

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE BAYAMON

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

OFICINA DEL COMISIONADO
MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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MUNICIPALITY OF BAYAMÓN
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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PART I - FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico
October 5, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286495 was affixed
to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Bayamón's (the "Municipality") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activities, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Because the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 15).

HIGHLIGHTS

Financial Highlights

- The Municipality's net assets amounted to \$389.5 million at the close of the current fiscal year. This amount represents an increase of \$0.5 million (or less than 1%) from the previous year's net assets.
- As of June 30, 2007, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$18.7 million, a decrease of \$1.3 million in comparison with the prior year. About 92% of this total amount, \$17.1 million, is available for spending in future years.
- The Municipality's activities revenue decreased \$10.1 million. The results of activities for both fiscal years 2006-07 and 2005-06 produced a decrease in net assets of \$10.1 million and an increase of \$14.0 million, respectively.
- The total cost of the Municipality's programs amounted to \$176.6 million and \$172.5 million during fiscal year 2006-07 and 2005-06, respectively. This represented an increase of \$4.1 million (or 2.0%).
- Loans principal payments were \$14.6 million during fiscal year 2006-07. Loan proceeds from new debt issued amounted to \$25.6 million during the same fiscal year. Other long-term liabilities amounted to \$13.7 million at June 30, 2007, for a total long-term debt of \$204.8 million as of same date, as compared to \$192.7 million in prior year.

Municipality Highlights

- The Municipality continued the construction of the golf course, where the first nine holes were completed at a cost of \$13.8 million (including \$0.1 million in progress at year-end). This golf course is the first one constructed by a public agency in Puerto Rico. It opens the door to all the citizens of the Municipality, including childrens, to practice this sport.
- During the current year the Municipality continued the improvement of roads, bridges and other infraestructure projects all over the city at a cost of \$19.7 million. From this amount, \$7.8 million were in progress at year-end.
- During the current year, the Municipality continued the remodeling of a sport complex (Complejo Deportivo Onofre Carballeira) investing \$7.7 million of project in progress

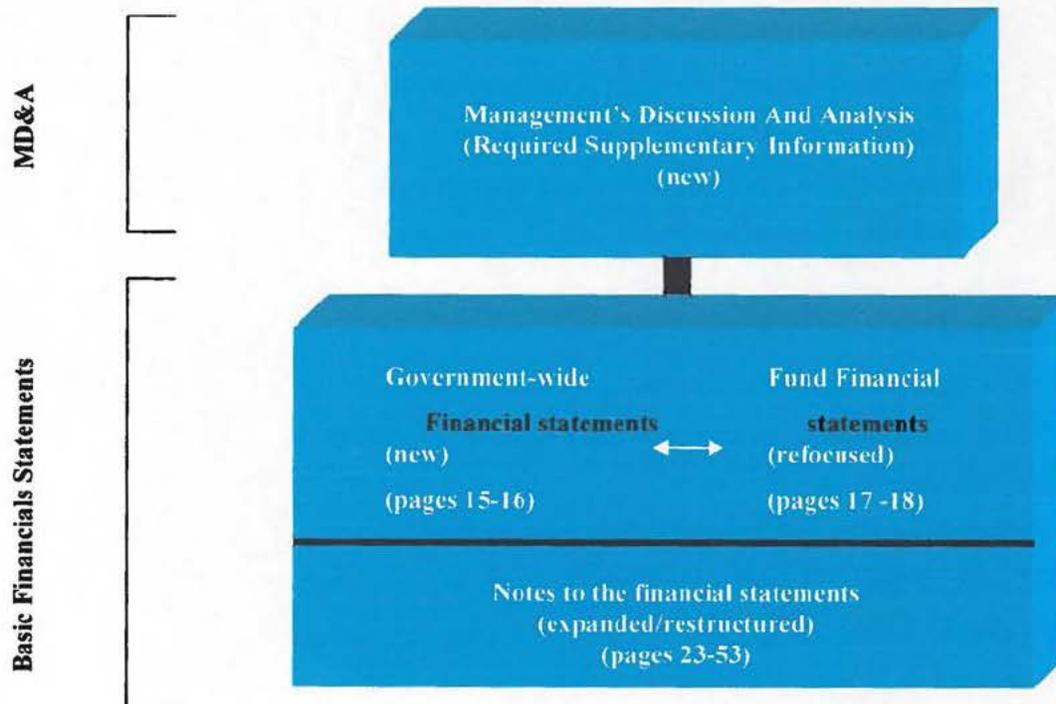
at year end. In this way it continued expanding existing sport centers within the Municipality.

- During the current year the Municipality invested \$2.4 million in the School of Baseball Iván Rodríguez which was in process of construction at year-end, increasing its cost to \$4.7 million.
- The Municipality continued the construction of various sculptures through out the city which promote the appreciation of culture for its citizens. Investment in this project amounted to \$4.7 million at end of the year, including the construction of "Parque Estrella del Norte", a recreational park, which has \$1.1 million in construction in progress.
- The Municipality continued the expropriation of properties located in the center of the city with the purpose of remodeling the downtown area to create housing and business development. At the end of the year the investment in this project amounted to \$17.8 million.

USING THIS ANNUAL REPORT

In light of the fact that this annual report has a very different presentation from the pre-GASB Statement No. 34 model, the following graphic is provided for your review.

Figure 1
Required components of the Municipality's Annual Financial Report



The new financial statement's focus (implemented in 2001/2002) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for

comparison (year to year or government to government) and enhance the Municipality's accountability.

Figure 2 below summarizes the major features of the Municipality's financial statements.

Figure 2

Major features of the Municipality's Governmental-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements
<i>Scope</i>	<i>The entire Municipality's Government</i>	<i>The activities of the Municipality</i>
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures and changes in fund balances.
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.
Type of inflow/outflow information	All revenues and expenses during the year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 7. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 15), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the Municipality.

The Statement of Activities (see page 16) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax, sales

and use tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, sales and use tax, state and federal contributions finance most of these services.

Fund Financial Statements

Our analysis of the Municipality's major funds begins on page 11. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see pages 17-18) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the financial statements can be found starting on page 24.

Infrastructure Assets

Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) have not been reported nor depreciated in governmental financial statements. The new statement requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the alternative method) which periodically (at least every third year), by category, measures and demonstrate its maintenance of locally established level of service standards, the government may record its cost of maintenance in lieu of depreciation. While the Municipality is planning to acquire an asset management system which a) would allow the election to use the alternative method, and b) will provide valuable management information, it elected to initially implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$389.0 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets compared to prior year.

Table 1
Summary of Net Assets
(in millions)

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$113.8	\$133.9
Capital assets	<u>560.2</u>	<u>527.5</u>
Total assets	<u>\$674.0</u>	<u>\$661.4</u>
Current and other liabilities	\$79.7	\$79.7
Long-term debt outstanding	<u>204.8</u>	<u>192.7</u>
Total liabilities	<u>\$284.5</u>	<u>\$272.4</u>
Net assets:		
Invested in capital assets, net of debt	\$352.7	\$352.7
Restricted	24.6	41.4
Unrestricted	<u>12.2</u>	<u>(5.1)</u>
Total net assets	<u>\$389.5</u>	<u>\$389.0</u>

For more detailed information see the Statement of Net Assets (page 15).

By far the largest portion of the Municipality's net assets (91 percent) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of net assets resulted in a superavit of \$12.2 million.

