

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE BAYAMON  
AUDITORÍA 2013-2014  
30 DE JUNIO DE 2014**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**PART I - FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors

consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 15 and 56 to 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Bayamón's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of

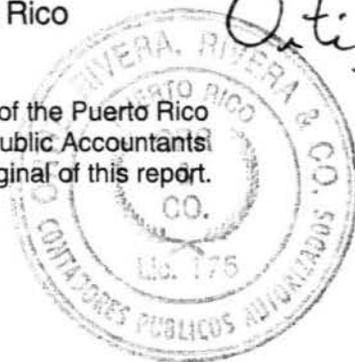
additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Municipality of Bayamón's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Bayamón's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 6, 2015

The stamp E152087 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the original of this report.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Bayamon'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 16).

### HIGHLIGHTS

#### Financial Highlights

- The Municipality's net position (total assets less total liabilities) amounted to \$454.0 million at the close of the current fiscal year. This amount represents an increase of \$10.8 million (or 2.4%) from the previous year's net position.
- As of June 30, 2014, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$21.9 million, an increase of \$11.3 million in comparison with the prior year. About 78% of this total amount, \$17.1 million, is available for spending in future years.
- The Municipality's activities revenue decreased \$0.2 million, not considering a gain on disposition of capital assets of \$1.2 million. The results of activities for both fiscal years 2013-14 and 2012-13 produced an increase in net positions of \$10.8 million and \$3.7 million, respectively.
- The total cost of the Municipality's programs amounted to \$206.9 million and \$214.8 million during fiscal year 2013-14 and 2012-13, respectively. This represented a decrease of \$7.9 million (or 3.7%).
- Loans principal payments were \$18.1 million during fiscal year 2013-14. Loan proceeds from new debt issued amounted to \$17.0 million during the same fiscal year. Other long-term liabilities amounted to \$13.3 million at June 30, 2014, for a total long-term debt of \$302.8 million as of same date, as compared to \$304.2 million in prior year.

#### Municipality Highlights

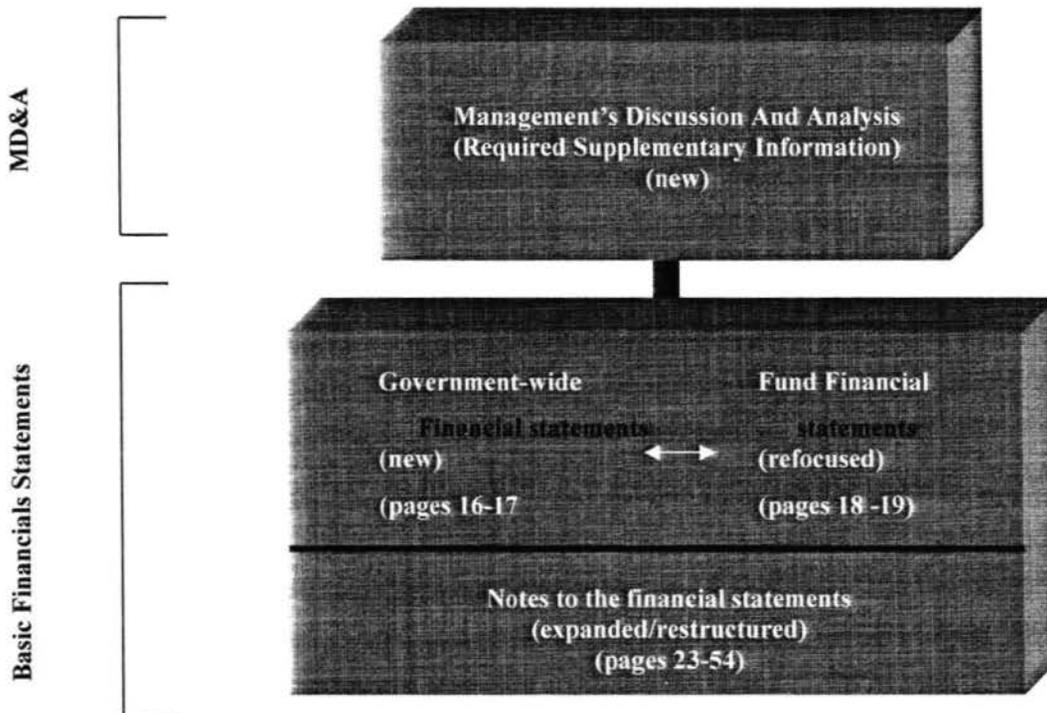
- During the current year the Municipality continued its initiative for the improvement of roads, bridges and other infrastructure projects all over the city at a cost of \$13.2 million.
- The Municipality continued its investment in sports and recreational facilities (active and passive). During the current year, the investment on these facilities amounted to \$15.2 million, including \$5.0 million in facilities whose construction was in progress at June 30, 2014.

- During the current year, the Municipality completed the project for remodeling the downtown area (Vista Alegre Community) with an investment cost of \$5.8 million.
- During the year the Municipality acquired land (through purchases or donations) with a cost or value of \$0.9 million. As of June 30, 2014 the Municipality had land (developed and undeveloped) recorded on books with a cost or value of \$271.7 million, including \$132.0 million of land dedicated to public use (Rights of Way).

### 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**

	<b>Government-wide Statements</b>	<b>Fund Statements</b>
<i>Scope</i>	<i>The entire Municipality's Government</i>	<i>The activities of the Municipality</i>
Required financial statements	Statement of net position 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 8. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worse off as a result of the year's activities?". The Statement of Net Position 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 Position (see page 16), 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 17) 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 18-19) 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 Position 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 23.

### **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 Position

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 \$454.0 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Position compared to prior year.

**Table 1**  
**Summary of Net Position**  
**(in millions)**

	<i>Governmental Activities</i>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$126.4	\$126.3
Capital assets	685.0	683.1
Total assets	<b><u>\$811.4</u></b>	<b><u>\$809.4</u></b>
Current and other liabilities	\$54.6	\$62.0
Long-term debt outstanding	302.8	304.2
Total liabilities	<b><u>\$357.4</u></b>	<b><u>\$366.2</u></b>
Net Position:		
Invested in capital assets, net of debt	\$407.5	\$396.0
Restricted	49.0	63.0
Unrestricted	(2.5)	(15.8)
Total net position	<b><u>\$454.0</u></b>	<b><u>\$443.2</u></b>

For more detailed information see the Statement of Net Position (page 16).

By far the largest portion of the Municipality's net position 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 position (10.8 percent) represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of its net position reflected a negative balance of \$2.5 million (long-term obligations which need that resources for their payment be provided in the future) as of the end of the current fiscal year.

The Municipality's net position increased by \$10.8 million during the current fiscal year. Such increase was mainly due to the net effect of an increase in total assets (\$2.0 million) and a decrease in total liabilities (\$8.8 million).

