

UNIVERSIDAD DE PUERTO RICO
11 JUN 25 2010
SAN JUAN, P.R.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

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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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, 2010, 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, 2010, and the respective changes in financial position thereof 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 December 17, 2010 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and budgetary comparison information on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Bayamón's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

San Juan, Puerto Rico
December 17, 2010.

The stamp 2571486 was affixed
to the original of this report.



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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 \$430.1million at the close of the current fiscal year. This amount represents an increase of \$13.3 million (or 3.2%) from the previous year's net assets.
- As of June 30, 2010, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$7.0 million, a decrease of \$2.7 million in comparison with the prior year. About 47% of this total amount, \$3.3 million, is available for spending in future years.
- The Municipality's activities revenue increased \$10.4 million, not considering a loss on disposition of capital asset of \$.1 million. The results of activities for both fiscal years 2009-10 and 2008-09 produced an increase in net assets of \$13.3 million and \$10.4 million, respectively.
- The total cost of the Municipality's programs amounted to \$192.3 million and \$183.0 million during fiscal year 2009-10 and 2008-09, respectively. This represented an increase of \$9.3 million (or 5.1%).
- Loans principal payments were \$15.2 million during fiscal year 2009-10. Loan proceeds from new debt issued amounted to \$19.3 million during the same fiscal year. Other long-term liabilities amounted to \$19.7 million at June 30, 2010, for a total long-term debt of \$269.5 million as of same date, as compared to \$264.8 million in prior year.

Municipality Highlights

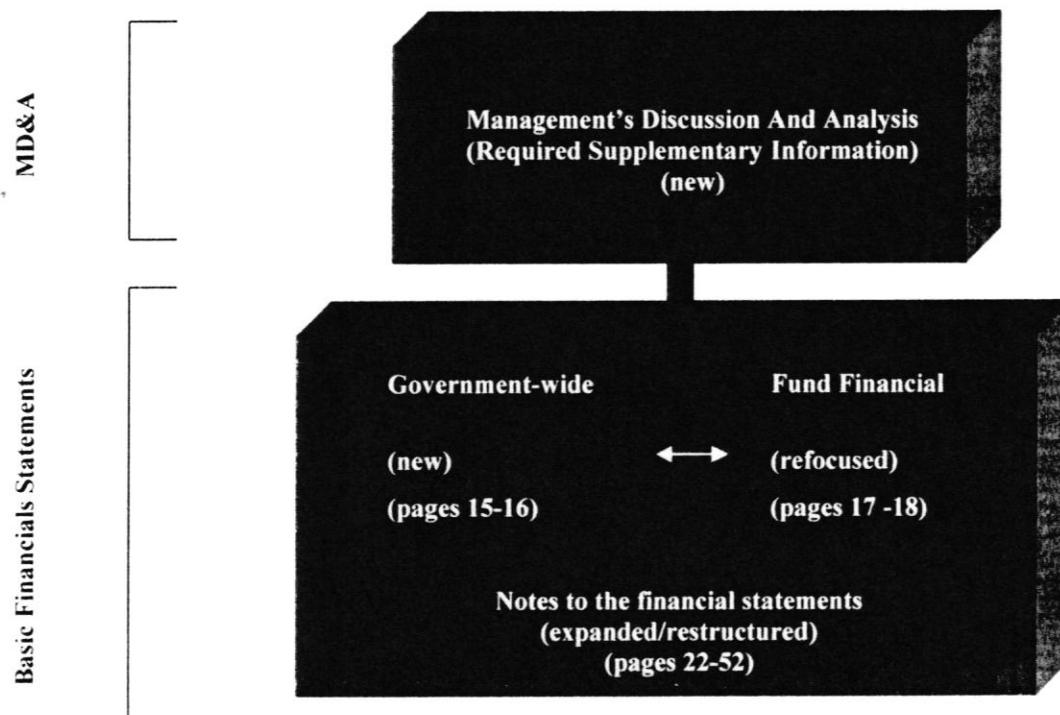
- During the current year the Municipality continued its initiative for the improvement of roads, bridges and other infraestructure projects all over the city at a cost of \$14.4 million.
- The Municipality continued its investment in sports and recreational facilities (active and passive). During the current year, the investment on these facilities amounted to \$13.8 million, including \$7.3 million in facilities whos construction was in progress at June 30, 2010.

- The Municipality continued the construction of the second home for the elderly in the city (Centro Envejecientes de Bayamón) which at the end of the fiscal year was under construction with an investment of \$3.2 million.
- During the year the Municipality acquired land (through purchases or donations) with a cost or value of \$7.9 million. As of June 30,2010 the Municipality had land (developed and undeveloped) recorded on books with a cost or value of \$270.5 million.
- 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 \$29.8 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 15. 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

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 22.

Infrastructure Assets

Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) had not been reported nor depreciated in governmental financial statements. The new statement required 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. Because the Municipality is not planning to acquire, during a short period of time, 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 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 \$430.1 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>2010</u>	<u>2009</u>
Current and other assets	\$106.7	\$115.9
Capital assets	<u>652.8</u>	<u>629.4</u>
Total assets	<u>\$759.5</u>	<u>\$745.3</u>
Current and other liabilities	\$59.9	\$63.7
Long-term debt outstanding	<u>269.5</u>	<u>264.8</u>
Total liabilities	<u>\$329.4</u>	<u>\$328.5</u>
Net assets:		
Invested in capital assets, net of debt	\$393.6	\$367.1
Restricted	41.6	48.7
Unrestricted	<u>(5.1)</u>	<u>1.0</u>
Total net assets	<u>\$430.1</u>	<u>\$416.8</u>

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

By far the largest portion of the Municipality's net assets 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 (10 percent) represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of net assets reflected a negative balance of \$5.1 million as of the end of the current fiscal year.

The Municipality's net assets increased by \$13.3 million during the current fiscal year. Such increase was mainly due to the net effect of investments in capital assets (\$23.4 million) and issuance of long-term debt (\$19.3 million).

