Puerto Rico's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Aguadilla, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality of Aguadilla, Puerto Rico's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Aguadilla, Puerto Rico, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's Response to Findings

Municipality of Aguadilla, Puerto Rico's response to the noncompliance and internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality of Aguadilla, Puerto Rico's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Municipality of Aguadilla, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Aguadilla, Puerto Rico's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Aguadilla, Puerto Rico's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

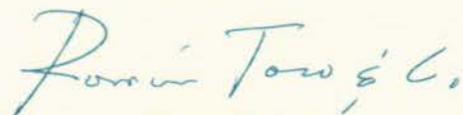
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002, that we consider to be significant deficiencies.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Aguadilla, Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality of Aguadilla, Puerto Rico's basic financial statements. We issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

Yauco, Puerto Rico
December 20, 2013

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the original report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES |
|--|---------------------------|--|-------------------------|
| U.S. Department of Agriculture: | | | |
| Pass-Through: Administration for Childhood Care and Integral Development (ACUDEN): | | | |
| Child and Adult Care Food Program..... | 10.558 | CCC-239 | <u>\$ 700,959</u> |
| U.S. Department of Housing and Urban Development: | | | |
| Direct Programs: | | | |
| Community Development Block Grant/Entitlement Grants (CDBG) | 14.218 | | 2,018,896 |
| Urban Development Action Grant | 14.221 | | 24,586 |
| Emergency Shelter Grant Program..... | 14.231 | | 140,128 |
| Home Investment Partnership Program (HOME) | 14.239 | | 588,319 |
| CDBG Section 108 Loan Guarantee..... | 14.248 | | 983,600 |
| Section 8 Rental Housing Choice Vouchers | 14.871 | | <u>1,366,899</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>5,122,428</u> |
| U.S. Department of Justice: | | | |
| ARRA – Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | <u>739</u> |
| U.S. Department of Transportation: | | | |
| Pass-Through: Puerto Rico Traffic Safety Commission: | | | |
| State and Community Highway Safety | 20.600 | 12-1679 | <u>6,138</u> |
| U.S. Department of Energy: | | | |
| ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)(Recovery Act funded) | 81.128 | | <u>537,691</u> |
| U.S. Department of Education: | | | |
| Pass-Through: Puerto Rico Department of Education: | | | |
| Twenty-First Century Community Learning Centers | 84.287 | 12-331 | <u>111,348</u> |

Continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES |
|---|---------------------------|--|----------------------------|
| U.S. Department of Health and Human Services: | | | |
| Pass-Through: Puerto Rico Office of the Governor – Office for Elderly Persons Affairs: | | | |
| Special Program for Aging, Title III, Part B | 93.044 | TIII B | 168,317 |
| Special Program for Aging, Title III, Part C | 93.045 | TIII C-1 AND C-2 | <u>151,407</u> |
| Total Aging Cluster | | | 319,724 |
| Pass-Through: Administration for Childhood Care and Integral Development (ACUDEN): | | | |
| Head Start Program | 93.600 | O2CH9944 | 6,228,077 |
| Child Care and Development Block Grant | 93.575 | 241-2011-000161 | 32,149 |
| Community Services Block Grant | 93.569 | | <u>9,840</u> |
| Total U.S. Department of Health and Human Services | | | <u>6,589,790</u> |
| U.S. Department of Homeland Security: | | | |
| Pass-Through Programs: | | | |
| Pass-Through: Puerto Rico Office of the Governor- Office for Public Safety Affairs: | | | |
| Homeland Security Grant Program (OSG) | 97.067 | N/AV | <u>23,148</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$13,092,241</u> |