## Statement of Activities

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

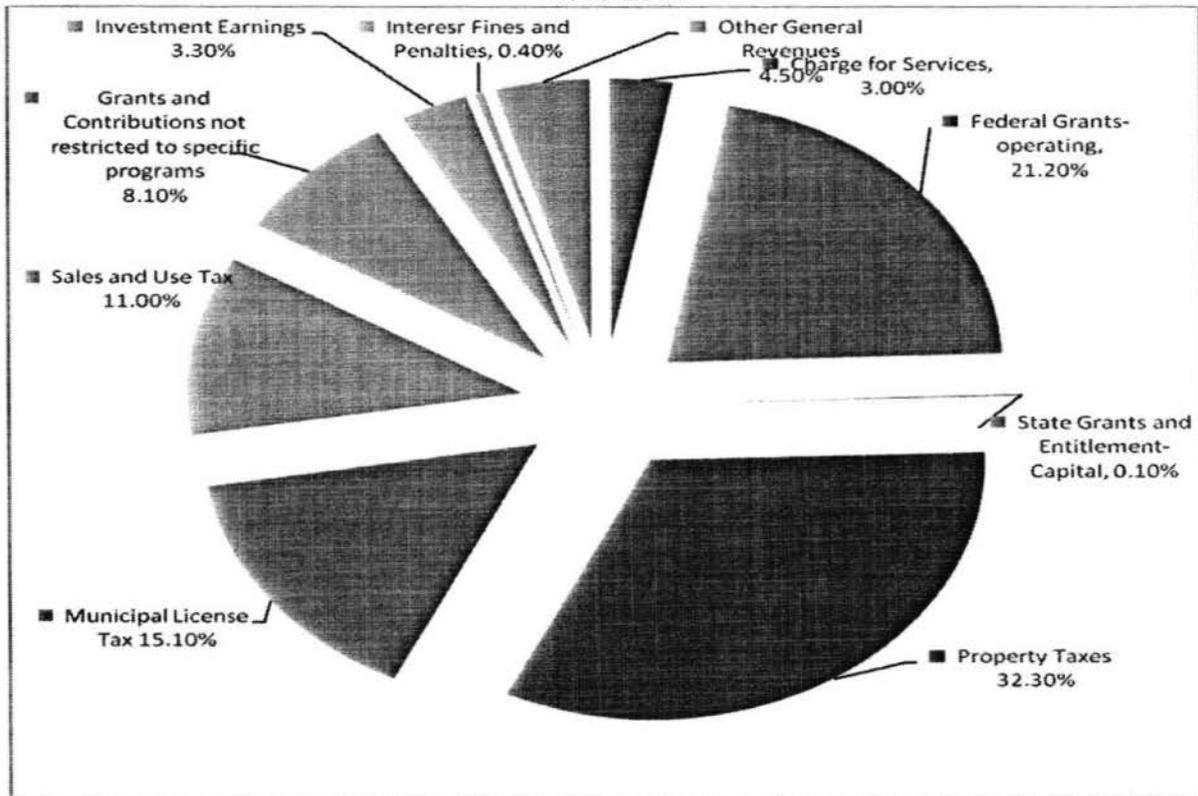
**Table 2**  
**Changes in Net Position**  
**(in millions)**

	<i>Governmental Activities</i>	
	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$6.6	\$7.1
Federal grants-operating	46.0	53.0
State grants and entitlements-capital	0.2	5.9
General Revenues:		
Property Taxes	72.2	69.5
Municipal license tax	32.7	32.9
Sales and use tax	23.5	22.8
Grants and contributions not restricted to specific programs	17.6	18.7
Investment Earnings	7.2	0
Interest fines and penalties	0.8	0.5
Other general revenues	<u>9.7</u>	<u>6.3</u>
Total Revenues	<u>\$216.5</u>	<u>\$216.7</u>
<b>Expenses</b>		
Program expenses:		
General Government	\$83.5	\$79.9
Public safety	10.7	9.9
Public Works	48.0	39.9
Culture	0.6	0.9
Recreation	9.0	8.0
Health and welfare	38.0	57.0
Education	7.7	6.6
Interest on long-term debt	<u>9.6</u>	<u>12.6</u>
Total Expenses	<u>\$206.9</u>	<u>\$214.8</u>
Excess before special items	9.6	1.9
Gain on disposition of capital assets	<u>1.2</u>	<u>1.8</u>
Increase in Net Position	<u>\$10.8</u>	<u>\$3.7</u>

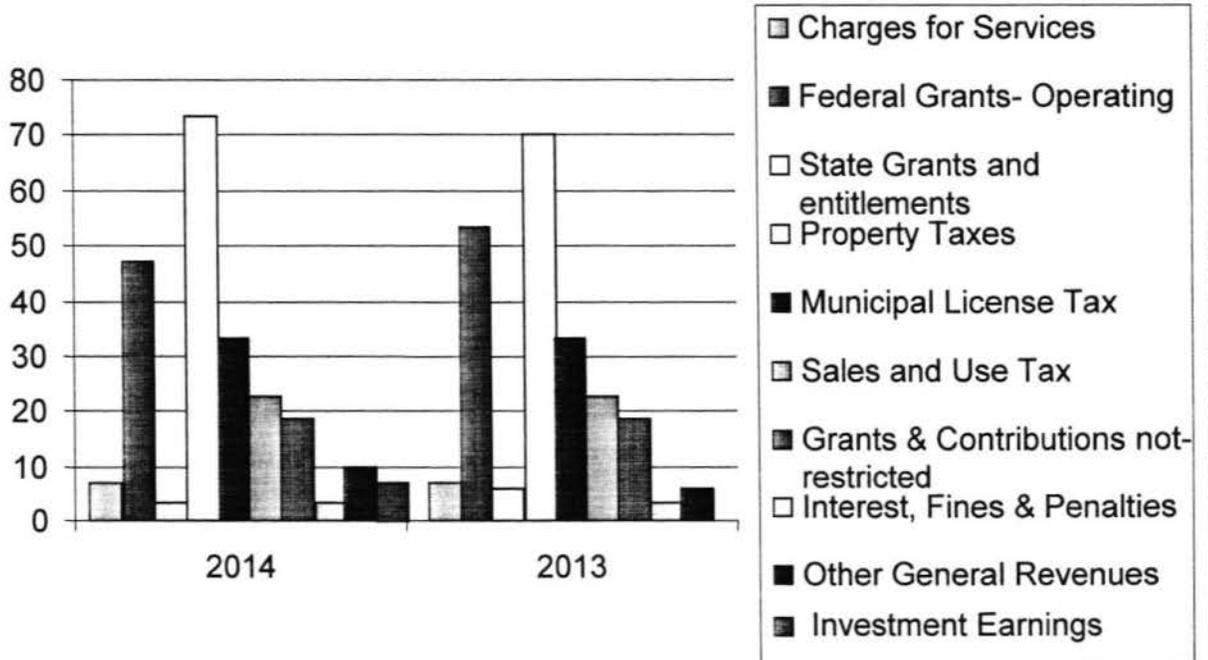
## Revenues

Total revenues decreased by \$0.2 million. Revenues controlled by the Municipality (property taxes, municipal license tax, and sale and use tax) increased \$3.2 million which is the result of normal economic environment. Program revenues decreased \$13.2 million and other revenues increased \$9.8 million mainly due to investment earnings of \$7.2 million.