The Municipality's net assets increase by \$0.5 million during the current fiscal year. Such increase was mainly due to net effect of the decrease in Debt Service and Capital Projects (\$6.0 and \$11.0, respectively) combine with the increase of \$17.3 of the unrestricted.

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

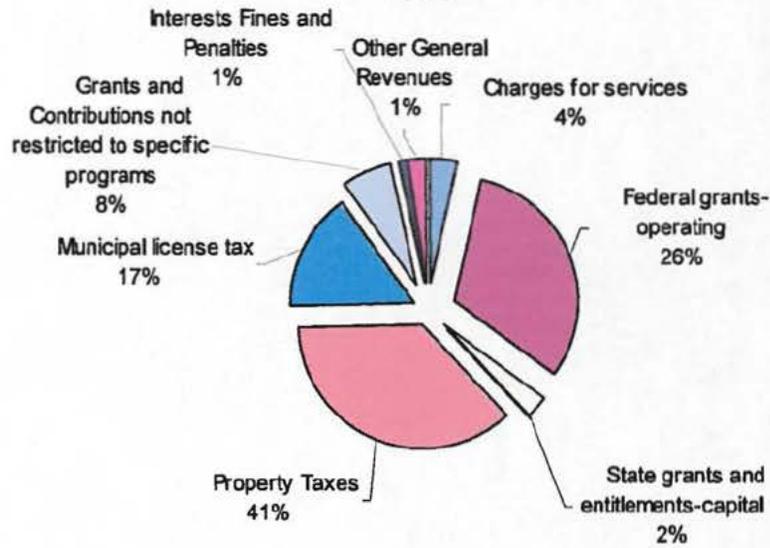
Table 2
Changes in Net Assets
(in millions)

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program Revenues:		
Charges for services	\$7.9	\$6.9
Federal grants-operating	48.9	59.1
State grants and entitlements-capital	4.5	5.1
General Revenues:		
Property Taxes	77.2	67.5
Municipal license tax	31.2	29.0
Grants and contributions not restricted to specific programs	14.4	12.7
Interest fines and penalties	2.2	2.3
Other general revenues	<u>.4</u>	<u>1.6</u>
Total Revenues	<u>\$186.7</u>	<u>\$184.2</u>
Expenses		
Program expenses:		
General Government	\$64.5	\$58.7
Public safety	8.3	7.3
Public Works	19.6	32.2
Culture	1.1	1.4
Recreation	5.3	7.0
Health and welfare	53.6	54.0
Education	7.2	2.9
Interest on long-term debt	<u>16.9</u>	<u>9.0</u>
Total Expenses	<u>\$176.5</u>	<u>\$172.5</u>
Excess (deficiency) before special items	\$10.2	\$11.7
Gain (Loss) on disposition of assets	<u>0</u>	<u>2.3</u>
Increase (decrease) in Net Assets	<u>\$10.2</u>	<u>\$14.0</u>

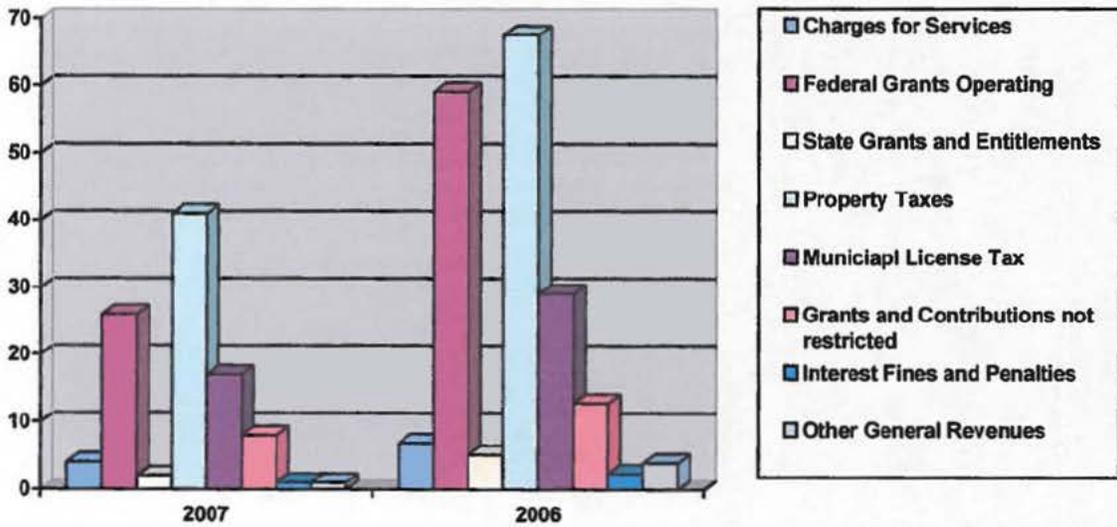
Revenues

Total revenues increased by \$2.5 million. Revenues controlled by the Municipality (property taxes and municipal license tax) increased \$11.9 million due to normal economic environment. State and federal grants decreases \$10.8 million, while other revenues increased \$1.4 million.

**Revenues by Source - Governmental Activities
2006-07**



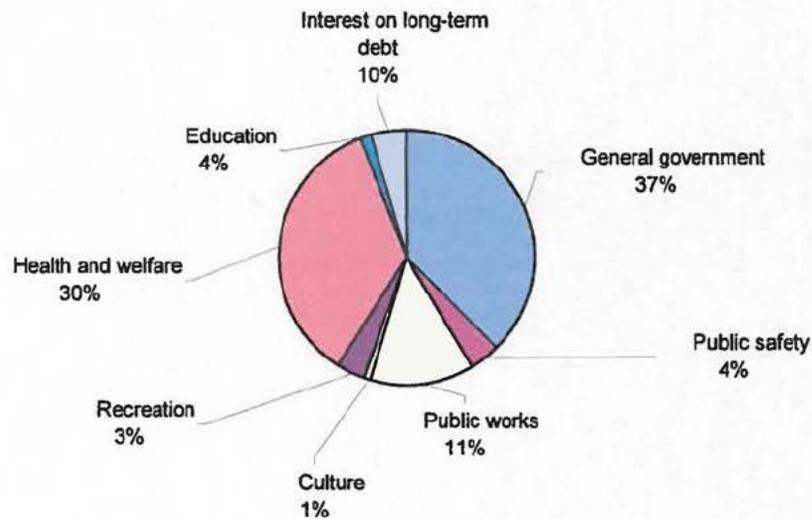
**General and Program Revenues
Governmental Activities 2006-07**