See 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, 2013

NOTE 1 GENERAL

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present the financial position or the results of operations.
- B. The Municipality records the financial transactions and conditions of the grants consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, or when actually paid, whichever occurs first.
- D. For the Section 8 – Rental Housing Choice Vouchers, the amount presented in the Schedule is the total revenues received from HUD. This policy is consistent with HUD's interpretation of Accounting Issue #10, which states that for subsidy programs (such as Section 8), the federal awards expended would equal the net ACC subsidy for the PHA's fiscal period under audit.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA number 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 distribution of federal awards to the Municipality are 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 SUB-RECIPIENTS |
|---|---------------------------|---|
| Community Development Block Grant-Entitlement Grants (CDBG) | 14.218 | \$101,865 |
| Emergency Shelter Grant Program (ESG)..... | 14.231 | 129,093 |
| HOME Investment Partnership Program (HOME) (to CHDOs) | 14.239 | <u>51,596</u> |
| TOTAL | | <u>\$282,554</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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Significant control deficiency 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:

- Significant control deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

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

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

Identification of Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|--|
| 10.558 | Child and Adult Care Food Program |
| 14.218 | Community Development Block Grants/ Entitlement(CDBG) |
| 14.239 | Home Investment Partnership Program (HOME) |
| 14.248 | CDBG Section 108 Loan Guarantee |
| 14.871 | Section 8 Rental Housing Choice Vouchers |
| 81.128 | Energy Efficiency and Conservation Block Grant Program (EECBG)(ARRA) |
| 93.600 | Head Start Program |

Dollar threshold used to distinguish between Type A and Type B Programs: \$392,767

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2013-001

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with program regulations.

Federal Program: Head Start Program (93.600)

Compliance Requirements: Allowable Costs/Cost Principles (B); Cash Management (C)

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

Questioned Costs: \$191,818.37.

Condition:

The program issued a duplicate payment for the same cost activity (payroll for a particular period) which had already been paid by the program, and had maintained cash resources requested in advance in excess of immediate needs, in part due to various deficiencies in internal controls related to disbursements and cash advance requests.

Context:

The Municipality centralizes its payroll functions within its Finance Department, processing payroll costs for all employees using its General Fund resources, and subsequently requesting departments and programs to reimburse the costs for their respective employees who work for and are charged under them. The request is made in the form of numbered invoices created and by a Finance Department accountant and signed by the Finance Department Director which then starts a program's process of requesting funds or using available cash resources to reimburse the Finance Department.

Because the grantor agency may provide for requests after extended periods of time, the Municipality may sometimes provide significant resources to cover the program's costs and operations, creating inter-fund debt. The program in turn requests advances of funds based on both obligations ready to be liquidated as well as an estimate of expected amounts to be disbursed when the advance of funds arrive, mainly to cover the expected payroll reimbursement to the Municipality.

For the payroll period of May 5-18, 2012, the total payroll costs (compensation, taxes, and benefits) charged to the program amounted to \$191,818.37. The Municipality's Finance Department issued invoice # 2012-27-HS for the amount of the payroll which was paid on June 27, 2012 by the program. According to the program's and Municipality's Directors, in the time it took the program to reimburse the costs, the invoice was re-requested by the program's accountant to quicken its processing, and such request was met issuing a new invoice with a different invoice number and date, creating the second invoice # 2012-28-HS which was processed for disbursement on July 9, 2012, as observed in our disbursement test. Because the situation was not detected, the program continued to request advance of funds based on immediate and estimated cash needs, without verifying its inter-fund accounting. When the program closed its budget and submitted its final reports in February and May 2013, it noted it did not have sufficient cash to return the program's surplus, and found it had requested excess cash due to this situation.

Criteria:

OMB Circular A-87 (2 CFR 225) requires that program costs be necessary and reasonable for proper and efficient performance and administration, be adequately documented, and be for actual costs, among other requirements. Additionally, OMB Circular A-102 requires that programs shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-001, continued

Cause:

The Municipality and the program did not effectively monitor the accounting of inter-fund debt and payments between each other, which would have detected any over-invoicing and over-payments of inter-fund transactions. This was due in part to documentation deficiencies and employee absenteeism. Firstly, the Head Start program's head accountant was absent for extended period of times during the 2012 and 2013 years due to medical situations, and the program did not timely mitigate this situation by assigning additional employees knowledgeable in accounting procedures to monitor inter-fund transactions.