Statement of Activities

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

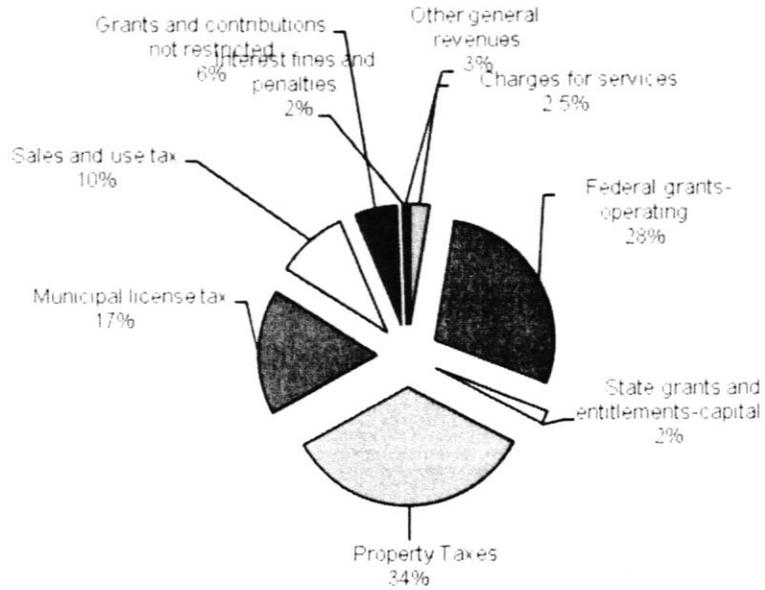
Table 2
Changes in Net Assets
(in millions)

	<i>Governmental Activities</i>	
	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenues:		
Charges for services	\$5.4	\$8.7
Federal grants-operating	58.2	50.2
State grants and entitlements-capital	3.6	5.1
General Revenues:		
Property Taxes	70.6	63.5
Municipal license tax	34.7	28.3
Sales and use tax	20.0	20.4
Grants and contributions not restricted to specific programs	12.1	16.9
Interest fines and penalties	.5	1.6
Other general revenues	.6	.6
Total Revenues	<u>\$205.7</u>	<u>\$195.3</u>
Expenses		
Program expenses:		
General Government	\$68.6	\$71.0
Public safety	8.5	10.2
Public Works	31.2	21.3
Culture	1.2	1.0
Recreation	7.2	7.1
Health and welfare	54.2	54.1
Education	11.0	8.5
Interest on long-term debt	10.4	9.8
Total Expenses	<u>\$192.3</u>	<u>\$183.0</u>
Excess (deficiency) before special items	\$13.4	\$12.3
Gain (Loss) on disposition of capital assets	(.1)	(1.9)
Increase (decrease) in Net Assets	<u>\$13.3</u>	<u>\$10.4</u>

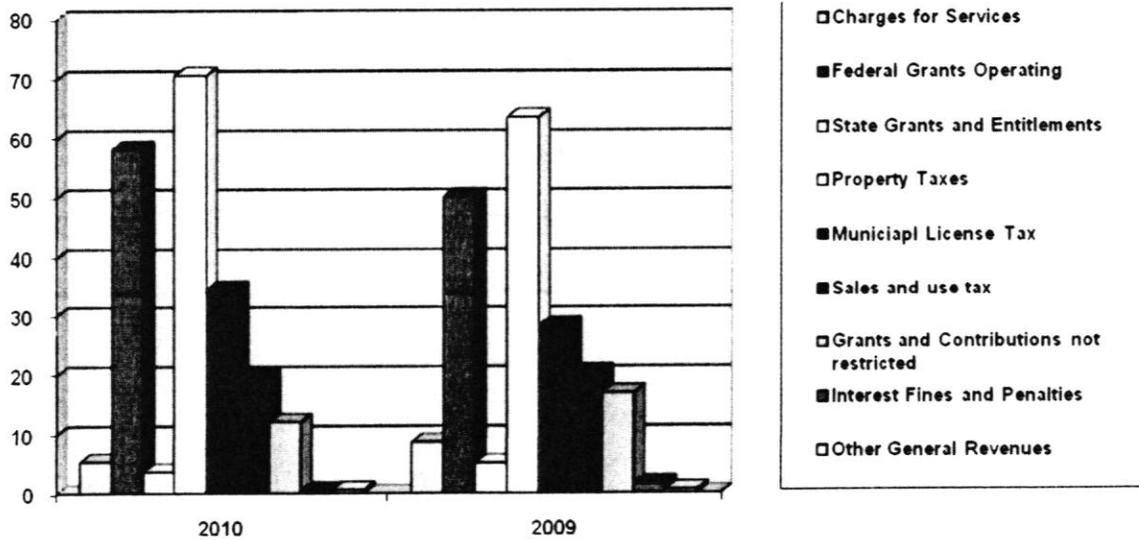
Revenues

Total revenues increased by \$10.4 million. Revenues controlled by the Municipality (property taxes, municipal license tax, and sale and use tax) increased \$13.1 million in spite of the actual economic environment. Program revenues increased \$3.2 million and other revenues accounted for a decreased of \$5.9 million.

Revenues by Source - Governmental Activities
2009-2010



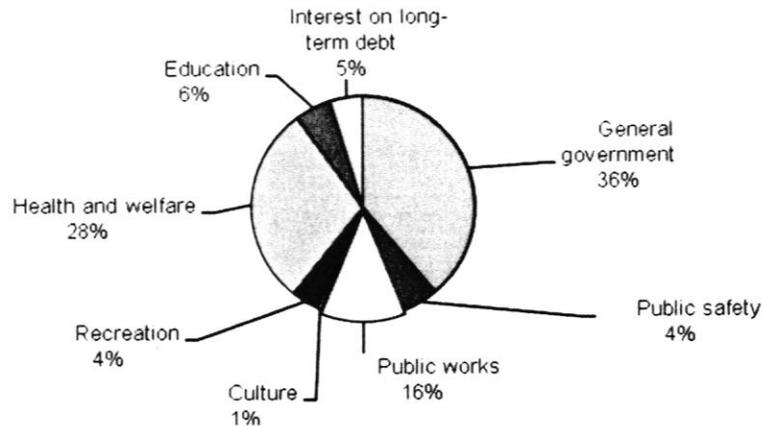
General and Program Revenues
Governmental Activities 2009-10