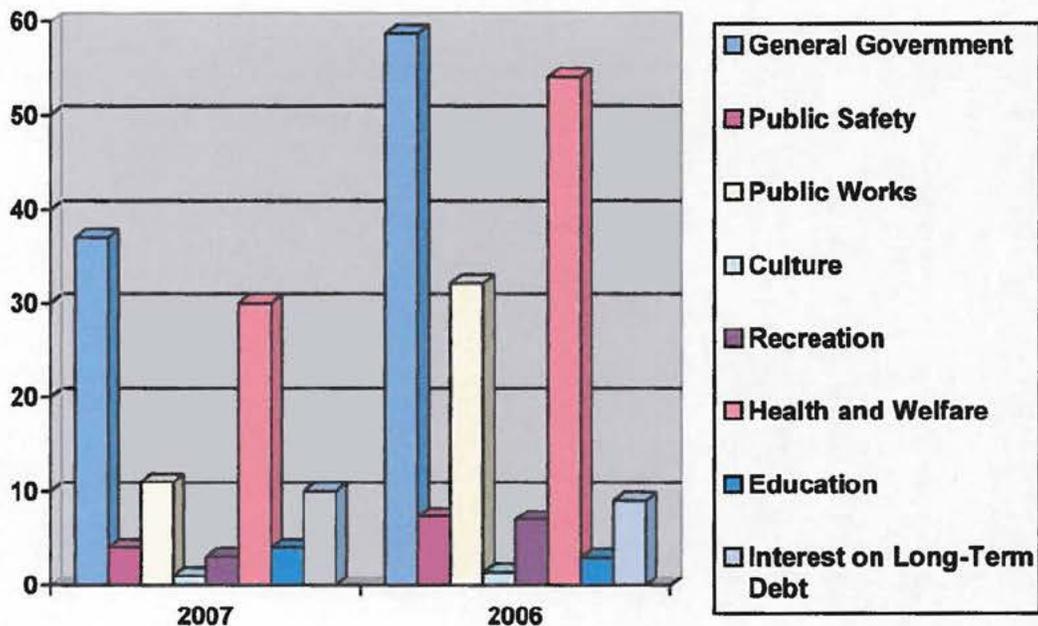
Expenses

Total cost of all programs and services increased by \$4 million, mainly due to a reduction of \$12.6 million in Public Works expenses in combination with an increase of \$5.8 in General Government expenses and \$7.9 in interest on long-term debt. For the most part, increases in other categories of expenses paralleled inflation and growth in the demand for services.

**Expenses by Source - Governmental Activities
2006-07**



Program Expenses Governmental Activities 2006-07



THE MUNICIPALITY FUNDS

Governmental Funds

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 17 and 18) reported a combined fund balance of \$42.1 million which is 33% smaller than the beginning of the year (\$63.7 million). This decrease was the net result of a decrease of \$22.6 million in the fund balances of the Capital Project Fund, the HUD Program Fund, the HHS Program Fund, the Debt Service Fund, the General Fund and an increase of \$1.1 million in other Governmental Fund. Some of the governmental funds are capital expenditure oriented and, therefore, the Capital Project Fund reflects capital expenditures (which are reflected in the current financial resource-based Fund Financial Statements) as a spending of a portion of available fund balances at the beginning of the year (see page 20). The HUD Programs fund on the other side reflected a reduction on its fund balance of \$3.8 million as a result of timing differences in recording expenditures and a restatement of the beginning of the year fund of \$9.5 million. The General Fund experienced a \$1.3 million decrease from a fund balance of \$20.0 million in the previous year to \$18.7 million at the end of the current year. This decrease reflects an increase in expenditures and the utilization of the accumulated fund balance at beginning of the year.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$17.0 million (see page 22 for budget to actual comparisons), including \$7.0 million reprogrammed from prior years fund balance. The current year operations resulted in \$9.1 million of excess income over expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Municipality had \$560.3 million invested in a variety of capital assets, as reflected in the following table, which represents a net increase (additions less retirements and depreciation) of \$32.8 million or 6% from the end of last year.

Table 3
Capital Assets at Year-end
(Net of Depreciation, in millions)

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
Land	\$229.5	\$229.4
Construction in progress	45.8	27.5
Artwork	1.0	1.0
Buildings and improvements	211.5	203.2
Furniture and fixture	.7	.7
Vehicles and equipment	8.3	8.6
Infraestructure	<u>63.5</u>	<u>57.1</u>
Totals	<u>\$560.3</u>	<u>\$527.5</u>

Table 4
Change in Capital Assets
(in millions)

	<i>Governmental Activities</i>
Beginning balance	\$527.5
Additions	56.5
Retirements	
CWIP	(9.7)
Depreciation	<u>(14.0)</u>
Ending balance	<u>\$560.3</u>

The retirements in the construction work-in-progress is equally reflected as an addition to Capital Assets. This year's major additions included (in millions):

Roads, bridges and other infrastructure improvements	\$1.5
Recreational facilities (active and passive)	5.4
Construction of the Golf Course	2.5

Debt Outstanding

As of year-end, the Municipality had \$204.8 million in debt (bonds, notes and other long-term debts) outstanding compared to \$192.7 million last year, an increase of 6% (considering new borrowing and debt retirement).

Table 5
Outstanding Debt at Year-end
(in millions)

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
General obligation bonds and notes	\$191.1	\$176.4
Due to CRIM	-	3.0
Claims and judgements	1.8	1.8
Compensated absences	<u>11.9</u>	<u>11.5</u>
Totals	<u>204.8</u>	<u>192.7</u>

New bonds and notes in the amount of \$25.6 million were issued during the year. Of this amount, \$6.5 million will finance improvements to roads and other infrastructure, \$3 million to construction of recreational facilities, \$18.0 million for the remodeling and rehabilitation of the Downtown Area. A note payable with a balance due of \$1.6 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. Principal payments of \$14.6 million were made by the Municipality during the current year.

The Municipality levies an annual special tax of 1.48% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality. The outstanding general obligation debt of the Municipality of \$153.1 million is below legal limitation. A note payable of \$32.0 million due to the U.S. Department of Housing and Urban Development is due in August 2019. More detailed information about the Municipality's long-term debts is presented in note 15 to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The Municipality maintained a higher than average population growth compared to that of Puerto Rico for the period from 1970 to 2000, averaging annual gains of 13.2%. The average family income of families in the Municipality has been one of the highest of any of the municipalities of Puerto Rico, and during the period from 1970 to 2000 the growth rate for average family income in the Municipality was comparable to that of Puerto Rico, averaging annual gains of 74.7%. The Municipality has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. During the years 2002, 2003 and 2004 the unemployment rate of the Municipality averaged 7.1% as compared to 1.6% in Puerto Rico.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2006-07. Amounts available for appropriations (revenues) in the General Fund Budget are \$98.0 million, which is \$6 million higher than the budget for fiscal year 2005-06. Municipal license taxes and other local charges for services, licenses and permits are expected to provide the revenues necessary to finance programs we currently offer. Budgeted expenditures are expected to be exceeded by budgeted revenues.

If those estimates are realized, the Municipality's budgetary General Fund balance is expected to be the same or to increase modestly by the close of fiscal year 2007-08.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors 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 the report or need additional financial information, contact the Municipality's Director of Finance Office on the 3rd floor of the City Hall, State Road #2, P.O. Box 1588, Bayamón, Puerto Rico 00956-61.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 2)	\$ 41,360,209
Cash with fiscal agent (Note 2)	23,344,085
Certificates of deposit (Notes 2 and 5)	21,212,324
Investments (Note 5)	5,242,384
Accounts receivables:	
Municipal license taxes (Note 7)	3,573,205
Note receivable (Note 8)	341,910
Rent, licences and permits	2,650,832
Interests	535,626
Other	392,940
Deferred charges	817,411
Due from other agencies (Note 9)	13,816,735
Inventories	488,853
Capital assets, net (Note 11)	<u>560,282,791</u>
Total assets	<u>\$ 674,059,305</u>
 <u>Liabilities and Net Assets</u> 	
Liabilities	
Account payable and accrued liabilities	\$ 29,253,557
Due to other agencies (Note 12)	11,648,750
Deferred revenues (Note 13):	
Municipal license tax	22,306,492
Federal government	6,108,303
Accrued interest	10,416,215
Noncurrent liabilities (Note 15):	
Due within one year	15,744,983
Due in more than one year	<u>189,051,740</u>
Total liabilities	<u>284,530,040</u>
Net Assets	
Investment in capital assets, net of related debt	352,709,353
Restricted for:	
Debt service	18,013,671
Capital projects	6,572,896
Unrestricted	<u>12,233,345</u>
Total net assets	<u>\$ 389,529,265</u>

The accompanying notes are an integral part of these basic financial statements.

