

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

**MUNICIPIO DE CABO ROJO
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2012



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Cabo Rojo, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2013, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and should be considered in assessing the results of our audit.

INDEPENDENTS AUDITOR'S REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 56 through 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico
March 15, 2013


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The stamp number 2672861
was affixed to the original report.



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

This discussion and analysis of the **Autonomous Municipality of Cabo Rojo** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2012. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2011. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2011-2012 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2012 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$118,754,794 which represents an increase of 8% compared to prior fiscal year.
2. At the end of fiscal year 2012, total liabilities amounted to \$54,781,943. Out of said amount, \$46,401,924 corresponds to long-term liabilities of which \$35,561,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$63,972,851 which represents a reduction of 6% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$31,998,891, derived from the following sources: \$223,828 from charges for services; \$2,013,934 from operating grants and contributions; \$4,683,490 from capital grants and contributions obtained from other sources, and \$25,077,639 from general revenues available.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$36,074,356.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a reduction in the Net Assets figure by \$4,075,465.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$20,359,482.
8. In the fund financial statements, the governmental activities revenue increased \$966,349 (or 3%), and governmental activities expenditures increased by \$4,594,048 (or 11%) in comparison with the prior year 2011.
9. As of the end of the current fiscal year, the Municipality's general fund (the primary operating fund) reported a deficit of (\$60,841) compared to a fund balance of \$140,411 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of (\$1,429,597).

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2012. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and 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.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

FUND FINANCIAL STATEMENTS (CONTINUED)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Autonomous Municipality of Cabo Rojo**, primary government assets exceeded total liabilities by \$63,972,851 at the end of 2012, as compared with \$68,048,316, which reflect a reduction of \$4,075,465 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis; the most important components of the increase are reflected in the Net Assets figure.

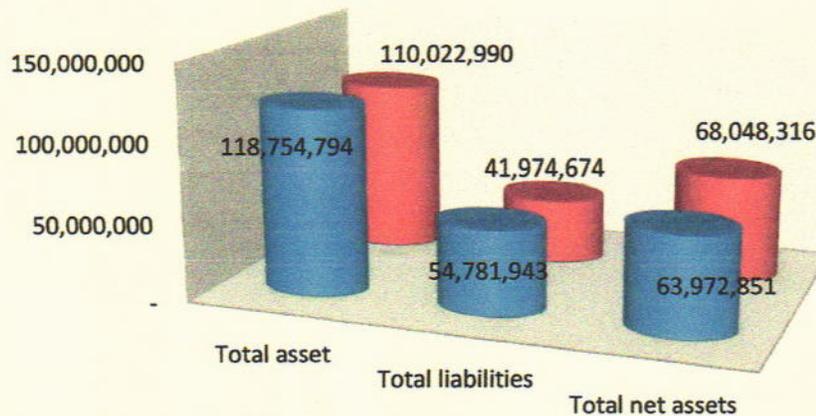
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2012	2011	Change	%
Current and other assets	\$ 32,077,891	\$ 31,884,156	\$ 193,735	1%
Capital assets	86,676,903	78,138,834	8,538,069	11%
Total assets	118,754,794	110,022,990	8,731,804	8%
Current and other liabilities	8,380,019	6,673,217	1,706,802	26%
Long-term liabilities	46,401,924	35,301,457	11,100,467	31%
Total liabilities	54,781,943	41,974,674	12,807,269	31%
Invested in capital assets, net of related debt	59,141,903	56,293,834	2,848,069	5%
Restricted	19,894,514	21,783,901	(1,889,387)	(9%)
Unrestricted deficit	(15,063,566)	(10,029,419)	(5,034,147)	50%
Total net assets	\$ 63,972,851	\$ 68,048,316	(\$ 4,075,465)	(6%)