And secondly, the Finance Department issued a different invoice for the same cost event, and the program and Finance Department did not review its supporting documentation (in relation to which payroll period was being reimbursed) which was not attached to either invoice before issuing the payment. In order to verify supporting documentation, the accountants, directors, and pre-intervention monitors who approve the payment must trace the invoice to the payroll reports in the system; however, this was not always done. Previously, all invoices were accompanied by the payroll report of each program and department, a documentation control which was changed in July 2011 when the change of the accounting system provided more information readily available digitally without the need of printing documents and reports.

Effect:

The program believed the second invoice was a new request for reimbursement for other costs, and used cash resources received in advance of the program to disburse the amount for the second invoice without realizing it had already issued a payment for the first invoice. Neither the program nor the Finance Department's accountants and directors were aware of the situation, until the closing of the program year when excess program funds were required to be returned after closing the program's budget process. The program noted it did not have enough cash resources within its bank accounts to return the amount reported in its final financial reports, and the cause was traced to the duplicate payment. The Finance Department provided \$219,753.60 between May 20 thru May 30, 2013 to return the funds and to loan funds to the program while requests for advances from the pass-through entity arrived.

Auditor's recommendation:

The Municipality should improve its internal controls and accounting in the areas of debts and payments between its funds and programs. Both the Finance Department's and the Head Start program's accountants should maintain logs of inter-fund transactions, events, and debts, noting all outstanding debts balances, requests issued but not paid (including invoice reference numbers), and date of payments, using such accounting analyses to assure the reconciliation of inter-fund debt in the accounting system between both funds. Additionally, invoices should be accompanied by details of payroll reports being requested, or instructions on where to access the reports to each person who will review, approve, and prepare the payment to the invoice.

Finally, the Head Start program should assure that the program's accounting department has sufficient knowledgeable employees to substitute each other in the case that one or more employees are not available to perform their duties. Improvement in supervision is required, noting that increased absenteeism should be answered with increased monitoring by both program and Municipality management.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-001, continued:

Views of responsible officials and corrective actions:

In the regular operations of the Municipality, paying the payroll of the Head Start program at the same time paying the payroll of municipal employees causes debt between funds from Head Start, because the funds petitioned to Puerto Rico



MUNICIPALITY OF AGUADILLA, PUERTO RICO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2013



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002

Type of finding: Federal Award.

Situation: Significant deficiency in internal controls; compliance with program regulations.

Federal Program: Head Start Program (93.600)

Compliance Requirements: Equipment and Real Property Management (E)

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

Questioned Costs: \$207,130.67, not net of depreciation.

Condition:

The physical inventories performed during the year revealed various items in the property records which were not found in the physical location they were assigned to, which demonstrated that the program did not properly safeguard equipment items and/or did not perform proper disposition procedures as required by local regulations.

Context:

During our planning of the program's audit in October 2013, the program's management notified us of an exhaustive physical inventory performed across all of its centers and offices, as a result of deficiencies noted by an audit by the PR Comptroller Office in 2013. Physical inventories were conducted by program personnel in September 2013, which revealed various individual equipment items which were not found in the location described in the property registers. However, the inventory was performed by each location, and at our audit date, these records were being reconciled to finding which items had been transferred to a different program location (property transfers between centers), which were previously decommissioned without adjusting the property records, and which remaining were unaccounted for.

In our review of the inventory reports of equipment items not found by each location, we did not identify any equipment with an original cost of over \$5,000 nor any item which would reasonably be expected to have a fair market value of over \$5,000. While the property records of the program do not include information on current depreciated value, using the Municipality's accounting policy on depreciation, all items noted would be fully depreciated. The item with the largest cost in record was an air conditioning unit for \$3,600, acquired in 2002. The average cost of these items was \$320.64, with most equipment items having original cost values ranging from \$27 to \$1,000, and with dates of acquisition ranging from 1973 through 2007. On average, the largest items in terms of cost were air conditioning units, an item normally decommissioned after it is fully depreciated or unserviceable and a new one is acquired to replace it.