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ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 64,469,182	\$ 7,893,609	\$ -	\$ -	\$ (56,575,573)
Public safety	8,322,335				(8,322,335)
Public works	19,633,122			4,453,192	(15,179,930)
Culture	1,144,171				(1,144,171)
Recreation	5,320,656				(5,320,656)
Health and welfare	53,565,029		48,909,670		(4,655,359)
Education	7,194,834				(7,194,834)
Interest on long-term debt	16,906,962				(16,906,962)
Total	\$ 176,556,291	\$ 7,893,609	\$ 48,909,670	\$ 4,453,192	(115,299,820)
General revenues:					
Property taxes					77,153,708
Municipal license tax					31,160,200
Grants and contributions not restricted to specific programs					14,425,704
Interest, fines and penalties					2,251,113
Miscellaneous					435,374
Loss on disposition of capital assets					(56,555)
Total general revenues					125,369,544
Change in net assets					10,069,724
Net assets at beginning of year, as restated (Note 22)					379,459,541
Net assets at end of year					\$ 389,529,265

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

Assets	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 2)	\$27,312,933	\$ 7,159,796	\$ 653,277	\$ -	\$ 4,538,465	\$ 1,695,738	\$ 41,360,209
Cash with fiscal agent (Note 2)		209,199		17,181,943	5,929,473	23,470	23,344,085
Certificates of deposits (Notes 2 and 5)	17,572,324	3,640,000					21,212,324
Investments (Note 5)	5,242,384						5,242,384
Accounts receivable:							
Municipal license taxes (Note 7)	3,129,525						3,129,525
Notes receivable (Note 8)		341,910					341,910
Rent, licenses and permits	1,582,717						1,582,717
Interest	256,976	25,888		252,762			535,626
Other		392,940					392,940
Due from other agencies (Note 9)	10,671,866	974,792		578,966		1,591,111	13,816,735
Due from other funds (Note 10)		57,101	307,692		6,153,284	920,853	7,438,930
Inventories	488,853						488,853
Total assets	\$66,257,578	\$12,801,626	\$ 960,969	\$18,013,671	\$16,621,222	\$ 4,231,172	\$ 118,886,238

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Account payable and accrued liabilities	\$ 6,191,477	\$10,715,099	\$ 1,415,082	\$ -	\$ 10,048,326	\$ 883,573	\$ 29,253,557
Due to other funds (Note 10)	7,438,930						7,438,930
Due to other agencies (Note 12)	11,648,750						11,648,750
Deferred revenues: (Note 13)							
Municipal license tax	22,306,492						22,306,492
Federal government		5,692,912				415,391	6,108,303
Total liabilities	<u>47,585,649</u>	<u>16,408,011</u>	<u>1,415,082</u>	<u>-</u>	<u>10,048,326</u>	<u>1,298,964</u>	<u>76,756,032</u>
Fund Balances (Deficit)							
Reserved for:							
Encumbrances	1,103,943						1,103,943
Debt service				18,013,671			18,013,671
Long-term receivable		341,910					341,910
Inventories	488,853						488,853
Capital projects					6,572,896		6,572,896
Unreserved fund balance (deficit)	17,079,133	(3,948,295)	(454,113)			2,932,208	15,608,933
Total fund balance (deficit)	<u>18,671,929</u>	<u>(3,606,385)</u>	<u>(454,113)</u>	<u>18,013,671</u>	<u>6,572,896</u>	<u>2,932,208</u>	<u>42,130,206</u>
Total liabilities and fund balance	<u>\$66,257,578</u>	<u>\$12,801,626</u>	<u>\$ 960,969</u>	<u>\$18,013,671</u>	<u>\$ 16,621,222</u>	<u>\$ 4,231,172</u>	<u>\$ 118,886,238</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - governmental funds \$ 42,130,206

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 560,282,791

- Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:
 - Accounts receivable - rent, licences, and permits 1,511,795
 - Deferred charges 817,411

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (215,212,938)

Net assets of governmental activities \$ 389,529,265

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RAYAMÓN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Services	Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 55,940,145	\$ -	\$ -	\$ 21,213,563	\$ -	\$ -	\$ 77,153,708
Municipal license taxes (Note 7)	30,716,520						30,716,520
Licenses and permits	3,825,222						3,825,222
Charges for service and rents	3,000,272						3,000,272
Intergovernmental revenues (Note 14)							
Federal grants and contributions		23,129,726	17,719,303			8,060,641	48,909,670
State contributions	16,426,104				4,453,192		18,878,896
Interest, fines, and penalties	1,537,222	61,724		652,167			2,251,113
Other revenues	4,2484	22,890					435,374
Total revenues	109,857,569	23,214,340	17,719,303	21,865,730	4,453,192	8,060,641	185,170,775
EXPENDITURES							
Current:							
General government	60,664,272						60,664,272
Public safety	7,214,478					698,116	7,910,594
Public works	20,803,973	10,481,122					31,345,095
Culture	963,589						963,589
Recreation	1,926,676						1,926,676
Health and welfare	13,583,569	18,048,618	19,358,784			2,009,631	53,000,601
Education	2,661,700					4,231,284	6,892,984
Capital outlays					29,368,341		29,368,341
Debt service							
Principal retirement				13,830,511			13,830,511
Interest and other		754,299		16,152,663			16,906,962
Total expenditures	107,878,256	29,284,039	19,358,784	29,983,174	29,368,341	6,937,031	222,809,625
Excess (deficiency) of revenues over (under) expenditures	1,979,313	(6,069,699)	(1,639,481)	(8,117,444)	(24,915,149)	1,123,610	(37,638,850)
OTHER FINANCING SOURCES (USES)							
Proceeds from credit line					4,472,389		4,472,389
Loan proceeds		11,800,000			9,327,500		21,127,500
Transfers in	710,507		838,389	3,148,227			4,697,123
Transfers out	(3,966,316)			(710,507)			(4,697,123)
Total other financing sources (uses)	(3,276,109)	11,800,000	838,389	2,437,720	13,799,889	-	25,599,889
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(1,296,796)	5,730,301	(801,092)	(5,679,724)	(11,115,260)	1,123,610	(12,038,961)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 22)	19,968,725	(9,336,686)	346,979	23,693,395	17,688,156	1,808,598	54,169,167
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 18,671,929	\$ (3,606,385)	\$ (454,113)	\$ 18,013,671	\$ 6,572,896	\$ 2,932,208	\$ 42,130,206

Handwritten notes:
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2/12/2008
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The accompanying notes are an integral part of these basic financial statements.