■ 2012 ■ 2011

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

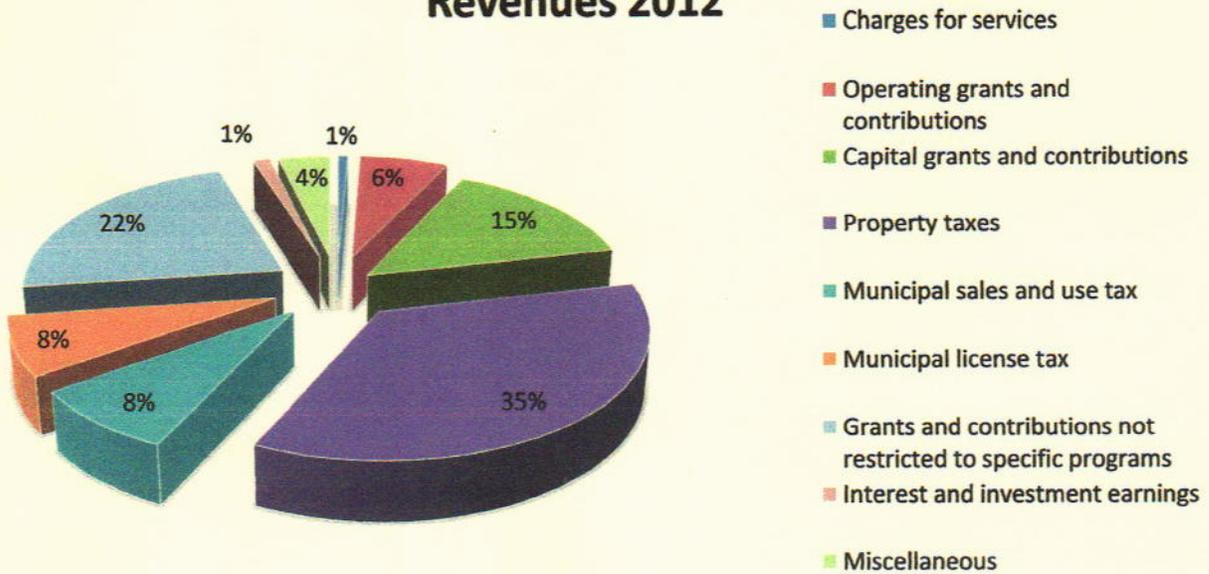
The Municipality's net assets decreased by \$4,075,465. Approximately fifty one percent (51%) of the Municipality's total revenue came from taxes, while forty three percent (43%) resulted from grants and contributions, including federal aid. Charges for Services provided one percent (1%), Interest and Investment earnings (1%) of total revenues. The Municipality's largest expenses included items such as general government, housing, welfare and community development, public works and sanitation, and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2012 and 2011. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2012	2011	Change	%
Program revenues:				
Charges for services	\$ 223,828	\$ 206,096	\$ 17,732	9%
Operating grants and contributions	2,013,934	2,203,787	(189,853)	(9%)
Capital grants and contributions	4,683,490	4,184,535	498,955	12%
General revenues:				
Property taxes	11,326,088	11,317,089	8,999	-
Municipal sales and use tax	2,648,355	2,253,944	394,411	17%
Municipal license tax	2,443,230	2,700,343	(257,113)	(10%)
Grants and contributions not restricted to specific programs	7,089,766	6,719,760	370,006	6%
Interest and investment earnings	379,580	593,547	(213,967)	(36%)
Miscellaneous	1,190,620	969,544	969,544	23%
Total revenues	<u>31,998,891</u>	<u>31,148,645</u>	<u>850,246</u>	<u>3%</u>
Expenses:				
General government	10,002,165	9,099,943	902,222	10%
Public works and sanitation	13,865,518	5,207,785	8,657,733	166%
Public safety	2,743,216	2,409,828	9,635	1%
Culture and recreation	301,865	1,426,245	333,388	14%
Health	5,099,087	2,880,898	2,218,189	77%
Economic development	204,038	271,237	(67,199)	(25%)
Housing, welfare and Community development	1,940,458	1,408,185	532,273	38%
Urban development	355,890	345,779	10,111	3%
Education	32,005	23,951	8,054	34%
Interest on long-term debt	1,530,114	1,323,930	206,184	16%
Total expenses	<u>36,074,356</u>	<u>24,397,781</u>	<u>11,676,575</u>	<u>48%</u>
Change in net assets	(4,075,465)	6,750,864	(10,826,329)	(160%)
Net assets, beginning of year	<u>\$68,048,316</u>	<u>\$61,297,452</u>	<u>6,750,864</u>	<u>11%</u>
Net assets, end of year	<u>\$ 63,972,851</u>	<u>\$ 68,048,316</u>	<u>(\$ 4,075,465)</u>	<u>(6%)</u>