Finally, during our audit fieldwork in the program's main offices, we observed various computer equipment items which were stored in an open room and unorganized, which were designated for disposition but remained in that location for extended periods of weeks without the program executing their disposition.

Criteria:

45 CFR 92 requires that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every 2 years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately safeguarded. Additionally, the Municipal Administration Regulation Guide issued by the Puerto Rico Commissioner's Office for Municipal Affairs has set procedures during the disposition of property, which include an evaluation and certification by authorized personnel as to their condition and reason for disposal, a separation of duties during the actual disposition, and specific requirements for documenting the process.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002, continued

Cause:

The program's person in charge of property management did not perform proper observation procedures during physical inventories of items in all of the program's Centers, assuring all items, irrespective of their acquisition date and low depreciated value, are properly safeguarded in their assigned place, and requiring transfer documentation when such items are moved between its centers, until that time the program's management decides to decommission such items.

The program's supervision failed to remind each Center's teachers to assure all property was accounted for at any time and that dispositions follow the documentation requirements of local regulations, and that removal of equipment property must be accounted for to the program's management as authorized dispositions or transfers of equipment. Additionally, the program's management did not properly supervise the person in charge of property's work and inventory results, and did not assign additional personnel when the annual physical inventory was being performed.

Finally, pass-through agency regulations require at least one of their authorized employees being present when decommissioning program equipment, a requirement which may delay the decommissioning of equipment which would otherwise already been decommissioned under the Municipality's processes (as required by local regulations).

Effect:

Various equipment items of the program remained unaccounted for, and the program had to perform additional inventories in order to investigate the cause of the misplacement and/or loss of equipment.

Auditor's recommendation:

The Municipality must instruct all persons who are in charge of, or who regularly work in, Head Start centers to properly safeguard equipment and maintain all evidence of transfers, timely reporting them to the Head Start administration to document in the property records the movement of items. Secondly, the Municipality should assign 1 or more persons to perform the annual physical inventory process (specifically the observation process) in addition to the person in-charge of property to improve the likelihood that safeguarding deficiencies are noted, and consider using municipal personnel to perform surprise inspections and inventories of samples of items included in the property records. Finally, the Municipality should evaluate improving the program's management oversight of its employees, including requiring greater detail of inventory reports and results, alternating employees, and performing disciplinary actions for those who fail in their duties.

Views of responsible officials and corrective actions:

As an internal control the Municipality requires its departments conduct a quarterly equipment inventory, which is delivered to the Municipal Property Officer in the Department of Finance. This control helps prevent loss, theft or misuse of property in custody. The property records of the program are not centralized in the Municipality's Municipal Property Officer, and is separately maintained by an employee assigned by the program. The Head Start program performed and submitted an annual physical inventory report to the pass-through agency as it is required to do. In September 2013, a physical equipment inventory conducted by the Municipality resulted in detecting equipment which were not in the place originally assigned, and the Centers' personnel did not maintain equipment transfer records between centers and the administrative office.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, continued

2013-002, continued

Views of responsible officials and corrective actions (continued):

The Municipality immediately established corrective actions. The steps taken were:

1. The Municipality now requires from the program to submit quarterly inventory reports to the Municipal Property Officer of the Municipality.
2. The differences resulting from the inventory in September 2013 were reported to the Office of Internal Audit for appropriate investigation, and subsequent determination for adjustment or removal from the property records.
3. A document of transfer of ownership between the centers and the program management office was established to identify any change location assigned to each property.
4. An additional employee was assigned to the Municipal Property Officer to perform physical inventory of the program.

Audit finding status:

Unresolved.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF AGUADILLA, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

| Fiscal Year | Finding Number | Finding | CFDA Number | Questioned Cost(s) | Comments |
|-------------|----------------|---------|-------------|--------------------|----------|
|-------------|----------------|---------|-------------|--------------------|----------|

(1) Prior Audit Findings, fully corrected or not noted during our audit:

None.

(2) Prior Audit Findings, not corrected or partially corrected:

None.

(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Prior Audit Findings, are no longer valid:

None.

END OF SCHEDULE