Handwritten note:
18,160,127

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$(12,038,961)

Amounts reported for governmental activities in the statement of activities 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. 46,881,741
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (14,027,748)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (25,599,889)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 13,830,511
- Governmental funds report proceeds received in the disposal of assets. In the statement of activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the cahnge in fund balance by the cost of disposal assets. (56,555)
- Governmental funds report the effect of issuance costs where debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (74,118)
- Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,511,795
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (357,052)

Changes in net assets of governmental activities \$ 10,069,724

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 45,383,083	\$ 48,349,993	\$ 56,494,227	\$ 8,144,234	\$ 16,401,074	\$ 16,401,074	\$ 21,282,940	\$ 4,881,866
Municipal license taxes	25,280,000	30,762,484	30,781,509	19,025	-	-	-	-
Licenses and permits	3,240,000	3,420,965	3,446,234	25,269	-	-	-	-
Charges for services and rent	2,629,470	3,151,561	3,000,272	(151,289)	-	-	-	-
Intergovernmental revenues:								
State contributions	14,351,119	14,956,241	13,790,609	(1,165,632)	-	-	-	-
Interest, fines and penalties	1,704,806	1,906,116	1,944,880	38,764	-	-	652,167	652,167
Other revenues	411,522	411,522	412,484	962	-	-	-	-
Total revenues	93,000,000	102,958,882	109,870,215	6,911,333	16,401,074	16,401,074	21,935,107	5,534,033
EXPENDITURES								
Current:								
General government	50,050,898	61,505,371	60,048,259	1,457,112				
Public safety	5,165,785	6,958,689	6,911,597	47,092				
Public works	17,099,716	21,509,792	21,359,549	150,243				
Culture	837,388	994,968	980,588	14,380				
Recreation	3,200,145	2,116,154	2,073,328	42,826				
Health and welfare	13,938,720	14,098,099	13,639,921	458,178				
Education	2,707,348	2,775,809	2,753,867	21,942				
Debt service:								
Principal					8,742,792	8,742,792	13,830,511	(5,087,719)
Interest					7,658,282	7,658,282	16,152,663	(8,494,381)
Total expenditures	93,000,000	109,958,882	107,767,109	2,191,773	16,401,074	16,401,074	29,983,174	(13,582,100)
OTHER FINANCING SOURCES								
Reprogramming funds		7,000,000	7,000,000	-				
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 9,103,106	\$ 9,103,106	\$ -	\$ -	\$ (8,048,067)	\$ (8,048,067)

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. ORGANIZATION

The Municipality of Bayamón, Puerto Rico (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- **Management's Discussion and Analysis** - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- **Government - Wide Financial Statements** - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies:

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a 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.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

- General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- Health and Human Services Programs (HHS Programs)

This fund account for revenue sources to provide essential human services such as health insurance for elderly and low-income people, improving

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of the outbreak of infections disease and immunization services.

- **Debt Service Fund**

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

- **Capital Project Fund**

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

d. Cash and Cash Equivalents, Cash with Fiscal Agent, and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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.

f. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

g. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

h. Reservation of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

● Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

● Inventory

Represents inventory that does not represent available financial resources.

● Long-term Receivables

Represents the reservation of monies set aside for long-term receivables which are not considered current financing resources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- **Debt Service**

Represents net assets available to finance future debt service payments.

- **Capital Projects Fund**

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

i. Risk Financing

The Municipality carries insurance to cover 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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to approximately \$2.6 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.7 million for workers' compensation insurance covering all municipal employees.

j. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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k. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	2009-10

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

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

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3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal 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.

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used

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to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess of revenues over (under) expenditures - budgetary basis	\$9,103,106	(\$8,048,067)
Entity differences:		
Reprogramming funds	(7,000,000)	-
Non-budgeted expenditures, net	(5,807,239)	
Non-budgeted transfer in	710,507	3,148,227
Non-budgeted transfer out	(3,986,616)	(710,507)
Prior year encumbrances recorded as current year expenditures for GAAP basis	(1,529,927)	-
Current year encumbrances treated as current year expenditures for budgetary purposes	1,103,943	-
Basis of accounting differences:		
Net change in receivables	697,861	(69,377)
Net change in payables	5,659,047	-
Net change in inventory	(247,478)	-
Deficiency of revenues under expenditures - GAAP basis	(<u>\$1,296,796</u>)	(<u>\$5,679,724</u>)

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

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4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$215 million difference are as follows:

Bonds payable	\$153,123,500
Notes payable	33,559,865
Compensated absences	11,861,107
Accrued interest payable	10,416,215
Credit line	4,472,389
Claims and judgements	<u>1,779,862</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$215,212,938</u>

5. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$5.9 million that are restricted principally for capital projects, and the \$17.2 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

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The Municipality maintains its deposits in four (4) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

b. Investments

The Municipality's investments are subject to interest rate, credit risk and concentration of credit risk.

- Interest rate risk - The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rate.
- Custodial credit risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Municipality will not be able to recover the value of its investments. At year end, the Municipality's investments did not have any securities exposed to custodial credit risk.
- Concentration of credit risk - At June 30, 2007, the Municipality has invested 95% of its investments in one issuer.

The following is a summary of the credit quality distribution and concentration of credit risk at June 30, 2007:

<u>Investment</u>	<u>Fair Value</u>	<u>Principal</u>	<u>MOODY'S</u>	<u>Maturity</u>	<u>Percent of Portfolio</u>
Federal Home Loan Bank	\$ 4,995,300	\$ 5,000,000	Aaa	1/30/08	95%
Federal National Mortgage	98,780	97,585	Aaa	9/26/07	2%
U. S. Treasury Bill	148,304	148,257	Aaa	9/27/07	3%
	<u>\$ 5,242,384</u>	<u>\$ 5,245,842</u>			<u>100%</u>

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6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.31% for real property and 6.58% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.30%
Additional special property - municipal	1.48%	1.48%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>8.31%</u>	<u>6.58%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment

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is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuring fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. 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 ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2007, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by approximately \$658,000. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual Municipal License Tax is determined based on the gross

**COMMONWEALTH OF PUERTO RICO
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income of all commerce and industrial organizations who have operations in the Municipality of Bayamón, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Bayamón, are as follows:

Financial institutions	= 1.5%
Other organizations	= .5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$22.3 million, corresponding to the next fiscal year municipal license.

8. NOTE RECEIVABLE

Represents loan agreements between the Municipality of Bayamón and various institutions, under the Urban Development Action Grant (UDAG) Program. Under the agreements, the Municipality lent funds to assist in financing the cost of construction of buildings and facilities.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$10,014,112
Municipal Revenues Collection Center (General Fund)	657,754
Municipal Revenues Collection Center (Debt Service Fund)	578,966
HUD - SNAPS	974,792
Other governmental funds	<u>1,591,111</u>
Total	<u>\$13,816,735</u>

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10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	General	\$6,153,284
HHS Programs	General	307,692
HUD Programs	General	57,101
Other governmental funds	General	<u>920,853</u>
Total		<u>\$7,438,930</u>

The balance of \$6.2 million due to the capital project fund from the general fund represents cash held by the general fund in the name of the capital project fund.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$3,148,227
HHS Programs	General	838,389
General	Debt Service	<u>710,507</u>
Total		<u>\$4,697,123</u>

The transfer from the general fund to the HHS Programs of approximately \$838,000 represents mainly the Municipality's share on various federal programs.