### Revenues by Source- Governmental Activities 2013-2014



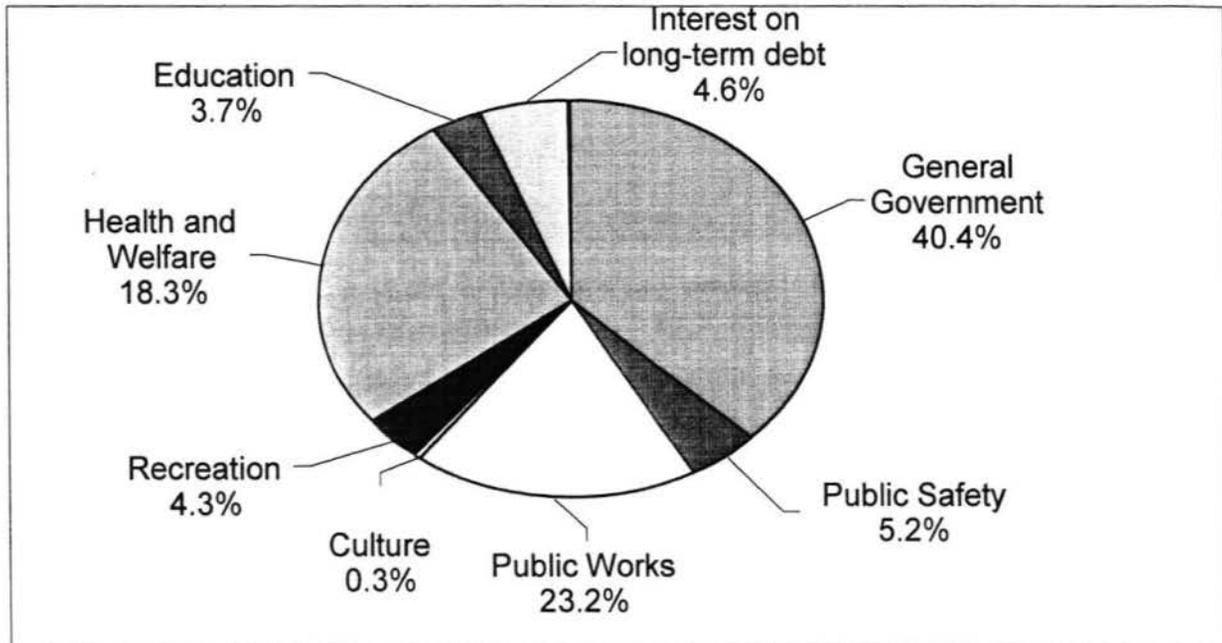
### General and Program Revenues Governmental Activities 2013-2014



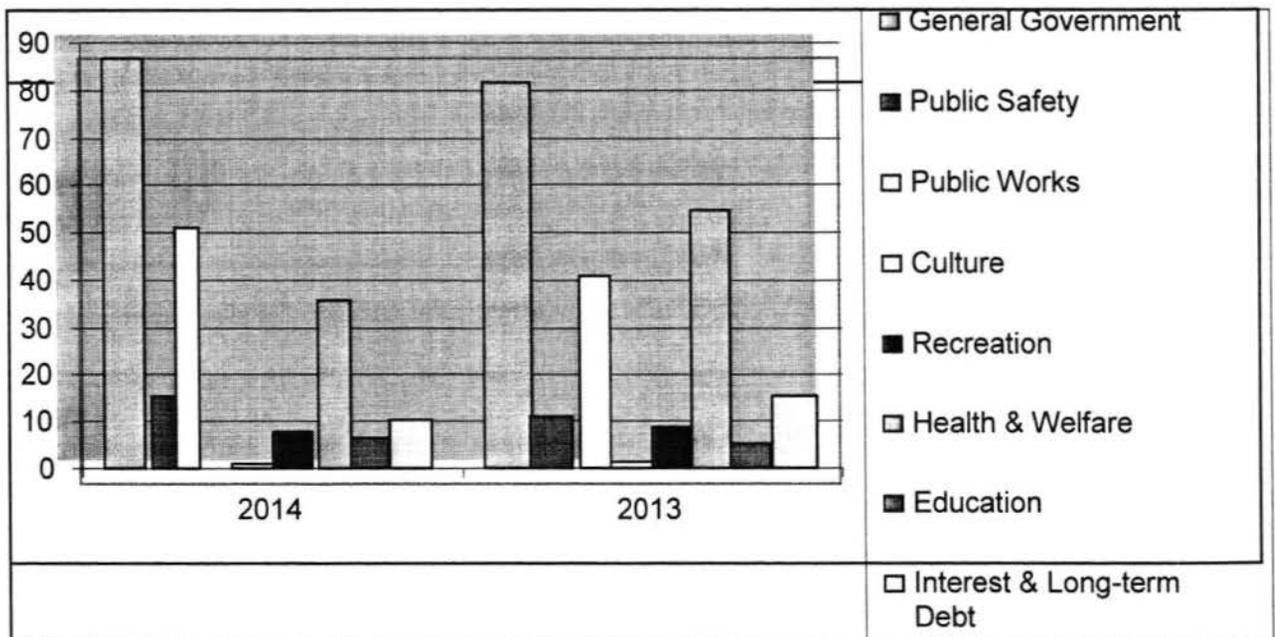
## Expenses

Total cost of all programs and services decreased by \$7.9 million, mainly due to an increase in general, public safety, public works, recreation and education expenditures (\$14.5 million) and a decrease in culture and health and welfare expenditures (19.4 million), which for the most part, reflects compliance with budget controls. Interest paid on long-term debt also decreased \$3.0 million.

**Program Expenses  
Governmental Activities 2013-14**



**Program Expenses  
Governmental Activities 2013-  
2014**



## 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 18 and 19) reported a combined fund balance of \$75.1 million which is 2.2% lower than the beginning of the year (\$76.8 million). This decrease was the net result of a decrease in the Capital Project Fund Balance of \$14.9 million and an increase in the General Fund balance (\$11.3 million), HUD Program Balance )\$0.4 million, HHS Program Balance (\$0.5 million) the Debt Service Balance (\$0.9 million) and the Other Governmental Funds Balance (\$0.1 million). 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 19).

### Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$12.1 million (see page 56 for budget to actual comparisons). The current year operations resulted in \$5.0 million of excess revenues over expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the Municipality had \$685.0 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 \$1.9 million or .3% from the end of last year.

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

	<i>Governmental Activities</i>	
	<b>2014</b>	<b>2013</b>
Land	271.7	\$269.5
Construction in progress	22.1	29.1
Artwork	3.2	2.7
Buildings and improvements	261.0	254.9
Furniture and fixture	0.5	0.6
Vehicles and equipment	8.7	9.3
Infrastructure	117.8	117.0
Totals	<b><u>\$685.0</u></b>	<b><u>\$683.1</u></b>

**Table 4**  
**Change in Capital Assets**  
**(in millions)**

	<i>Governmental Activities</i>
Beginning balance	\$683.1
Additions	39.6
Retirements	
CWIP	(14.7)
Other	(1.5)
Depreciation	(22.4)
Retirements *	<u>0.9</u>
Ending balance	<u><b>\$685.0</b></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	\$13.2
Sports & recreational facilities (active and passive)	15.2
Land	2.6

### Debt Outstanding

As of year-end, the Municipality had \$302.8 million in debt (bonds, notes and other long-term debts) outstanding compared to \$304.2 million last year, a decrease of 0.5% (considering new borrowing and debt retirement).