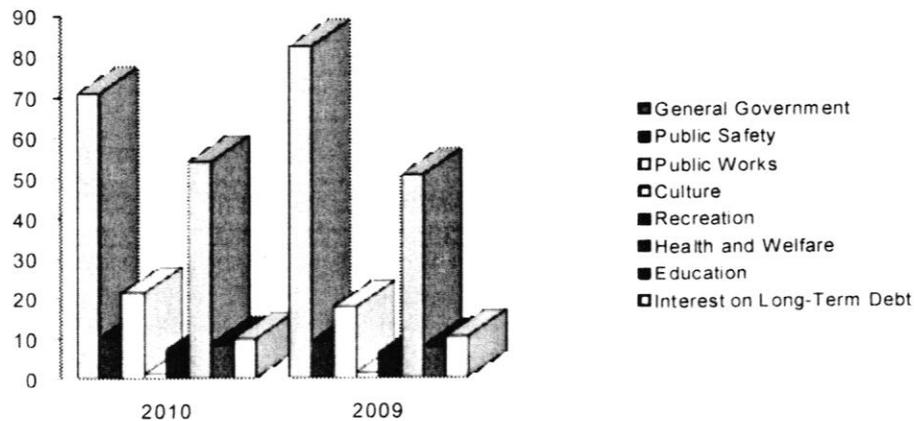
Expenses

Total cost of all programs and services increased by \$9.3 million, mainly due to increases in public works expenditures of \$9.9 million and education expenses of \$2.5 million, which for the most part, paralleled inflation and growth in the demand for services. Other categories of expenses resulted in a net decrease of expenditures of \$3.10million.

Expenses by Source - Governmental Activities 2009-2010



Program Expenses Governmental Activities 2009-10



THE MUNICIPALITY FUNDS

Governmental Fund

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 \$58.0 million which is 9% lower than the beginning of the year (\$63.4 million). This decrease was the result of decreases in the General Fund balance (\$2.7 million) and the Capital Fund Balance (\$12.3 million) net of increases in other government funds. The Capital Project Fund reflects loan proceeds as financing sources and 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 federal funds on the other side reflected an increase on their fund balances of \$3.3 million as a result of timing differences in recording expenditures.

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$11.5 million (see page 54 for budget to actual comparisons), including \$5.0 million reprogrammed from prior years fund balance. The current year operations resulted in \$2.7 million of excess revenues over expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the Municipality had \$652.8 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 \$23.5 million or 4% from the end of last year.

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

	<i>Governmental Activities</i>	
	<u>2010</u>	<u>2009</u>
Land	\$270.5	\$262.5
Construction in progress	11.2	11.6
Artwork	1.8	1.9
Buildings and improvements	239.0	237.8
Furniture and fixture	.7	.7
Vehicles and equipment	10.7	10.5
Infraestructure	<u>118.9</u>	<u>104.3</u>
Totals	<u>\$652.8</u>	<u>\$629.3</u>

Table 4
Change in Capital Assets
(in millions)

	<i>Governmental Activities</i>
Beginning balance	\$629.3
Additions	46.6
Retirements	
CWIP	(9.8)
Other	(5.8)
Depreciation	(9.8)
Retirements *	<u>2.3</u>
Ending balance	<u>\$652.8</u>

* Reduction in accumulated depreciation related to retirements

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	\$14.4
Sports & recreational facilities (active and passive)	6.5
Rehabilitation of Downtown Area	1.2
Land	7.9

Debt Outstanding

As of year-end, the Municipality had \$269.5 million in debt (bonds, notes and other long-term debts) outstanding compared to \$264.8 million last year, an increase of 2% (considering new borrowing and debt retirement).

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

	<i>Governmental Activities</i>	
	<u>2010</u>	<u>2009</u>
General obligation bonds and notes	\$249.9	\$245.8
Due to CRIM	1.5	1.2
Due to AAA	2.0	-
Claims and judgements	1.7	1.8
Compensated absences	<u>14.4</u>	<u>16.0</u>
Totals	<u>\$269.5</u>	<u>\$264.8</u>

New bonds in the amount of \$19.3 million were issued during the year. This amount will finance improvements to roads and other infrastructure, the construction of a Soccer Campus (2nd Phase). A credit line of \$2.3 million represents advances from the Government Development Bank guaranteed with certificates of deposit. The proceeds of these advances were mainly used to expropriate properties for the development of the downtown area. A note payable with a balance due of \$1.5 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. Another note payable with a balance due of \$2.1 million represents a financing agreement with CRIM to finance delinquent property tax accounts sold to private investors. A note payable with a balance due of \$1.0 million represents another financing agreement with the CRIM for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by CRIM for the management of taxpayer's properties located in Puerto

Rico. Finally, a note payable with a balance due of \$27.9 million to the U.S. Department of Housing and Urban Development is due in August 2024.

The Municipality levies an annual special tax of 1.75% 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 plus the balance of the special ad valorem taxes in the debt service fund. Total property assessed value at December 7, 2009 amounted to approximately \$1.62 billion. The outstanding general obligation debt of the Municipality amounted to \$215.1 million and is below legal limitation.

More detailed information about the Municipality's long-term debts is presented in note 14 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 source of revenue are property taxes, municipal license taxes, sales and use taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2011 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 last three years, the unemployment rate of the Municipality averaged 10.3% as compared to 11.9% in Puerto Rico.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2010-11. Amounts available for appropriations (revenues) in the General Fund Budget are \$121.1 million, which is \$3.5 million higher than the budget for fiscal year 2009-10. Municipal license taxes and other local taxes and 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 2010-11.