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The transfer from the debt service fund to the general fund of approximately \$710,507 represents the withdrawal of the excess of ad valorem taxes over the actual debt service requirement as established by Law No. 28 of May 4, 2001. The Municipality withdrew this amount and transferred the amount to the general fund for working capital purposes.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 229,432,443	\$ 103,926	\$ -	\$ 229,536,369
Construction in progress	27,487,011	27,882,486	9,555,491	45,814,006
Art work	944,845			944,845
Total capital assets, not being depreciated	<u>257,864,299</u>	<u>27,986,412</u>	<u>9,555,491</u>	<u>276,295,220</u>
Capital assets, being depreciated:				
Buildings and building improvements	246,229,737	14,450,470		260,680,207
Furniture and fixtures	1,832,503	117,164	83,320	1,866,347
Vehicles and equipment	23,104,171	1,938,660	672,544	24,370,287
Infrastructure	76,309,136	11,944,526		88,253,662
Total capital assets, being depreciated	<u>347,475,547</u>	<u>28,450,820</u>	<u>755,864</u>	<u>375,170,503</u>
Less accumulated depreciation for:				
Buildings and building improvements	42,959,598	6,118,782		49,078,380
Furnitures and fixtures	1,097,052	167,409	82,250	1,182,211
Vehicles and equipment	14,535,646	2,204,062	617,059	16,122,649
Infrastructure	19,262,197	5,537,495		24,799,692
Total accumulated depreciation	<u>77,854,493</u>	<u>14,027,748</u>	<u>699,309</u>	<u>91,182,932</u>
Total capital assets, being depreciated, net	<u>269,621,054</u>	<u>14,423,072</u>	<u>56,555</u>	<u>283,987,571</u>
Governmental activities capital assets, net	<u>\$ 527,485,353</u>	<u>\$ 42,409,484</u>	<u>\$ 9,612,046</u>	<u>\$ 560,282,791</u>

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

General government	\$ 3,373,740
Public safety	411,741
Public works	5,801,427
Culture	180,582
Recreation	3,393,980
Health and welfare	564,428
Education	<u>301,850</u>
Total	<u>\$14,027,748</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 are as follows:

Puerto Rico Electric Power Authority	\$ 9,829,159
Municipality of Toa Baja	350,500
Retirement System Administration	1,152,517
Puerto Rico Water and Sewer Authority	294,875
Puerto Rico Labor Department	14,874
Puerto Rico General Services Administration	<u>6,825</u>
Total	<u>\$11,648,750</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$22.3 million in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

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b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to the following federal programs/grants:

Program/Grant Description

Community Development Block Grant (CDBG) Program, Section 108 Loan Guarantee	\$5,477,475
Family Self Sufficiency (HUD)	37,921
HOME Investment Partnership Program	119,117
Other HUD Programs	58,399
Other governmental funds	<u>415,391</u>
Total	<u>\$6,108,303</u>

14. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2007 are as follows:

a. Legal Debt Margin

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality 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. Total property assessed value at June 30, 2007 amounted to approximately \$1.58 billion. Long-term, except for the bonds payable, is paid with unrestricted funds.

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b. Bonds

\$895,000 series of 1995, payable in annual installments of \$35,000 to \$95,000 until July 1, 2007, interest ranging from 5% to 7.5%.	\$ 95,000
\$7,135,000 series of 1995, payable in annual installments of \$165,000 to \$715,000 until July 1, 2014, interest ranging from 4.7% to 6.8%.	4,345,000
\$13,260,000 series of 1995, payable in annual installments of \$545,000 to \$1,490,000 until July 1, 2007, interest ranging from 5% to 7.5%.	1,490,000
\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2009, interest ranging from 6.1% to 8.2%.	13,220,000
\$2,760,000 series of 1994, payable in annual installments of \$95,000 to \$300,000 until July 1, 2009, interest ranging from 6.1% to 7.7%.	830,000
\$2,595,000 series of 1999, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest ranging from 4.8% to 6.5%.	2,220,000
\$16,535,000 series of 1998, payable in annual installments of \$440,000 to \$1,640,000 until July 1, 2015, interest ranging from 4.8% to 6.7%.	11,030,000
\$17,275,000 series of 1999, payable in annual installments of \$590,000 to \$1,760,000 until July 1, 2015, interest ranging from 2.7% to 7.8%.	12,055,000
\$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2004, interest ranging from 2.7% to 7.8%.	1,480,000

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\$22,820,000 series of 2001, payable in annual installments of \$750,000 to \$2,385,000 until July 1, 2016, interest ranging from 2.7% to 6.13%.	\$ 17,300,000
\$2,765,000 series of 2001, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	2,485,000
\$11,945,000 series of 2001, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	10,750,000
\$2,015,000 series of 2002, payable in annual installments of \$75,000 to \$220,000 until July 1, 2016, interest ranging from 2.7% to 5%.	1,580,000
\$12,060,000 series of 2002, payable in annual installments of \$265,000 to \$1,135,000 until July 1, 2021, interest ranging from 2.7% to 5.09%.	10,515,000
\$10,050,000 series of 2005, payable in annual installments of \$210,000 to \$685,000 until July 1, 2029, interest ranging from 3.28% to 5%.	9,620,000
\$1,490,000 series of 2005, payable in annual installments of \$120,000 to \$185,000 until July 1, 2014, interest ranging from 4.37% to 5%.	1,245,000
\$455,000 series of 2005, payable in annual installments of \$80,000 to \$105,000 until July 1, 2009, interest ranging from 4.37% to 5%.	290,000
\$2,970,000 series of 2005, payable in annual installments of \$685,000 to \$800,000 until July 1, 2008, interest ranging from 4.37% to 5%.	1,560,000

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\$905,000 series of 2005, payable in annual installments of \$15,000 to \$60,000 until July 1, 2029, interest ranging from 4.37% to 5%.	\$ 870,000
\$6,935,000 series of 2005, payable in annual installments of \$145,000 to \$470,000 until July 1, 2029, interest ranging from 4.37% to 5%.	6,635,000
\$19,066,000 series of 2005, payable in annual installments of \$360,000 to \$1,386,000 until July 1, 2029, interest ranging from 3.70% to 5.70%.	18,326,000
\$4,140,000 series of 2005, payable in annual installments of \$80,000 to \$300,000 until July 1, 2029, interest ranging from 4.37% to 5.5%.	3,975,000
\$4,825,000 series of 2006, payable in annual installments of \$95,000 to \$345,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	4,730,000
\$7,270,000 series of 2006, payable in annual installments of \$120,000 to \$560,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	7,150,000
\$9,327,500 series of 2007, payable in annual installments of \$365,000 to \$700,000 until July 1, 2031, interest ranging from 5.61% to 5.62%.	<u>9,327,500</u>
Total bonds payable	<u>\$153,123,500</u>

c. Credit Line

Credit line of \$4,472,389 represents advances from the Government Development Bank for Puerto Rico guaranteed with certificates of deposits with interest at .14% over the interest rate paid in the certificates of deposits. The proceeds of these advances will be used to expropriate properties for the development of the town and the construction of docking plant.

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d. Note Payable - CRIM

Note payable of \$1,559,865 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$123,417 plus interest rate of 6.25%.

e. Note Payable - Section 108

Note payable of \$32 million due to the U.S. Department of Housing and Urban Development, payable in annual aggregate principal installments ranging from \$1,300,000 to \$2,000,000 plus interest which fluctuates from 1.16% to 2.88%. The note payable is due in August 2024.