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

	<i>Governmental Activities</i>	
	<u>2014</u>	<u>2013</u>
General obligation bonds	\$256.2	264.1
Notes payables – CRIM	3.1	3.2
Note payable – HUD	21.3	23.0
Credit Line	8.9	0.2
Due to CRIM	0.1	0
Claims and judgments	0.8	0.7
Compensated absences	<u>12.4</u>	<u>13.0</u>
Totals	<u><b>\$302.8</b></u>	<u><b>\$304.2</b></u>

New bonds in the amount of \$8.3 million were issued during the year. This amount will finance improvements to roads and other infrastructure. A note payable with a balance due of \$1.3 million represents a repayment agreement with 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 \$1.8 million represents a financing agreement with CRIM to finance delinquent property tax accounts sold to private investors. At year-end, a note payable with a balance due of \$21.3 million to the U.S. Department of Housing and Urban Development is due in August 2024. A credit line of \$1.7 million represents advances from the Government Development Bank guaranteed with certificates of deposits with interest at 0.14% over the

interest rate paid in the certificates of deposits. Another credit line of \$7.2 million was obtained from the Government Development Bank for the development of a Hotel in the facilities of "Parque de las Ciencias". The interest rate is variable, prime plus 1.5% with a minimum of 6%.

The Municipality levies an annual special tax of 2.75% 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. The outstanding general obligation debt of the Municipality amounted to \$256.2 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 sources 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 2014 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The population in Puerto Rico decreased during the ten-year period from 2000 to 2010 and has continued decreasing up to 2013. The Municipality decrease in population averaged 4.4% from 2010 to 2013, while the decrease in population in Puerto Rico averaged 1.1%. 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 2010 to 2013 the average family income in the Municipality was higher than that of Puerto Rico. The Municipality has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. During the last two years the unemployment rate of the Municipality averaged 11.2% as compared to 14.6% in Puerto Rico.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2014-15. Amounts available for appropriations (revenues) in the General Fund Budget are \$125.4 million, which is \$5.3 million higher than the budget for fiscal year 2013-14. 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 2014-15.

### **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 3<sup>rd</sup> 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 POSITION  
JUNE 30, 2014**

**ASSETS**

	<b>Governmental Activities</b>
Cash and cash equivalents (Notes 2 and 4)	\$ 48,282,139
Cash with fiscal agent (Notes 2 and 4)	46,102,968
Certificates of deposit (Notes 2 and 4)	7,064,704
Accounts receivable:	
Property taxes (Note 5)	287,496
Municipal license taxes (Note 6)	358,771
Sales and use taxes (Note 7)	1,978,428
Rent, licenses, and permits	719,480
Deferred charges	1,097,340
Notes receivable (Note 14)	7,200,000
Due from other agencies (Note 8)	12,968,915
Inventories (Note 2)	326,269
Capital assets, net (Note 10)	684,963,519
Total assets	811,350,029

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**Liabilities**

Account payable and accrued liabilities	3,879,059
Due to other agencies (Note 11)	13,611,537
Accrued interest	11,588,066
Noncurrent liabilities (Note 14):	
Due within one year	20,898,873
Due in more than one year	281,875,146
Total liabilities	331,852,681

**Deferred Inflows of Resources (Notes 6 and 12)**

Municipal license tax	25,324,735
Federal government	159,393
Total deferred inflows of resources	25,484,128

**Net Position**

Investment in capital assets, net of related debt	407,479,939
Restricted for:	
Debt service	35,089,663
Capital projects	13,918,793
Unrestricted	(2,475,175)
Total net position	\$ 454,013,220

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 83,470,926	\$ 6,560,574	\$ -	\$ -	\$ (76,910,352)
Public safety	10,731,354				(10,731,354)
Public works	47,958,186			205,000	(47,753,186)
Culture	655,045				(655,045)
Recreation	8,885,892				(8,885,892)
Health and welfare	37,859,182		45,948,363		8,089,181
Education	7,697,120				(7,697,120)
Interest on long-term debt	9,633,613				(9,633,613)
<b>Total</b>	<u>\$ 206,891,318</u>	<u>\$ 6,560,574</u>	<u>\$ 45,948,363</u>	<u>\$ 205,000</u>	<u>(154,177,381)</u>
General revenues:					
Property taxes (Note 5)					72,238,052
Municipal license taxes (Note 6)					32,743,083
Sales and use taxes (Note 7)					23,527,110
Grants and contributions not restricted to specific programs					17,615,131
Investment earnings					7,200,000
Interest, fines, and penalties					837,966
Miscellaneous					9,634,904
Gain on sale of capital assets					1,164,368
<b>Total general revenues</b>					<u>164,960,614</u>
Change in net position					10,783,233
Net position at beginning of year					<u>443,229,987</u>
<b>Net position at end of year</b>					<u>\$ 454,013,220</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, 2014**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 4)	\$ 35,553,948	\$ 719,710	\$ 2,531,622	\$ -	\$ 7,659,992	\$ 1,816,868	\$ 48,282,140
Cash with fiscal agent (Notes 2 and 4)				37,834,834	8,268,134		46,102,968
Certificates of deposits (Notes 2 and 4)	6,554,704	510,000					7,064,704
Accounts receivable:							
Property taxes (Note 5)				652,669			652,669
Municipal license taxes (Note 6)	358,771						358,771
Sales and use taxes (Note 7)	1,613,255						1,613,255
Rent, licenses, and permits	719,480						719,480
Due from other agencies (Note 8)	12,647,544	297,215				24,156	12,968,915
Due from other funds (Note 9)	5,974,868						5,974,868
Inventories (Note 2)	326,269						326,269
<b>Total assets</b>	<b><u>\$ 63,748,839</u></b>	<b><u>\$ 1,526,925</u></b>	<b><u>\$ 2,531,622</u></b>	<b><u>\$ 38,487,503</u></b>	<b><u>\$ 15,928,126</u></b>	<b><u>\$ 1,841,024</u></b>	<b><u>\$ 124,064,039</u></b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2014

<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Account payable and accrued liabilities	\$ 2,957,533	\$ 307,726	\$ -	\$ -	\$ 462,146	\$ 151,654	\$ 3,879,059
Due to other funds (Note 9)			925,586	3,397,840	1,547,187	104,256	5,974,869
Due to other agencies (Note 11)	13,606,571					4,966	13,611,537
Total liabilities	<u>16,564,104</u>	<u>307,726</u>	<u>925,586</u>	<u>3,397,840</u>	<u>2,009,333</u>	<u>260,876</u>	<u>23,465,465</u>
<b>Deferred inflows of resources: (Note 12)</b>							
Municipal license taxes	25,324,735						25,324,735
Federal government		90,393				69,000	159,393
Total deferred inflows of resources	<u>25,324,735</u>	<u>90,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,000</u>	<u>25,484,128</u>
<b>Commitments and Contingencies (Notes 19 and 20)</b>							
<b>Fund Balances (Note 15)</b>							
Nonspendable	326,269						326,269
Restricted		1,128,806	1,606,036			1,511,148	4,245,990
Assigned	4,466,101			35,089,663	13,918,793	-	53,474,557
Unassigned	17,067,630						17,067,630
Total fund balances	<u>21,860,000</u>	<u>1,128,806</u>	<u>1,606,036</u>	<u>35,089,663</u>	<u>13,918,793</u>	<u>1,511,148</u>	<u>75,114,446</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 63,748,839</u>	<u>\$ 1,526,925</u>	<u>\$ 2,531,622</u>	<u>\$ 38,487,503</u>	<u>\$ 15,928,126</u>	<u>\$ 1,841,024</u>	<u>\$ 124,064,039</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