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, 2010**

ASSETS	Governmental Activities
Cash and cash equivalents (Note 2)	\$ 24,715,530
Cash with fiscal agent (Note 2)	39,917,461
Certificates of deposit (Notes 2 and 4)	16,395,303
Investments (Note 4)	1,741,499
Accounts receivables:	
Municipal license taxes (Note 6)	343,523
Sale and use taxes (Note 7)	1,896,984
Rent, licences and permits	885,916
Interests	52,146
Other	3,705,542
Deferred charges	1,012,286
Due from other agencies (Note 8)	15,255,603
Inventories (Note 2)	814,238
Capital assets, net (Note 10)	652,762,568
	\$ 759,498,599
 LIABILITIES AND NET ASSETS	
Liabilities	
Account payable and accrued liabilities	\$ 15,563,967
Due to other agencies (Note 11)	8,730,914
Deferred revenues (Note 12):	
Municipal license tax	23,347,958
Federal government	119,299
Accrued interest	12,132,045
Noncurrent liabilities (Note 14):	
Due within one year	16,119,197
Due in more than one year	253,414,417
Total liabilities	329,427,797
Net Assets	
Investment in capital assets, net of related debt	393,573,201
Restricted for:	
Debt service	25,970,595
Capital projects	15,611,182
Unrestricted	(5,084,176)
	\$ 430,070,802

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 68,631,482	\$ -	\$ -	\$ (63,251,790)
Public safety	8,469,379			(8,469,379)
Public works	31,151,496		3,565,273	(27,586,223)
Culture	1,224,662			(1,224,662)
Recreation	7,161,941			(7,161,941)
Health and welfare	54,234,652	58,220,816		3,986,164
Education	11,021,780			(11,021,780)
Interest on long-term debt	10,351,429			(10,351,429)
Total	<u>\$ 192,246,821</u>	<u>\$ 5,379,692</u>	<u>\$ 3,565,273</u>	<u>(125,081,040)</u>
General revenues:				
Property taxes (Note 5)				70,608,964
Municipal license tax (Note 6)				34,720,028
Sale and use tax (Note 7)				19,953,551
Grants and contributions not restricted to specific programs				12,141,642
Interest, fines and penalties				520,748
Miscellaneous				584,451
Loss on disposition of capital assets				(144,890)
Total general revenues				<u>138,384,494</u>
Change in net assets				<u>13,303,454</u>
Net assets at beginning of year				<u>416,767,348</u>
Net assets at end of year				<u>\$ 430,070,802</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010**

<u>Assets</u>	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)	\$ 10,511,800	\$ 1,495,335	\$ 2,183,892	\$ -	\$ 7,081,363	\$ 3,443,140	\$ 24,715,530
Cash with fiscal agent (Note 2)	2,490	132,902		23,571,202	16,210,867		39,917,461
Certificates of deposits (Notes 2 and 4)	15,700,114	695,189					16,395,303
Investments (Note 4)	1,741,499						1,741,499
Accounts receivable:							
Municipal license taxes (Note 6)	343,523						343,523
Sale and use taxes (Note 7)	1,896,984						1,896,984
Rent, licenses and permits	885,916						885,916
Interest	52,146						52,146
Other	3,300,000	405,542					3,705,542
Due from other agencies (Note 8)	10,663,725			2,399,393		2,192,485	15,255,603
Due from other funds (Note 9)		6,554	23,699		1,224,917	1,013,227	2,268,397
Inventories (Note 2)	814,238						814,238
Total assets	<u>\$ 45,912,435</u>	<u>\$ 2,735,522</u>	<u>\$ 2,207,591</u>	<u>\$ 25,970,595</u>	<u>\$ 24,517,147</u>	<u>\$ 6,648,852</u>	<u>\$ 107,992,142</u>

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2010

Liabilities and Fund Balance	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
Liabilities							
Account payable and accrued liabilities	\$ 4,586,614	\$ 528,934	\$ 940,852	\$ -	\$ 8,905,965	\$ 601,602	\$ 15,563,967
Due to other funds (Note 9)	2,268,397						2,268,397
Due to other agencies (Note 11)	8,730,914						8,730,914
Deferred revenues: (Note 12)							
Municipal license tax	23,347,958						23,347,958
Federal government		50,299				69,000	119,299
Total liabilities	38,933,883	579,233	940,852	-	8,905,965	670,602	50,030,535
Fund Balances							
Reserved for:							
Encumbrances	2,857,741			25,970,595			2,857,741
Debt service							25,970,595
Inventories	814,238						814,238
Federal programs		2,156,289	1,266,739				3,423,028
Capital projects					15,611,182		15,611,182
Unreserved fund balance	3,306,573					5,978,250	9,284,823
Total fund balance (deficit)	6,978,552	2,156,289	1,266,739	25,970,595	15,611,182	5,978,250	57,961,607
Total liabilities and fund balance	\$ 45,912,435	\$ 2,735,522	\$ 2,207,591	\$ 25,970,595	\$ 24,517,147	\$ 6,648,852	\$ 107,992,142

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2010

Total fund balances - governmental funds	\$ 57,961,607
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<ul style="list-style-type: none"> • Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 	652,762,568
<ul style="list-style-type: none"> • Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: <ul style="list-style-type: none"> Deferred charges 	1,012,286
<ul style="list-style-type: none"> • Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 3) 	<u>(281,665,659)</u>
Net assets of governmental activities	<u><u>\$ 430,070,802</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 5)	\$ 49,282,840	\$ -	\$ -	\$ 21,326,124	\$ -	\$ -	\$ 70,608,964
Municipal license taxes (Note 6)	34,720,028	-	-	2,439,664	-	-	34,720,028
State and use tax (Note 7)	17,514,487	-	-	-	-	-	19,953,551
Licenses and permits	2,019,301	-	-	-	-	-	2,019,301
Charges for service and rents	3,360,391	-	-	-	-	-	3,360,391
Intergovernmental revenues (Note 13)							
Federal grants and contributions		25,373,149	21,263,537			11,564,130	58,220,816
State contributions	12,141,642				3,565,273		15,706,915
Interest, fines, and penalties	504,844	5,014		10,890			520,748
Other revenues	551,700	32,751					584,451
Total revenues	120,095,233	25,410,914	21,263,537	23,776,078	3,565,273	11,564,130	205,695,165
EXPENDITURES							
Current:							
General government	65,155,094						65,155,094
Public safety	8,248,536						8,248,536
Public works	28,086,929	3,888,152					31,975,081
Culture	942,736						942,736
Recreation	3,065,946						3,065,946
Health and welfare	13,856,220	17,207,816	19,252,964			3,330,032	53,647,032
Education	3,538,299					7,163,945	10,702,244
Capital outlays					35,126,769		35,126,769
Debt service:							
Principal retirement		1,525,000		12,998,720			14,523,720
Interest and other		1,528,100		8,823,359			10,351,429
Total expenditures	122,893,760	24,149,068	19,252,964	21,822,049	35,126,769	10,493,977	233,738,587
Excess (deficiency) of revenues over (under) expenditures	(2,798,527)	1,261,846	2,010,573	1,954,029	(31,561,496)	1,090,153	(28,043,422)
OTHER FINANCING SOURCES (USES)							
Sale of capital assets	3,300,000						3,300,000
Loan proceeds					19,305,000		19,305,000
Transfers in	11,881		58,942	3,181,112			3,251,935
Transfers out	(3,240,054)			(11,881)			(3,251,935)
Total other financing sources (uses)	71,827		58,942	3,169,231	19,305,000		22,605,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(2,726,700)	1,261,846	2,069,515	5,123,260	(12,256,496)	1,090,153	(5,436,422)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	9,705,252	894,443	(802,776)	20,817,335	27,867,678	4,888,097	63,490,029
FUND BALANCE AT END OF YEAR	\$ 6,978,552	\$ 2,156,289	\$ 1,266,739	\$ 25,970,595	\$ 15,611,182	\$ 5,978,250	\$ 57,961,607