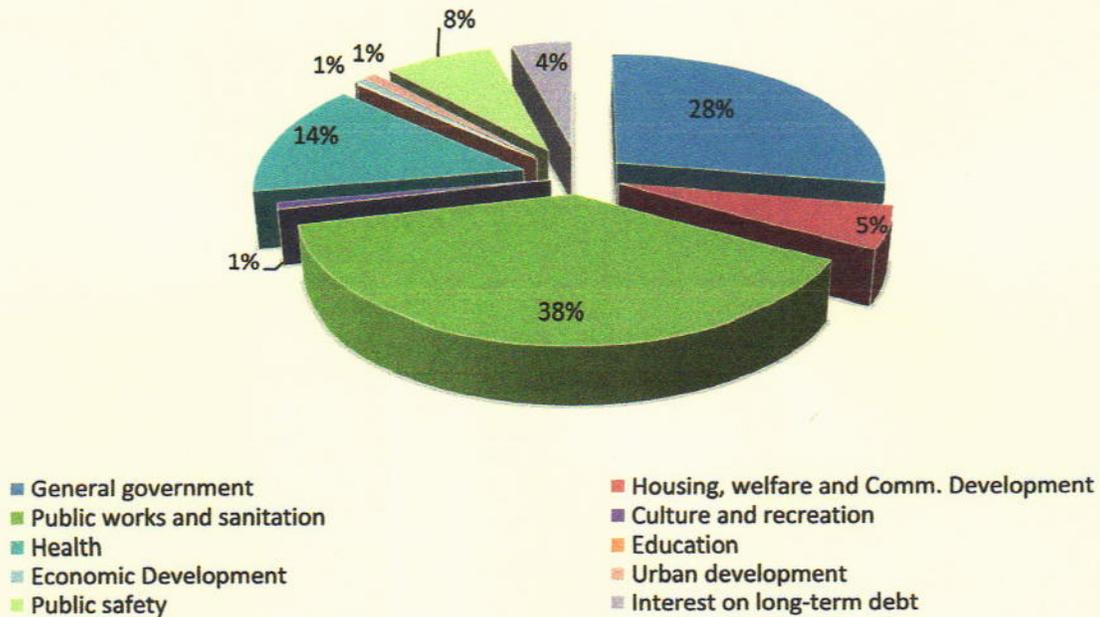
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2012



Expenses 2012



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$20,359,482, which represents a reduction of \$2,239,853 when compared with the prior year. The combined fund balances include restricted fund balance amounting to \$20,704,269. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$1,472,038); 2) to pay for capital projects (\$12,808,654); 3) to pay debt services (\$6,423,577). There are committed fund balance amounting to \$45,411 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose (\$38,857) and; 2) to pay for capital projects (\$6,554). The unassigned fund balance presents an amount of (\$390,198).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2012, the general fund has a deficit of (\$60,841).

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2011-2012, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and the difficult worldwide economic situation, the Budgetary Comparison Schedule- General Fund attached here to, budgetary analysis reflected a deficiency of (\$1,429,597) of total operating revenues over current expenses.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2012, amounted to \$115,783,214 which upon deduction of accumulated depreciation in the amount of \$29,106,311 produced a net book value attributable to capital assets in the amount of \$86,676,903. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately ten percent (10%) of net book value. Depreciation charges for the year totaled \$3,078,911.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2012, the Municipality has \$14,598,814 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities for the city's Convention Center, and other public improvements.

Debt Administration

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64 of July 3, 1996, as amended. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the **Autonomous Municipality of Cabo Rojo**, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2012-2013.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at (787) 851-1025. Feel free to visit our offices during working hours at Cabo Rojo City Hall, Calle Betances #28 Cabo Rojo, P.R., or visit our website at www.ciudadcaborojo.net.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,272,827
Accounts receivable:	
Municipal license tax	43,358
Municipal sales tax	177,888
Rents and construction permits	51,732
Others	75,556
Due from:	
Commonwealth government	1,206,891
Federal government	360,394
Restricted assets:	
Cash and cash equivalents	2,831,436
Cash with fiscal agent	17,642,918
Investments held in commercial banks	8,414,891
Capital assets	
Land, improvements, and construction in progress	37,853,527
Other capital assets, net of depreciation	48,823,376
Total capital assets, net	86,676,903
Total assets	118,754,794
LIABILITIES	
Accounts payable and accrued liabilities	4,762,456
Line of credit payable	70,628
Interest payable	809,755
Due to:	
Commonwealth government	1,108,865
Deferred revenues:	
Municipal license tax	1,547,586
Federal grants	80,729
Other	-
Noncurrent liabilities:	
Due within one year	3,184,655
Due in more than one year	43,217,269
Total liabilities	54,781,943
NET ASSETS	
Invested in capital assets, net of related debt	59,141,903
Restricted for:	
Capital projects	12,808,654
Debt service	5,613,822
Other specified purposes	1,472,038
Unrestricted (deficit)	(15,063,566)
Total net assets	\$ 63,972,851