Total fund balances-governmental funds	\$ 75,114,446
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Amounts reported for governmental activities in the statement of net position are different because:

- |   |                  |
|---|------------------|
| <ul style="list-style-type: none"> <li>• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</li> </ul>   | 684,963,519      |
| <ul style="list-style-type: none"> <li>• Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:               <ul style="list-style-type: none"> <li>Deferred charges</li> </ul> </li> </ul> | 1,097,340        |
| <ul style="list-style-type: none"> <li>• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 3)</b></li> </ul>   | (314,362,085)    |
| <ul style="list-style-type: none"> <li>• Some of the Municipality's revenues will be collected after year-ended, but no available soon enough to pay for the current period expenditures.</li> </ul>  | <u>7,200,000</u> |

Net position of governmental activities	<u><u>\$ 454,013,220</u></u>
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The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes (Note 5)	\$ 46,791,091	\$ -	\$ -	\$ 25,446,961	\$ -	\$ -	\$ 72,238,052
Municipal license taxes (Note 6)	32,743,083						32,743,083
Sales and use taxes (Note 7)	19,407,211			4,119,899			23,527,110
Licenses and permits	4,082,315						4,082,315
Charges for service and rents	2,478,259						2,478,259
Intergovernmental revenues (Note 13):							
Federal grants and contributions		22,044,639	17,402,632			6,501,092	45,948,363
State contributions	18,145,312				205,000		18,350,312
Interest, fines, and penalties	813,021			24,945			837,966
Other revenues	10,833,465		41,733			224,676	11,099,874
Total revenues	<u>135,293,757</u>	<u>22,044,639</u>	<u>17,444,365</u>	<u>29,591,805</u>	<u>205,000</u>	<u>6,725,768</u>	<u>211,305,334</u>
<b>EXPENDITURES</b>							
Current:							
General government	69,504,535				372,050	35,100	69,911,685
Public safety	10,110,889	2,026				484,885	10,597,800
Public works	27,990,022	736,547					28,726,569
Culture	396,820						396,820
Recreation	3,734,817						3,734,817
Health and welfare	11,434,656	18,177,875	16,916,305			1,347,248	47,876,084
Education	2,565,100					4,796,329	7,361,429
Capital outlays					31,697,281		31,697,281
Debt service:							
Principal retirement		1,775,000		16,356,399			18,131,399
Interest and other		1,217,989		10,329,907			11,547,896
Total expenditures	<u>125,736,839</u>	<u>21,909,437</u>	<u>16,916,305</u>	<u>26,686,306</u>	<u>32,069,331</u>	<u>6,663,562</u>	<u>229,981,780</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,556,918</u>	<u>135,202</u>	<u>528,060</u>	<u>2,905,499</u>	<u>(31,864,331)</u>	<u>62,206</u>	<u>(18,676,446)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds from credit line					8,693,134		8,693,134
Loan proceeds					8,000,000		8,000,000
Proceeds of refunded fund					37,035,000		37,035,000
Payment of refunded fund				(36,725,000)			(36,725,000)
Transfers in	3,416,146	309,821		38,084,748			41,810,715
Transfers out	(1,669,569)			(3,416,146)	(36,725,000)		(41,810,715)
Total other financing sources (uses)	<u>1,746,577</u>	<u>309,821</u>	<u>-</u>	<u>(2,056,398)</u>	<u>17,003,134</u>	<u>-</u>	<u>17,003,134</u>
Net change in fund balances	11,303,495	445,023	528,060	849,101	(14,861,197)	62,206	(1,673,312)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	10,556,505	683,783	1,077,976	34,240,562	28,779,990	1,448,942	76,787,758
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 21,860,000</u>	<u>\$ 1,128,806</u>	<u>\$ 1,606,036</u>	<u>\$ 35,089,663</u>	<u>\$ 13,918,793</u>	<u>\$ 1,511,148</u>	<u>\$ 75,114,446</u>

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, 2014**

Net change in fund balances - total governmental funds \$ (1,673,312)

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. 24,889,781
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 7,200,000
- 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. (22,229,963)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (17,003,134)
- 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. 18,131,399
- 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. 57,732
- 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 position differs from the change in fund balance by the cost of disposal assets. 1,164,368
- 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. 246,362

Changes in net position of governmental activities \$ 10,783,233

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, 2014**

**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 Position - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net position of the Municipality will be broken down into three

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financially accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable, but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

financial benefits to, or impose specific financial burdens on, the Municipality.

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

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.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2014.

**b. Government - Wide and Governmental Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality.

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 effects of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

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

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 the 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.

The governmental fund financial statements are reported using the *current financial resources measurements 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 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Property taxes, sales taxes, franchise taxes, licenses, and interests associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and when the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 Projects 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.

**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 Assembly 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 withheld 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, 2014**

**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. Deferred Charges**

Deferred charges in the accompanying Statement of Net Position consist of bond issuance costs, net of accumulated amortization of \$1 million. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

**g. 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.

The carrying value of inventories are offset by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2014 since they are not expected to be converted to cash after the current fiscal year-end.

**h. 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

**i. Fund Balances**

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

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- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that indicate the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources,

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the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures occurred.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

**j. 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, 2014 amounted to approximately \$2.6 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.5 million for workers' compensation insurance covering all municipal employees.

**k. 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, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

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**I. Future Adoption of Accounting Pronouncements**

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15
71	Pension Transition for Contribution Made Subsequent to the Measurement Data.	2014-15

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

**m. Deferred Inflows**

The Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arises when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *"earned but unavailable revenue"* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2014 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *"unearned revenue"* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

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Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position). No “*earned but unavailable revenue*” is accounted for in the accompanying statement of net position.

**n. Use of Estimates**

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

**3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. 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 \$307 million difference is as follows:

Bonds payable	\$ 256,208,580
Notes payable	24,350,038
Compensated absences	12,363,238
Accrued interest payable	11,588,066
Credit line	8,897,748
Claims and judgments	850,000
CRIM	<u>104,415</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 314,362,085</u>

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**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.

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

The deposits at GDB of approximately \$8.3 million that are restricted principally for capital projects and the \$37.8 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 two (2) 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.

**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.

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The rates are 9.58% for real property and 7.58% 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	2.75%	2.75%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>9.58%</u>	<u>7.58%</u>

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

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

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

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

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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 2013-14, 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, 2014, the amount collected by CRIM exceeded the amount advanced by CRIM from taxpayers and charges for the same period by approximately \$104,415. Such amount is presented as due to CRIM in the accompanying financial statements. (See Note 14).