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

**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, 2010**

Net change in fund balances - total governmental funds \$ (5,438,422)

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. 36,611,965
- 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. (9,757,757)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (19,305,000)
- 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. 14,523,720
- 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 change in fund balance by the cost of disposal assets. (3,300,000)
- 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. (109,043)
- 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. 77,991

Changes in net assets of governmental activities \$ 13,303,454

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, 2010**

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, 2010

- 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, as amended by Statement No. 39, Determining whether Certain Organizations are Component Units" - an amendment of GASB 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.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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.

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 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 infectious 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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.

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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- 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.

- 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, 2010 amounted to approximately \$2.4 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 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,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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.

k. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
54	Fund Balance Reporting and Governmental Fund Type Definition	2010-11
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and 34	2012-13

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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.

3. 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 \$281.7 million difference is as follows:

Bonds payable	\$215,103,500
Notes payable	32,451,848
Compensated absences	14,445,175
Accrued interest payable	12,132,045
Credit line	2,300,109
Due to Puerto Rico Aqueduct and Sewer Authority	2,014,860
Claims and judgments	1,667,618
Due to CRIM	<u>1,550,504</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$281,665,659</u>

4. 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.

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In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$16.2 million that are restricted principally for capital projects, and the \$23.6 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

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 \$250,000.

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, 2010, the Municipality has invested 100% of its investments in one issuer.

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The following is a summary of the credit quality distribution and concentration of credit risk at June 30, 2010:

<u>Investment</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Percent of Portfolio</u>
Mutual Funds	<u>\$1,741,499</u>	<u>\$1,741,499</u>	100%

5. 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 8.53% 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%	1.03%
Additional special property – municipal	1.75%	1.75%
Discounts made by state to taxpayer	< .20%>	< .20%>
	<u>8.58%</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.

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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 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 ensuing 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 2009-10, 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, 2010, the amount advanced by CRIM from taxpayers and charges exceeded the amount collected by CRIM for the same period by approximately \$1.55 million. Such amount is presented as advances from CRIM in the accompanying financial statements. (See Note 14).

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6. 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, 2010. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that 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 \$23.3 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,

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- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$10,633,725
Municipal Revenues Collection Center (Debt Service Fund)	2,399,393
Other governmental funds	<u>2,192,485</u>
 Total	 <u>\$15,255,603</u>

9. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Project	General	\$1,224,917
Other governmental funds	General	23,699
HHS Programs	General	6,554
HUD Programs	General	<u>1,013,227</u>
 Total		 <u>\$2,268,397</u>

The balance of \$1.2 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.

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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, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$3,181,112
HHS Programs	General	58,942
General	Debt Service	11,881
Total		<u>\$3,251,935</u>

The transfer from the debt service fund to the general fund of approximately \$3.1 million 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.

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10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 262,531,841	\$ 7,931,593	\$ -	\$ 270,463,434
Construction in progress	11,607,958	9,339,648	9,759,609	11,187,997
Art work	1,892,550	133,925	206,785	1,819,690
Total capital assets, not being depreciated	<u>276,032,349</u>	<u>17,405,166</u>	<u>9,966,394</u>	<u>283,471,121</u>
Capital assets, being depreciated:				
Buildings and building improvements	299,561,767	10,937,623	3,842,603	306,656,787
Furniture and fixtures	2,073,836	253,155	54,794	2,272,197
Vehicles and equipment	29,644,114	3,622,511	1,823,468	31,443,157
Infrastructure	144,432,850	14,359,904	-	158,792,754
Total capital assets, being depreciated	<u>475,712,567</u>	<u>29,173,193</u>	<u>5,720,865</u>	<u>499,164,895</u>
Less accumulated depreciation for:				
Buildings and building improvements	61,737,097	6,534,086	690,978	67,580,205
Furnitures and fixtures	1,403,124	170,920	-	1,574,044
Vehicles and equipment	19,096,246	2,305,667	614,289	20,787,624
Infrastructure	40,155,199	747,084	970,708	39,931,575
Total accumulated depreciation	<u>122,391,666</u>	<u>9,757,757</u>	<u>2,275,975</u>	<u>129,873,448</u>
Total capital assets, being depreciated, net	<u>353,320,901</u>	<u>19,415,436</u>	<u>3,444,890</u>	<u>369,291,447</u>
Governmental activities capital assets, net	<u>\$ 629,353,250</u>	<u>\$ 36,820,602</u>	<u>\$ 13,411,284</u>	<u>\$ 652,762,568</u>

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

General government	\$ 3,590,226
Public safety	220,843
Public work	661,611
Culture	281,926
Recreation	4,095,995
Health and welfare	587,620
Education	319,536
Total	<u>\$ 9,757,757</u>

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11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Electric Power Authority	\$8,128,000
Municipality of Toa Baja	350,000
Retirement System Administration	244,947
U.S. Internal Revenue Service	2,157
Puerto Rico General Services Administration	<u>5,810</u>
Total	<u>\$8,730,914</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$23.3 million in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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.

13. 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.