The annual debt service requirements for the bonds payable and notes payable at June 30, 2007, are as follows:

	<u>Bonds</u>		<u>Note Payable - CRIM</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 9,115,000	\$ 8,017,762	\$ 27,317	\$ 96,101
2009	8,100,000	7,444,815	29,033	94,384
2010	7,835,000	7,041,002	30,857	92,560
2011	7,975,000	6,641,694	32,796	90,621
2012	8,580,000	6,218,507	34,856	88,561
2013-2017	47,845,000	23,104,820	210,019	407,246
2018-2022	27,180,000	13,668,589	284,828	332,258
2023-2027	21,865,000	6,780,405	386,283	230,802
2028-2032	14,628,500	1,442,891	523,876	93,207
	<u>\$ 153,123,500</u>	<u>\$ 80,360,485</u>	<u>\$ 1,559,865</u>	<u>\$ 1,525,740</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Note Payable - Section 108</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,300,000	\$ 2,938,785
2009	1,300,000	2,887,945
2010	1,525,000	3,053,100
2011	1,525,000	2,984,651
2012	1,550,000	2,937,247
2013-2017	9,300,000	14,899,079
2018-2022	11,425,000	13,719,765
2023-2027	4,075,000	4,416,349
	<u>\$ 32,000,000</u>	<u>\$ 47,836,921</u>

As described in Note 6, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 154,576,000	\$ 9,327,500	\$ 10,780,000	\$ 153,123,500	\$ 9,115,000
Credit line	-	4,472,389		4,472,389	4,472,389
Note payable - CRIM	1,585,567		25,702	1,559,865	27,317
Note payable - HUD	20,200,000	11,800,000		32,000,000	1,300,000
Total long-term debt	<u>176,361,567</u>	<u>25,599,889</u>	<u>10,805,702</u>	<u>191,155,754</u>	<u>14,914,706</u>
Due to CRIM	3,024,809		3,024,809	-	
Claims and judgements	1,822,112		42,250	1,779,862	
Compensated absences	11,461,805	1,154,194	754,892	11,861,107	830,277
Total other liabilities	<u>16,308,726</u>	<u>1,154,194</u>	<u>3,821,951</u>	<u>13,640,969</u>	<u>830,277</u>
Total noncurrent liabilities	<u>\$ 192,670,293</u>	<u>\$ 26,754,083</u>	<u>\$ 14,627,653</u>	<u>\$ 204,796,723</u>	<u>\$ 15,744,983</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

16. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions'

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$1.5 million. The Municipality's payroll for employees covered by ERS was approximately \$16.1 million. The Municipality total payroll for all employees was approximately \$43.8 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2007 was approximately \$780,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

19. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

20. COMMITMENTS

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$6.6 million.

21. SUBSEQUENT EVENT

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities shall collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

22. RESTATEMENTS

a. Fund Balances

The beginning fund balances of the Housing and Urban Development Programs (HUD Programs) and other governmental funds has been restated to recognize corrections of accounting errors as follows:

	<u>Other Governmental Funds</u>	<u>HUD Program</u>
Beginning fund balances, as previously reported	\$1,847,786	\$ 165,146
Reclassification of federal program	(39,188)	39,188
Overstatement of accounts receivable		(11,742,002)
Overstatement of accounts payable	<u>-</u>	<u>2,200,982</u>
Beginning fund balances (deficit) as restated	<u>\$1,808,598</u>	(<u>\$ 9,336,686</u>)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

b. Net Assets

Net assets at beginning of year has been adjusted to reflect the following restatements:

Net assets as previously reported	\$389,000,561
Overstatement of accounts payable	2,200,982
Overstatement of accounts receivable	(<u>11,742,002</u>)
Net assets as restated	<u>\$379,459,541</u>

PART II - SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)			
Community Development Block Grant Program, Entitlement Grants	14.218		\$ 5,044,274
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248		6,695,306
Emergency Shelter Grant Program	14.231		214,926
Home Investment Partnership Program	14.239		4,501,040
Section 8 - Moderate Rehabilitation Phase 5	14.249		204,606
Section 8 - Housing Choice Vouchers	14.871		12,623,887
Subtotal U.S. Department of HUD			<u>29,284,039</u>
U.S. Department of Health and Human Services (HHS)			
Head Start Program	93.600		14,730,688
Pass through the Municipality of San Juan: HIV Emergency Relief Projects Grants	93.914		1,732,571
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Title III	93.918		893,375
Pass through State of Office of the Governor - Office of Economic Opportunity: then Office of Human Development: Community Service Block Grant	93.569	N/A	964,532
Pass through Administration of Families and Children: Child Care and Development Block Grant	93.575	N/A	1,037,618
Subtotal U.S. Department of HHS			<u>19,358,784</u>
U.S. Department of Labor			
Passed through the Human Resources and Occupational Development Council Workforce Investment Act Cluster: Workforce Investment Act - Adult	17.258		1,614,485
Workforce Investment Act - Youth	17.259		1,691,677
Workforce Investment Act - Dislocated	17.260		925,122
Subtotal U.S. Department of Labor			<u>4,231,284</u>
U.S. Department of Homeland Security			
Pass-through the Puerto Rico Department of Justice State Domestic Preparedness Equipment Support Program	97.067	2005-GE-75-4009	641,141
Subtotal U.S. Department of Homeland Security			<u>641,141</u>
U.S. Department of Agriculture			
Pass-through Education Department: Child and Adult Care Food Program	10.558	N/A	991,289
Subtotal U.S. Department of Agriculture			<u>991,289</u>
TOTAL			<u>\$ 54,506,537</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Bayamón's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	<u>\$54,506,537</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	29,284,039
Health and Human Services Programs	19,358,784
Federal expenditures included in other governmental funds	<u>5,863,714</u>
Total	<u>\$54,506,537</u>

3. LOAN OUTSTANDING

At June 30, 2007, the Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance was \$32,000,000.



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**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor and
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Bayamón's internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote

likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Bayamón's financial statements are free of 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Bayamón in a separate letter dated October 5, 2007.

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

San Juan, Puerto Rico
October 5, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286496 was affixed
to the original of this report.





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

To the Honorable Mayor
and Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

Compliance

We have audited the compliance of Municipality of Bayamón with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of Bayamón's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Bayamón's management. Our responsibility is to express an opinion on Municipality of Bayamón's compliance based on our audit.

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

believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Bayamón's compliance with those requirements.

In our opinion, the Municipality of Bayamón, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as item 07-1 and 07-2.

Internal Control over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico
October 5, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286497 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expressed an unqualified opinion on the basic financial statements of the Municipality of Bayamón.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Bayamón were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Bayamón expressed an unqualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Bayamón are reported in number 3 of this schedule.
- g. The programs tested as major programs include:
 - Section 8 Housing Choice Vouchers - CFDA No. 14.871
 - HOME Investment Partnership Program - CFDA No. 14.239
 - Workforce Investment Act Cluster:
 - Adult Program - CFDA No. 17.258
 - Youth Activities - CFDA No. 17.259
 - Dislocated Workers - CFDA No. 17.260
 - Head Start - CFDA No. 93.600
- h. The threshold for distinguishing types A and B programs was \$1,635,196.
- i. Municipality of Bayamón was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

a. Workforce Investment Act Cluster - CFDA No. 17.258, 17.259, and 17.260

● **Condition 07-1 - Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Questioned Costs