**6. MUNICIPAL LICENSE TAXES**

Municipal license taxes receivable are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2014. 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%

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The amounts collected in advance are recorded as deferred inflow of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$25.3 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,
- 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	\$ 12,647,544
U. S. Department of Housing and Urban Development	297,215
Other governmental funds	<u>24,156</u>
Total	<u>\$ 12,968,915</u>

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**9. INTERFUND TRANSACTIONS**

**a. Due from/to Other Funds:**

The due from and due to other fund balances as of June 30, 2014, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 3,397,840
General	Capital project	1,547,187
General	HHS programs	925,585
General	Other governmental	104,256
Total		<u>\$ 5,974,868</u>

The balance of approximately \$1.5 million due to the general fund from the capital project fund represents advances for capital improvements that will be reimbursed through the loans.

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, 2014 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	Capital Project	\$ 36,725,000
Debt Service	General	1,669,569
General	Debt Service	<u>3,416,146</u>
Total		<u>\$ 41,810,715</u>

The transfer from the general fund to the debt service fund of approximately \$1.7 million represents monies transferred to cover debt service payments as

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become due. The additional transfer of \$36.7 million are for the payment of refunded bonds.

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.

**10. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 269,454,779	\$ 2,574,485	\$ 304,948	\$ 271,724,316
Construction in progress	29,146,757	7,650,429	14,686,471	22,110,715
Art work	2,691,590	549,100	9,950	3,230,740
Total capital assets, not being depreciated	<u>301,293,126</u>	<u>10,774,014</u>	<u>15,001,369</u>	<u>297,065,771</u>
Capital assets, being depreciated:				
Buildings and building improvements	344,855,016	14,336,833	678,413	358,513,436
Furniture and fixtures	2,321,217	38,362	19,664	2,339,915
Vehicles and equipment	35,770,404	1,223,952	611,186	36,383,170
Infrastructure	190,506,330	13,203,091		203,709,421
Total capital assets, being depreciated	<u>573,452,967</u>	<u>28,802,238</u>	<u>1,309,263</u>	<u>600,945,942</u>
Less accumulated depreciation for:				
Buildings and building improvements	89,912,368	7,747,558	162,808	97,497,118
Furniture and fixtures	1,769,867	102,885	19,384	1,853,368
Vehicles and equipment	26,449,699	1,907,263	611,186	27,745,776
Infrastructure	73,479,675	12,472,257		85,951,932
Total accumulated depreciation	<u>191,611,609</u>	<u>22,229,963</u>	<u>793,378</u>	<u>213,048,194</u>
Total capital assets, being depreciated, net	<u>381,841,358</u>	<u>6,572,275</u>	<u>515,885</u>	<u>387,897,748</u>
Governmental activities capital assets, net	<u>\$ 683,134,484</u>	<u>\$ 17,346,289</u>	<u>\$ 15,517,254</u>	<u>\$ 684,963,519</u>

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

Public works	\$ 12,422,091
Recreation	5,151,075
General government	3,276,203
Health and welfare	651,098
Education	335,691
Culture	258,225
Public safety	<u>135,580</u>
Total	<u><u>\$ 22,229,963</u></u>

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2014 are as follows:

Puerto Rico Electric Power Authority	\$12,647,544
Puerto Rico Aqueduct and Sewer Authority	725,803
Retirement System Administration	230,082
Other governmental funds	4,966
Puerto Rico Treasury Department	2,892
Puerto Rico General Services Administration	<u>250</u>
Total	<u><u>\$13,611,537</u></u>

**12. DEFERRED INFLOWS OF RESOURCES**

**a. Municipal License Taxes**

The deferred inflows of resources of approximately \$25.7 million in the general fund related to municipal license tax collected in fiscal year 2013-14 that will be earned in fiscal year 2014-15.

**b. Federal Government**

The deferred inflows of resources presented as federal government represents the portion of federal grants received for which qualifying expenditures have not

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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.

**14. NOTE RECEIVABLE**

On February 2012, the Municipality entered into a capital loan agreement with Bayamon Hotel Company, LLC ("BHC"). The agreement was executed in connection with the development and construction by BHC of a 156-room hotel under the Hyatt Place brand, with related amenities and a 10,500 square foot casino, in property leased from the Municipality, adjoining the Municipality's Science Park. As a result, the Municipality has a note receivable, as of June 30, 2014, in the amount of \$7,230,000, the Municipality Commitment, due from Bayamon Hotel Company, LLC, which represents advances to BHC, including the principal sum of \$7,200,000 and expenses of \$30,000 related to the agreement. The first draw included \$304,672 for the funding of an escrow account in the Government Development Bank for Puerto Rico (GDB). The note is unsecured and bears interest at 1.50% above bank's prime rate, provided that the rate of interest applicable to the unpaid principal balance shall at no times be less than six percent (6%). The applicable rate shall be adjusted automatically upon a change of interest rate payable by the Municipality in its related GDB Line of Credit or Revenue Bond. Interest is payable on a semiannual basis on the first day of each semiannual period commencing on January 1<sup>st</sup>, 2014. Principal is payable semiannually beginning on the fifth year after the last funding date, provided no later than the opening date.

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**15. LONG-TERM DEBTS**

Bonds and notes payable and other debt outstanding at June 30, 2014 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%.	\$ 715,000
\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2019, interest ranging from 6.1% to 8.2%.	7,735,000
\$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%.	1,635,000
\$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%.	3,155,000
\$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%.	3,395,000
\$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2024, interest ranging from 2.7% to 7.8%.	1,115,000

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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%.	\$ 6,640,000
\$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%.	1,950,000
\$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%.	8,440,000
\$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%.	605,000
\$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%.	7,060,000
\$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%.	7,735,000
\$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%.	185,000
\$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%.	700,000
\$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%.	5,330,000
\$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%.	14,916,000

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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%.	\$ 3,230,000
\$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%.	3,910,000
\$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%.	6,040,000
\$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%.	7,902,500
\$10,670,000 series of 2008, payable in annual installments of \$405,000 to \$1,125,000 until July 1, 2022, interest ranging from 1.53% to 7.5%.	7,715,000
\$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%.	1,245,000
\$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%.	1,350,000
\$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%.	375,000
\$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%.	250,000
\$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%.	3,170,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$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%.	\$ 9,800,000
\$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%.	16,275,000
\$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%.	2,285,000
\$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%.	5,650,000
\$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%.	4,145,000
\$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%.	7,620,000
\$10,540,000 series of 2012 payable in annual installments of \$180,000 to \$815,000 until July 1, 2035, interest ranging from 6.0% to 6.5%.	9,965,000
\$15,832,365 series of 2013, payable in annual installments of \$635,000 to \$1,227,365 until July 1, 2037, interest ranging from 5.3% to 7%.	15,832,365
\$8,050,825 series of 2013, payable in annual installments of \$5,000 to \$900,825 until July 1, 2033, interest ranging from 5.3% to 6%.	8,045,825
\$1,985,700 series of 2013, payable in annual installments of \$190,000 to \$320,700 until July 1, 2020, interest ranging from 5.3% to 6%.	1,795,700