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14. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2010 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.

b. Bonds

\$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%.	\$ 3,040,000
\$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%.	11,225,000
\$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%.	2,010,000
\$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%.	8,160,000
\$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%.	8,870,000
\$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%.	1,345,000

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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 2.8% to 6.13%.	\$ 3,420,000
\$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%.	2,290,000
\$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%.	9,910,000
\$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%.	1,225,000
\$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 5.39%.	9,260,000
\$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%.	8,890,000
\$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 4.73%.	835,000
\$905,000 series of 2005, payable in annual installments of \$15,000 to \$60,000 until July 1, 2029, interest ranging from 1.53% to 7.25%.	805,000
\$6,935,000 series of 2005, payable in annual installments of \$145,000 to \$470,000 until July 1, 2029, interest ranging from 4.17% to 5%.	6,130,000
\$19,066,000 series of 2005, payable in annual installments of \$360,000 to \$1,386,000 until July 1, 2029, interest ranging from 3.75% to 5.31%.	17,026,000

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\$4,140,000 series of 2005, payable in annual installments of \$80,000 to \$300,000 until July 1, 2029, interest ranging from 4.17% to 5.31%.	\$ 3,690,000
\$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%.	4,415,000
\$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%.	6,740,000
\$9,327,500 series of 2007, payable in annual installments of \$365,000 to \$700,000 until July 1, 2031, interest ranging from 2.93% to 5.62%.	8,787,500
\$10,670,000 series of 2008, payable in annual installments of \$405,000 to \$1,125,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	9,825,000
\$1,390,000 series of 2008, payable in annual installments of \$20,000 to \$120,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	1,350,000
\$1,510,000 series of 2008, payable in annual installments of \$20,000 to \$130,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	1,465,000
\$2,125,000 series of 2008, payable in annual installments of \$240,000 to \$375,000 until July 1, 2014, interest ranging from 1.53% to 7.5%.	1,625,000
\$1,410,000 series of 2008, payable in annual installments of \$160,000 to \$250,000 until July 1, 2014, interest ranging from 1.53% to 7.5%.	1,080,000
\$6,030,000 series of 2008, payable in annual installments of \$490,000 to \$880,000 until July 1, 2017, interest ranging from 1.53% to 7.5%.	5,540,000

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\$10,710,000 series of 2008, payable in annual installments of \$155,000 to \$915,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	\$ 10,555,000
\$18,790,000 series of 2008, payable in annual installments of \$430,000 to \$1,715,000 until July 1, 2028, interest ranging from 1.53% to 7.5%.	18,360,000
\$2,515,000 series of 2008, payable in annual installments of \$35,000 to \$215,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	2,480,000
\$9,580,000 series of 2009, payable in annual installments of \$670,000 to \$1,300,000 until July 1, 2018, interest ranging from 1.53% to 7.5%.	8,910,000
\$7,030,000 series of 2009, payable in annual installments of \$495,000 to \$955,000 until July 1, 2018, interest ranging from 1.53% to 7.5%.	6,535,000
\$8,110,000 series of 2010 payable in annual installments of \$115,000 to \$875,000 until July 1, 2026, interest ranging from 4.40% to 7.25%	8,110,000
\$11,195,000 series of 2010 payable in annual installments Of \$1,275,000 to \$1,965,000 until July 1, 2018, interest Ranging from 5.0% to 7.5%	\$ <u>11,195,000</u>
Total bonds payable	\$ <u>215,103,500</u>

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The annual debt services requirements for the bonds payable are as follows:

	<i>Bonds</i>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 11,545,000	\$ 9,120,071
2012	12,420,000	12,322,478
2013	14,620,000	11,395,533
2014	15,695,000	10,687,170
2015	16,875,000	11,364,216
2016-2020	65,320,000	32,315,860
2021-2025	39,070,000	16,976,144
2026-2030	33,443,500	7,016,728
2031-2035	6,115,000	670,505
	<u>\$ 215,103,500</u>	<u>\$ 111,868,705</u>

c. Credit Line

Credit line of \$4.3 million 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 a docking plant.

d. Note Payable - CRIM (Law 42)

Note payable of \$1,472,658 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%.

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The annual debt service requirements for the note payable at June 30, 2010, are as follows:

	<u><i>Note Payable - CRIM (Law 42)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 32,796	\$ 90,621
2012	34,857	88,561
2013	37,046	86,370
2014	39,374	84,042
2015	41,848	81,568
2016-2020	252,146	364,936
2021-2025	341,961	275,124
2026-2030	463,767	153,315
2031-2035	228,863	17,970
	<u>\$ 1,472,658</u>	<u>\$ 1,242,507</u>

e. Note Payable - CRIM (Law 146)

On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$2,425,627, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032.

As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

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	<u><i>Note Payable - CRIM (Law 146)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 97,025	\$ 138,254
2012	97,025	137,382
2013	97,025	129,712
2014	97,025	124,429
2015	97,025	119,516
2016-2020	485,125	518,556
2021-2025	485,125	371,024
2026-2030	485,125	199,074
2031-2035	194,052	25,262
	<u>\$ 2,134,552</u>	<u>\$ 1,763,209</u>

f. Note Payable - CRIM (LIMS)

On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$5,109,293 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$342,631, including interest of 5.95% and is due on November 28, 2011.

Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

	<u><i>Note Payable - CRIM (LIMS)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 636,905	\$ 48,359
2012	332,733	9,889
	<u>\$ 969,638</u>	<u>\$ 58,248</u>

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g. Notes Payable - Section 108

Notes payable of \$27.9 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.