None

b. Head Start - CFDA No. 93.600

● **Condition 07-2 - Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>Workforce Invest- ment Act - CFDA No. 17.258, 17.259, and 17.260</p>	<p>Condition 05-1</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p>Condition still prevails.</p>
<p>Workforce Invest- ment Act - CFDA No. 17.258, 17.259, and 17.260</p>	<p>Condition 05-2</p> <p>In the federal financial report submitted by the Municipality, we noted that they requested to the Council the same amount that was expended during the year 2004-05 below the superavit of youth, adults and dislocated.</p>	<p>Condition was corrected.</p>
<p>Workforce Invest- ment Act - CFDA No. 17.258, 17.259, and 17.260</p>	<p>Condition 05-3</p> <p>The Municipality does not have an effective system of internal control to ensure the accurate preparation and timely submission of federal financial reports of the program.</p>	<p>Condition still prevails.</p>
<p>C o m m u n i t y S e r v i c e s B l o c k G r a n t - C F D A N o. 93.569</p>	<p>Condition 05-4</p> <p>As per our procedures over activities allowed or unallowable and allowable cost/cost principles we observed that the Municipality recorded disbursements erroneously to the program for the followings concepts:</p> <p>1) Payroll Disbursement (salary increase) without authorization by the Family and Children Administration to the Executive Director.</p>	<p>Condition was corrected.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>C o m m u n i t y S e r v i c e s B l o c k G r a n t - C F D A N o . 9 3 . 5 6 9</p>	<p>2) Liquidation of regular vacation without authorization by the Family and Children Administration to the Executive Director.</p> <p>Condition 05-5</p> <p>During our procedures we noted the following activities in the program: "Participantes Servidos", "Asistentes en el Hogar", "Ciudad Dorada – Centro Diurno", "Nutrición en el Hogar" and "Grupos Marginados" did not have the complete documentation regarding the participants files the following exceptions were noted:</p> <p>1) "Participantes en el Hogar" - In the sample selected we noted that the participant file did not have evidence of the yearly income during annual recertification.</p> <p>2) "Asistentes en el Hogar" - In the sample selected we noted that the participant file did not have evidence of the annual income during recertification. Moreover, we noted that the program personnel did not recognize the income for concept of donation for the annual income determination.</p> <p>3) "Ciudad Dorada - Centro Diurno". No evidence of annual income certification was observed signed and evaluated by the personnel of the program.</p> <p>4) "Nutrición en el Hogar" - No evidence of annual income certification was observed signed and evaluated by the personnel of the program.</p>	<p>Condition was corrected.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	5) "Grupos Marginados" - No documentation of which are the marginated groups for the participation of these activities were observed.	
Community Services Block Grant - CFDA No. 93.569	<p>Condition 05-6</p> <p>The Municipality is recording to Family and Children Administration encumbrances like obligations and therefore the Municipality is performing disbursements at June 30, 2005 of obligations and encumbrances of a prior year program.</p>	Condition was corrected.
Community Services Block Grant - CFDA No. 93.569	<p>Condition 05-7</p> <p>The Municipality does not have an effective system of internal control to ensure an accurate preparation and timely submission of the federal financial reports.</p> <p>We reviewed the amounts reported in the financial status reports and did not agree with the balances recorded in the general ledger.</p>	Condition was corrected.
Community Development Block Grant - CFDA No. 14.218	<p>Condition 05-8</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.</p>	Condition still prevails.
Community Development Block Grant - CFDA No. 14.218	<p>Condition 05-9</p> <p>During our procedures we noted the following deficiencies: (a) the Municipality has reporting encumbrances as obligation for the program year</p>	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	1994-95. In addition, there were not liquidated within the 90 days required after the obligations be reported to a grantor; (b) the Municipality has programs year open since 1990-91; and © the Municipality failed to comply in liquidate first the old balances available for administrative activities.	
Community Development Block Grant - CFDA No. 14.218	Condition 05-10 During our procedures, we noted that the Municipality is not reconciling the accounting records with the CAPER and differences were noted. Those differences arise from the reporting expenditures in the CAPER and the general ledger expenditures.	Condition still prevails.
Community Development Block Grant - CFDA No. 14.218	Condition 05-11 The Municipality failed in provide accounting information of the activities that have program income because the Municipality did not reconcile the balance in the Community Development Block Grant Program (CDBG) bank accounts that comes from prior years.	Condition was corrected.
Workforce Investment Act - CFDA No. 17.258, 17.259, and 17.260	Condition 06-1 The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.	Condition still prevails.
Workforce Investment Act - CFDA No. 17.258, 17.259, and 17.260	Condition 06-2 The Municipality does not have an effective system of internal control to ensure the accurate	Condition still prevails.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	preparation and timely submission of federal financial reports of the program.	
Community Development Block Grant - CFDA No. 14.218	Condition 06-3 The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.	Condition still prevails.
Community Development Block Grant - CFDA No. 14.218	Condition 06-4 During our procedures, we noted that the Municipality is not reconciling the accounting records with the CAPER and differences were noted. Those differences arise from the reporting expenditures in the CAPER and the general ledger expenditures.	Condition still prevails.
Head Start - CFDA No. 93.600	Condition 06-5 The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.	Condition still prevails.
Head Start - CFDA No. 93.600	Condition 06-6 The Program needs improve the procedures of internal control to ensure the accurate preparation and timely submission of federal financial reports of the program.	Condition was corrected.

PART III - CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

CORRECTIVE ACTION PLAN

October 5, 2007

Cognizant or Oversight Agency for Audit:

Municipality of Bayamón respectfully submits the following corrective action plan for the year ended June 30, 2007

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2007

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

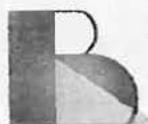
FINDINGS - FEDERAL AWARD PROGRAM AUDITS

Finding 07-1: Workforce Investment Act Cluster - CFDA No. 17.258, 17.259, and 17.260

Reportable Condition: See Condition 07-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.



Action Taken

As a sub-recipient the Municipality do not has to comply with cash management act because there is no federal ruling that applies directly to the sub-recipients. The Municipality does recognize the fact that it has to comply with guidance established by the Granter of the program in charge of administrating the grants received, in this case, the Occupational Development and Human Resources Counselor (the State) Office. But, since the State does not have consistency on the manner it transfers the money to the sub-recipients, the Municipality needs to assure that it has resources to pay the office's payroll, participant assistance, and suppliers for the service rendered. In most cases observed the funds are transferred during the last weeks of the month, which in most cases results in a large amount of payment transactions to be made in a short time period.

However the situation encountered, the Municipality will be evaluating the procedure established in order to determine if there is a weakness, not provoked by the inconsistency of the State, and make corrections in order to comply with the 10% fund balance guidance.

Finding 07-2: Head Start - CFDA No. 93.600

Reportable Condition: See Condition 07-2

Recommendation

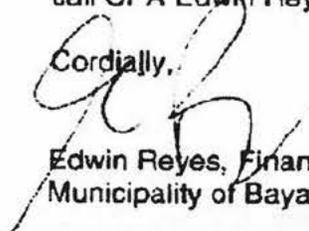
The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

Action Taken

The Municipality of Bayamon in order to help the operation of most federal granted programs, anticipate funds with Municipal resources to coordinate payments to suppliers without affecting the services and process employee payroll. When the funds are received, in most cases, they are not transferred immediately to the Municipal accounts, which affects the account cash management. The Municipality will establish a procedure to recapture funds that were anticipated to the program once the funds are received in the bank account of Head Start. The procedure will be established to transfer to non-federal program accounts once the money on the same date the assistance is received.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call CPA Edwin Reyes, Finance Director, at (787) 785-6360.

Cordially,


Edwin Reyes, Finance Director
Municipality of Bayamon



CIUDAD DE BAYAMON

PO Box 1588 Bayamón, Puerto Rico 00960-1588