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

\$20,161,190 series of 2013, payable in annual installments of \$1,618,816 until July 1, 2015, interest ranging from 3.5% to 4%.	\$ 20,161,190
\$3,220,00 series of 2013 payable in annual installments of \$120,000 to \$340,000 until July 1, 2027, interest ranging from 6% to 7.5%.	3,100,000
\$8,670,000 series of 2014 payable in annual installments of \$1,480,000 to \$2,055,000 until July 1, 2018, interest ranging from 3.90% to 5%.	8,670,000
\$8,110,000 series of 2014 payable in annual installments of \$85,000 to \$103,000 until July 1, 2026, interest ranging from 4% to 5%.	8,110,000
\$20,255,000 series of 2014 payable in annual installments of \$215,000 to \$2,545,000 until July 1, 2026, interest ranging from 4% to 5%.	20,255,000
\$8,000,000 series of 2014 payable in annual installments of \$5,000 to \$1,055,000 until July 1, 2028, interest ranging from 4.25 % to 5%.	<u>8,000,000</u>
Total bonds payable	<u>\$ 256,208,580</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

	<i>Bonds</i>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 18,385,000	\$ 10,359,294
2016	18,055,000	10,250,683
2017	17,420,000	8,942,852
2018	16,960,000	8,055,027
2019	36,341,190	7,169,034
2020-2024	62,235,700	25,807,026
2025-2029	59,667,500	11,423,340
2030-2034	22,431,825	2,800,912
2035-2039	4,712,365	105,056
	<u>\$ 256,208,580</u>	<u>\$ 84,913,224</u>

**c. Credit Line**

Credit line of \$1.7 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.

Credit line of 7.2 million represents a line of credit with Government Development Bank for the development of a hotel in the facilities of "Parque de las Ciencias". The interest rate is variable prime plus 1.50% with a minimum of 6.00%. Interest will be paid at maturity. At June 30, 2014, the credit line balance totaled 7.2 million.

**d. Note Payable - CRIM (Law 42)**

Note payable of \$1.3 million 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%.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The annual debt service requirements for the note payable at June 30, 2014, are as follows:

	<b><i>Note Payable - CRIM (Law 42)</i></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2015	\$ 41,848	\$ 81,569
2016	44,478	78,939
2017	47,272	76,145
2018	50,243	73,175
2019	53,399	70,118
2020-2024	321,745	295,340
2025-2029	436,350	181,335
2030-2034	333,250	36,999
	<b><u>\$ 1,328,585</u></b>	<b><u>\$ 893,620</u></b>

**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 no revolving 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.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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:

	<u><i>Note Payable - CRIM (Law 146)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 97,025	\$ 119,517
2016	97,025	114,463
2017	97,025	109,252
2018	97,025	103,878
2019	97,025	98,338
2020-2024	485,125	402,364
2025-2029	485,125	199,604
2030-2034	291,078	50,020
	<u>\$ 1,746,453</u>	<u>\$ 1,197,436</u>

**g. Notes Payable - Section 108**

Notes payable of \$23 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><i>Note Payable - Section 108</i></u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,775,000	\$ 1,126,974
2016	2,000,000	1,027,688
2017	2,000,000	919,928
2018	2,300,000	801,647
2019	3,500,000	640,647
2020-2024	9,700,000	1,430,605
	<u>\$ 21,275,000</u>	<u>\$ 5,947,489</u>

As described in Note 6, the Municipality levies an annual special tax of 2.75% 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

notes of the Municipality. The property taxes are collected and retained by the CRIM.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 264,118,580	\$ 8,310,000	\$ 16,220,000	\$ 256,208,580	\$ 18,385,000
Credit line	204,614	8,693,134		8,897,748	
Note payable - CRIM (Law 146)	1,843,478		97,025	1,746,453	97,025
Note payable - CRIM (Law 42)	1,367,959		39,374	1,328,585	41,848
Note payable - HUD	23,050,000		1,775,000	21,275,000	1,775,000
<b>Total long-term debt</b>	<u>290,584,631</u>	<u>17,003,134</u>	<u>18,131,399</u>	<u>289,456,366</u>	<u>20,298,873</u>
Due to CRIM		104,415		104,415	
Claims and judgements	675,000	175,000		850,000	-
Compensated absences	12,969,883	-	606,645	12,363,238	600,000
<b>Total other liabilities</b>	<u>13,644,883</u>	<u>279,415</u>	<u>606,645</u>	<u>13,317,653</u>	<u>600,000</u>
<b>Total noncurrent liabilities</b>	<u>\$ 304,229,514</u>	<u>\$ 17,282,549</u>	<u>\$ 18,738,044</u>	<u>\$ 302,774,019</u>	<u>\$ 20,898,873</u>

**16. FUND BALANCES**

As of June 30, 2014, fund balances are comprised of the following:

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:							
Inventory	\$ 326,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 326,269
Restricted:							
Public works		411,010				17,781	428,791
Health and welfare		717,796	1,606,035			1,493,367	3,817,198
Capital outlays					13,918,793		13,918,793
Debt service				35,089,663			35,089,663
Assigned:							
General government	684,227						684,227
Public safety	1,125,964						1,125,964
Public works	1,730,653						1,730,653
Culture	61,418						61,418
Recreation	240,484						240,484
Health and welfare	308,801						308,801
Education	314,554						314,554
Unassigned	17,067,630						17,067,630
	<u>\$21,860,000</u>	<u>\$ 1,128,806</u>	<u>\$ 1,606,035</u>	<u>\$35,089,663</u>	<u>\$13,918,793</u>	<u>\$ 1,511,148</u>	<u>\$75,114,445</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**17. 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 of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (12.275% 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 12.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

June 30, 2014 was approximately \$1.1 million. The Municipality's payroll for employees covered by ERS was approximately \$8.4 million. The Municipality total payroll for all employees was approximately \$46 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**18. RISK MANAGEMENT**

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

**19. LEASES**

**Operating Leases**

Leasing arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and its 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, 2014 was approximately \$770,000.
- 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 non-cancellable operational leases, with periods not longer than one year.

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**20. 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.

**21. COMMITMENTS**

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2014. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$15.9 million.

**22. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 6, 2015, the date on which the financial statements were available to be issued.