	<u>Note Payable - Section 108</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,525,000	\$ 1,521,881
2012	1,550,000	1,462,307
2013	1,750,000	1,379,710
2014	1,775,000	1,294,309
2015	1,775,000	1,209,134
2016-2020	12,500,000	3,204,792
2021-2025	7,000,000	2,147,881
	<u>\$ 27,875,000</u>	<u>\$ 12,220,014</u>

As described in Note 6, the Municipality levies an annual special tax of 1.75% 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 206,823,500	\$ 19,305,000	\$ 11,025,000	\$ 215,103,500	\$ 11,545,000
Credit line	4,261,315		1,961,206	2,300,109	
Note payable - CRIM (Law 146)	2,231,577		97,025	2,134,552	97,025
Note payable - CRIM (LIMS)	1,570,273		600,635	969,638	636,905
Note payable - CRIM (Law 42)	1,503,516		30,858	1,472,658	32,796
Note payable - HUD	29,400,000		1,525,000	27,875,000	1,525,000
Total long-term debt	<u>245,790,181</u>	<u>19,305,000</u>	<u>15,239,724</u>	<u>249,855,457</u>	<u>13,836,726</u>
Advances from CRIM	1,245,202	1,550,504	1,245,202	1,550,504	-
Due to Puerto Rico Aqueduct and Sewer Authority	-	2,014,860		2,014,860	899,172
Claims and judgements	1,779,862		112,244	1,667,618	-
Compensated absences	15,974,970		1,529,795	14,445,175	1,383,299
Total other liabilities	<u>19,000,034</u>	<u>3,565,364</u>	<u>2,887,241</u>	<u>19,678,157</u>	<u>2,282,471</u>
Total noncurrent liabilities	<u>\$ 264,790,215</u>	<u>\$ 22,870,364</u>	<u>\$ 18,126,965</u>	<u>\$ 269,533,614</u>	<u>\$ 16,119,197</u>

15. 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 retirement's 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 (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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2010 was approximately \$1.5 million. The Municipality's payroll for employees covered by ERS was approximately \$16.3 million. The Municipality total payroll for all employees was approximately \$51.9 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

16. 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
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

17. 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, 2010 was approximately \$940,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

18. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

19. COMMITMENTS

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$15.6 million.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget-</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>Positive</u> <u>(Negative)</u>
REVENUES				
Property taxes	\$ 49,535,891	\$ 49,782,842	\$ 49,782,842	\$ -
Municipal license taxes	32,150,000	34,139,514	34,720,430	580,916
Sales and use taxes	14,651,302	17,846,326	17,768,327	(77,999)
Licences and permits	3,940,000	3,940,000	2,019,301	(1,920,699)
Charges for services and rent	2,492,470	2,599,879	3,265,607	665,728
Intergovernmental revenues:				
State Contributions	11,380,449	12,078,612	15,301,934	3,223,322
Interest, fines and penalties	900,000	1,209,281	837,083	(372,198)
Other revenues	300,000	300,000	551,700	251,700
Total revenues	<u>115,350,112</u>	<u>121,896,454</u>	<u>124,247,224</u>	<u>2,350,770</u>
EXPENDITURES				
Current:				
General government	59,542,182	66,695,251	66,430,597	264,654
Public safety	9,466,109	8,768,005	8,752,965	15,040
Public works	23,876,248	29,549,994	29,525,058	24,936
Culture	634,470	1,028,235	1,009,230	19,005
Recreation	4,206,000	3,139,389	3,089,591	49,798
Health and welfare	14,570,303	14,011,523	14,000,098	11,425
Education	3,054,800	3,704,057	3,696,110	7,947
Total expenditures	<u>115,350,112</u>	<u>126,896,454</u>	<u>126,503,649</u>	<u>392,805</u>
OTHER FINANCING SOURCES				
Reprogramming funds	-	5,000,000	5,000,000	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,743,575</u>	<u>\$ 2,743,575</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$	124,247,224
Differences - budget to GAAP:				
Non-budgeted funds				(4,151,991)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)			<u>\$</u>	<u>120,095,233</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule			\$	126,503,649
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,954,275
Non-budgeted funds				(2,706,423)
Current year encumbrances recorded as expenditures for budgetary purposes				(2,857,741)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)			<u>\$</u>	<u>122,893,760</u>

The accompanying note to budgetary comparison schedule is an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, 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 certain appropriations within the budget known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e. , purchase orders, contracts) are considered expenditures when incurred. For USGAAP 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2010 representing the original budget.

PART III – SINGLE AUDIT SECTION

ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)			
Community Development Block Grant Entitlement Grants	14.218		\$ 5,658,802
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253		910,858
Community Development Block Grant Program, Section 108, Loan Guarantee (Note 3)	14.248		425,777
Emergency Shelter Grant Program	14.231		391,286
Home Investment Partnership Program	14.239		817,053
Homelessness Prevention and Rapid-Re-Housing Program (Recovery Act Funded)	14.257		209,005
Public Housing Family Self Sufficiency	14.877		21,882
Section 8 - Moderate Rehabilitation Phase 5	14.249		256,147
Section 8 - Housing Choice Vouchers	14.871		15,458,258
Subtotal U.S. Department of HUD			<u>24,149,068</u>
U.S. Department of Health and Human Services (HHS)			
Head Start Program	93.600		13,530,452
Head Start Program - ARRA	93.708		704,448
Early Head Start Program - ARRA	93.709		30,098
Pass through Oficina de la Procuradora de las Personas de Edad Avanzada: Services	93.045		153,733
Pass through the Municipality of San Juan: HIV Emergency Relief Projects Grants	93.914		1,253,323
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Title III	93.918		1,008,410
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	978,196
Community Service Block Grant - ARRA	93.710		629,427
Pass through Administration of Families and Children: Child Care and Development Block Grant	93.575	N/A	964,877
Subtotal U.S. Department of HHS			<u>19,252,964</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		1,871,436
Workforce Investment Act - Adult - ARRA	17.258		633,133
Workforce Investment Act - Youth	17.259		1,488,821
Workforce Investment Act - Youth - ARRA	17.259		1,807,616
Workforce Investment Act - Dislocated	17.260		863,694
Workforce Investment Act - Dislocated - ARRA	17.260		499,245
Subtotal U.S. Department of Labor			<u>7,163,945</u>
U.S. Department of Energy			
Energy Efficiency and Conservation Block Grant Program	81.128		1,877,850
Subtotal U.S. Department of Energy			<u>1,877,850</u>
U.S. Department of Agriculture			
Pass-through Education Department: Child and Adult Care Food Program	10.558	N/A	1,194,693
Subtotal U.S. Department of Agriculture			<u>1,194,693</u>
TOTAL			<u>\$ 53,638,520</u>

See the notes to the Schedule of Expenditures of Federal Awards.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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>\$53,638,520</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$24,149,068
Health and Human Services Programs	19,252,964
Federal expenditures included in other governmental funds	<u>10,236,488</u>
Total	<u>\$53,638,520</u>

3. LOAN OUTSTANDING

At June 30, 2010, 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 \$27,875,000.