**PART II – REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget-</u>
			<u>(See Note 1)</u>	<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 46,791,091	\$ 46,791,091	\$ 46,791,091	\$ -
Municipal license taxes	31,300,000	31,326,836	32,709,691	1,382,855
Sales and use taxes	18,000,000	19,306,270	19,310,204	3,934
Licences and permits	2,740,000	3,344,982	4,285,873	940,891
Charges for services and rent	2,754,470	2,754,470	1,429,122	(1,325,348)
Intergovernmental revenues:				
State contributions	16,561,147	16,561,147	16,412,039	(149,108)
Interest, fines, and penalties	600,000	671,988	831,312	159,324
Other revenues	<u>1,390,000</u>	<u>11,455,813</u>	<u>8,166,160</u>	<u>(3,289,653)</u>
Total of revenues	<u>120,136,708</u>	<u>132,212,597</u>	<u>129,935,492</u>	<u>(2,277,105)</u>
<b>EXPENDITURES</b>				
Current:				
General government	65,746,706	79,424,833	75,325,682	4,099,151
Public safety	11,729,971	11,421,677	10,695,814	725,863
Public works	29,903,729	30,080,893	28,852,112	1,228,781
Culture	870,670	601,266	448,220	153,046
Recreation	4,092,762	3,943,507	3,725,154	218,353
Health and welfare	4,012,357	3,775,975	3,278,390	497,585
Education	<u>3,780,513</u>	<u>2,964,446</u>	<u>2,660,007</u>	<u>304,439</u>
Total of expenditures	<u>120,136,708</u>	<u>132,212,597</u>	<u>124,985,379</u>	<u>7,227,218</u>
<b>OTHER FINANCING SOURCES</b>				
Reprogramming funds	-	-	-	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,950,113</u>	<u>\$ 4,950,113</u>
<b>Explanation of Differences:</b>				
<b>Sources/Inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 129,935,492
Differences - budget to GAAP:				
Actual revenues considered revenues for financial reporting purposes but not inflows for budget purposes (net change in receivables)				(3,415,664)
Non-budgeted funds				<u>8,773,929</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 135,293,757</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 124,985,379
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				5,093,663
Non-budgets funds				6,611,368
Net change in accounts payable				(6,487,470)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(4,466,101)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 125,736,839</u>

See note to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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 US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. 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, 2014 representing the original budget.

**PART III – SINGLE AUDIT SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Community Development Block Grant Entitlement Grants	14.218		\$ 3,719,160
Neighborhood Stabilization Program	14.256		473,775
Emergency Shelter Grant Program	14.231		454,639
Home Investment Partnership Program	14.239		1,971,112
Urban Development Block Grant	14.221		12,403
Section 8 - Moderate Rehabilitation Phase 5	14.249		255,200
Section 8 - Housing Choice Vouchers	14.871		<u>15,023,148</u>
Subtotal U.S. Department of HUD			<u>21,909,437</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Head Start Program	93.600		12,671,033
Pass through Oficina de la Procuradora de las Personas de Edad Avanzada:			
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		228,044
Pass through the Municipality of San Juan:			
HIV Emergency Relief Projects Grants	93.914		1,406,637
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Title III	93.918		818,166
Pass through State of Office of the Governor - Office of Economic Opportunity; then Office of Human Development:			
Community Service Block Grant	93.569	NA	917,292
Pass through Administration of Families and Children:			
Child Care and Development Block Grant	93.575	NA	<u>875,133</u>
Subtotal U.S. Department of HHS			<u>16,916,305</u>
<b>U.S. Department of Labor</b>			
Passed through the Labor Development Administration/Workforce Investment Act Cluster:			
Workforce Investment Act - Adult	17.258		2,071,979
Workforce Investment Act - Youth	17.259		1,916,202
Workforce Investment Act - Dislocated	17.278		<u>805,687</u>
Subtotal U.S. Department of Labor			<u>4,793,868</u>
<b>U.S. Department of Transportation</b>			
Federal Transit Formula Grant (Urbanized Area Formula Program)	20.507		<u>98,243</u>
Subtotal U.S. Department of Transportation			<u>98,243</u>
<b>U.S. Department of Homeland Security</b>			
Pass-through the Office of Management and Budget - Governors Authorized Representative:			
Public Assistance Grant Program	97.036		<u>383,586</u>
Subtotal U.S. Department of Homeland Security			<u>383,586</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Education Department:			
Child and Adult Care Food Program	10.558	NA	<u>1,329,685</u>
Subtotal U.S. Department of Agriculture			<u>1,329,685</u>
<b>TOTAL</b>			<u>\$ 45,431,124</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**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><b>Expenditures</b></u>
Total federal expenditures per schedule	\$ <u>45,431,124</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 21,909,437
Health and Human Services Programs	16,916,305
Federal expenditures included in other governmental funds	<u>6,605,382</u>
Total	\$ <u>45,431,124</u>

**3. LOAN OUTSTANDING**

At June 30, 2014, 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 \$21,275,000.

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón's, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Municipality's basic financial statements, and have issued our report thereon dated March 6, 2015.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

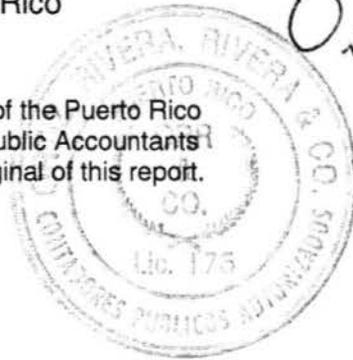
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

San Juan, Puerto Rico  
March 6, 2015

The stamp E152088 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



*Ortiz, Rivera, Rivera & Co.*

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

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

**Report on Compliance for each Major Federal Program**

We have audited Municipality of Bayamón's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2014. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

test basis, evidence about Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control over Compliance**

Management of Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over

compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

San Juan, Puerto Rico  
March 6, 2015

*Ortiz, Rivera, Rivera & Co.*

The stamp E152089 of the Puerto Rico Society of Certified Public Accountants 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, 2014**

**1. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified opinion

Internal control over financial reporting:

Material weakness (es) identified?  Yes  No

Significant deficiency (ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?  Yes  No

Significant deficiency (ies) identified?  Yes  None Reported

Type of auditors' report issued on compliance for major programs: Unmodified opinion

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

Identification of major programs:

CFDA Numbers

Name of Federal Programs or Cluster

93.914	HIV Emergency Relief Projects Grants
14.871	Section 8-Housing Choice Vouchers
93.600	Head Start Program
17.258	Workforce Investment Act-Adult



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p><b>Workforce Investment Act Cluster CFDA No. 17.258, 17.259 and 17.278</b></p>	<p><b>Condition 12-1 - Cash Management</b></p> <p>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.</p>	<p>Condition was corrected.</p>
<p><b>Community Services Block Grant CFDA No. 93.569</b></p>	<p><b>Condition 12-2 - Cash Management</b></p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p>Condition was corrected.</p>
<p><b>Child and Adult Care Food Program CFDA No. 10.558</b></p>	<p><b>Condition 12-3 - Cash Management</b></p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p>Condition was corrected.</p>
<p><b>Community Development Block Grant Program CFDA No. 14.218</b></p>	<p><b>Condition 12-4 - Cash Management</b></p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p>Condition was corrected.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p><b>Workforce Investment Act Cluster CFDA No. 17.258, 17.259 and 17.278</b></p>	<p><b>Condition 13-1 – Cash Management</b></p> <p>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.</p>	<p>Condition was corrected.</p>
<p><b>Home Investment Partnership Program CFDA No. 14.239</b></p>	<p><b>Condition 13-2 - Cash Management</b></p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p>	<p>Condition was corrected.</p>

26 de marzo de 2015

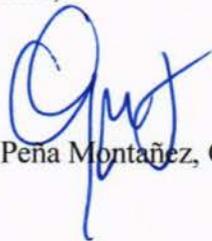
Lcdo. Carlos M. Santini Rodríguez  
Comisionado  
OCAM  
P.O. Box 70167  
San Juan, P.R. 00936-8167

Estimado licenciado Santini:

Adjunto el "Basic Financial Statement" terminado en junio 30 de 2014.

Espero el mismo le sirva para sus propósitos.

Cordialmente,



Carlos J. Peña Montañez, CPA  
Director

CJP/ans