**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, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 17, 2010. 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 opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 other matters that we reported to management of the Municipality of Bayamón in a separate letter dated December 17, 2010.

This report is intended solely for the information and use of management, Commissioner Office of Municipal Affairs, others within the entity 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
December 17, 2010

Ortiz, Rivera, Rivera & Co

The stamp 2571487 was affixed to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Municipality of Bayamón's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each municipality's major federal programs for the year ended June 30, 2010. 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, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2010. 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 are described in the accompanying schedule of findings as questioned costs as items 10-1 through 10-3.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Municipality's responses 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 management, Commissioner Office of Municipal Affairs, others within the entity 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.

Ortiz, Rivera, Rivera & Co.

San Juan, Puerto Rico
December 17, 2010

The stamp 2571488 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, 2010**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the financial statements of the Municipality of Bayamón.
- b. No significant deficiencies relating to the audit of the financial statements are reported 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. No significant deficiencies relating to the audit of the mayor federal award programs are reported 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:
 - Community Development Block Entitlement Grant – CFDA No. 14.218
 - Community Development Block Grant ARRA Entitlement Grants – CFDA No. 14.253
 - Section 8 – Housing Choice Vouchers – CFDA No. 14.871
 - Head Start Program – CFDA No. 93.600
 - ARRA – Head Start- CFDA No. 93.708
 - ARRA – Early Head Start – CFDA No. 93.709
 - Workforce Investment Act Cluster:
 - Adult Program – CFDA No. 17.258
 - Adult Program – ARRA – CFDA No. 17.258
 - Youth Activities – CFDA No. 17.259
 - Youth Activities – ARRA – CFDA No. 17.259
 - Dislocated Workers – CFDA No. 17.260
 - Dislocated Workers – CFDA No. 17.260

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128
- Community Services Block Grant - CFDA No. 93.569
- Community Services Block Grant - ARRA - CFDA No. 93.710

h. The threshold for distinguishing types A and B programs was \$1,609,155.

i. Municipality of Bayamón was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

a. Workforce Investment Act Cluster – CFDA No. 17.258 (ARRA), 17.259 (ARRA), and 17.260 (ARRA)

- **Condition 10-1 – Cash Management**

The Program is not in compliance with the procedures established by the CDORH to minimize the time elapsing between the transfer of funds from the pass through entity and their disbursements. In addition, bank balance exceeded the 1% limitation over the deposits made by the CDORH during the year.

Criteria

As a pass-through entity, the CDORH established on its Financial Guide that the recipient must be in compliance with the federal regulation relating to the procedures to minimize the time elapsing between the transfer of fund from the U.S. Treasury and disbursement by the recipients. In order to assure that recipients conform to the standard, the CDORH request a monthly Cash Flow Analysis, which presents deposits made by them and disbursement during the month. Based on this information, the CDORH determine if the recipient maintains cash balance under 1% of the deposits made during the month.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cause

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

Effect

The delays by the design of cash management system obstruct the Program to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement. Also, the cash forecasting process is not effective since is not based upon accurately future expenditures causing the Program the possibility to return over estimated not expended funds. The continued occurrence of this condition may expose the Program to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds. When applicable, identification of question cost and how they were computed.

Recommendation

The Program should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Also, they should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by WIA regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

b. Head Start – CFDA No. 93.600

• **Condition 10-2 – 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.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

c. Community Development Block Grant Program - CFDA No. 14.218

• Condition 10-3 - 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 disbursement of funds.

Criteria

The 24CFR 85.20 (b) (7) established that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursement 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 regulation. Federal funds should only be requested when they are going to be disbursing immediately after receipt, or within three (3) business days.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 COST (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Program	Finding/Noncompliance	Status
Head Start - CFDA No. 93.600	Condition 08-2 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.
Community Services Block Grant Program CFDA No. 93.569	Condition 09-01 The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we noted that the Municipality did not send on time the quarterly report .	Condition was corrected.
HIV Emergency Relief Projects Grant CFDA No. 93.914	Condition 09-02 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.
Community Development Block Grant Program CFDA No. 14.218	Condition 09-3 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.

PART IV - 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

December 17, 2010

Cognizant or Oversight Agency for Audit:

Municipality of Bayamón respectfully submits the following corrective action plan for the year ended June 30, 2010

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, 2010

The findings from the June 30, 2010 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 10-1 – Workforce Investment Act Cluster – CFDA No. 17.258 (ARRA), 17.259 (ARRA) AND 17.260 (ARRA)

Reportable Condition: See Condition 10-1

Management Response:

The Municipality has a procedure to request funds for immediate needs. The municipality is making all necessary changes to our process to comply with the cash management guides. We will be doing changes to improve our payments process and cash forecasting according to the recommendations. The municipality is in the process to finalize an implementation of a mechanized accounting and payments system. This system will help the municipality in the improvement of our process in order to comply.

Finding 10-2 – Head Start – CFDA No. 93.600

Reportable Condition: See Condition 10-2

Management Response:

The Municipality has a procedure to request funds for immediate needs. The municipality is making all necessary changes to our process to comply with the cash management guides. Those changes includes: 1) Assign person to work with the request of funds and cash forecasting, 2) The municipality accounting system is mainly manual. We are in the process to finalize an implementation of a mechanized accounting and payments system. With this system our process will be better and more quickly in order to comply.

Finding 10-3 – Community Development Block Grant Program – CFDA No. 14218

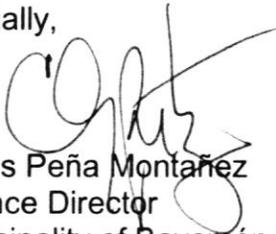
Reportable Condition: See Condition 10-3

Management Response:

As we mention in finding 10-02 the municipality has a procedure to request funds for immediate needs. The municipality is making all necessary changes to the process to comply with the cash management guides.

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

Cordially,



Carlos Peña Montañez
Finance Director
Municipality of Bayamón