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
General government	\$ 10,002,165	\$ 126,878	\$ 314,080	\$ -	\$ (9,561,207)
Public safety	2,743,216	96,950	157,096		(2,489,170)
Public works and sanitation	13,865,518			2,903,377	(10,962,141)
Health	5,099,087		1,261,201		(3,837,886)
Culture and recreation	301,865		4,624		(297,241)
Economic development	204,038		204,038		-
Housing, welfare and community development	1,940,458			1,780,113	(160,345)
Urban development	355,890				(355,890)
Education	32,005		72,895		40,890
Interest on long-term debt	1,530,114				(1,530,114)
Total governmental activities	\$ 36,074,356	\$ 223,828	\$ 2,013,934	\$ 4,683,490	(29,153,104)
General revenues:					
Property taxes					11,326,088
Municipal license tax					2,443,230
Municipal sales tax					2,648,355
Licenses, permits, and other local taxes					1,666,947
Grants and contributions not restricted to specific programs					5,422,819
Interest and investment earnings					379,580
Net gain on disposition of capital assets					-
Other					1,190,620
Total general revenues					25,077,639
Change in net assets					(4,075,465)
Net assets - beginning					68,048,316
Net assets - ending					\$ 63,972,851

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
BALANCE SHEET - GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2012

	General Fund	Community Development Block Grant Program	Debt Service Fund	Commonwealth Legislative Resolution	Landfill Improvement Fund	Convention Center Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 1,272,827	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,272,827
Accounts receivable:								
Municipal license tax	43,358							43,358
Municipal sales and use tax	177,888							177,888
Rents and construction permits	51,732							51,732
Others	67,552						8,004	75,556
Due from:								
Commonwealth government	455,949		154,356	24,586	572,000		160,775	1,206,891
Federal government		199,619		141,414				360,394
Other funds (Note D)	347,809							489,223
Restricted assets:								
Cash and cash equivalents	1,468,158	3,202	9,368,976	378,429	135,566	2,514,955	2,314,239	2,831,436
Cash with fiscal agent	621,861							17,642,918
Investment held in commercial banks				7,793,030				8,414,891
Total assets	\$ 4,507,134	\$ 202,821	\$ 9,523,332	\$ 8,337,459	\$ 707,566	\$ 2,514,955	\$ 6,773,847	\$ 32,567,114
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 1,247,678	\$ 195,003	\$ -	\$ 2,386,715	\$ 335,450	\$ -	\$ 597,610	\$ 4,762,456
Line of credit payable	70,628							70,628
Matured bonds and interest payable			3,069,755					3,069,755
Due to:								
Commonwealth government	1,108,865							1,108,865
Other funds	141,414	7,601		124,461			215,747	489,223
Deferred revenues:								
Municipal license tax	1,547,586							1,547,586
Intergovernmental-Commonwealth government	451,804		30,000	24,586	572,000			1,078,390
Federal grants								
Federal grants		217					80,512	80,729
Total liabilities	4,567,975	202,821	3,099,755	2,535,762	907,450		893,869	12,207,632
Fund balances (deficits):								
Restricted	84,062		6,423,577	5,801,697		2,514,955	5,879,978	20,704,269
Committed	45,411							45,411
Unassigned	(190,314)				(199,884)			(390,198)
Total fund balances	(60,841)		6,423,577	5,801,697	(199,884)	2,514,955	5,879,978	20,359,482
Total liabilities and fund balances	\$ 4,507,134	\$ 202,821	\$ 9,523,332	\$ 8,337,459	\$ 707,566	\$ 2,514,955	\$ 6,773,847	\$ 32,567,114

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

**RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2012**

Total Fund Balances - Governmental Funds	\$ 20,359,482
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Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

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

Non Depreciable Capital Assets	\$ 37,853,527	
Depreciable Capital Assets, net of depreciation	<u>48,823,376</u>	
Total Capital Assets		86,676,903

Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:

P.R. Department of Treasury - Christmas bonus reimbursement	174,248
Commonwealth Legislative Resolutions	24,586
Solid Waste Management Authority - grant for municipal landfill	572,000
Sales tax (Debt Service Fund)	30,000
P.R. Department of Labor (Law 52 and Law 82 Funds)	277,556

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

General Bonds and Notes Payable	33,301,000	
Property taxes debt	907,870	
Department of Labor	90,612	
Landfill Closure and post-closure	5,128,275	
Obligation under capital leases	143,851	
Compensated absences	4,152,607	
Christmas bonus	348,495	
Claims and judgment	<u>69,214</u>	
Total Long-Term Liabilities		<u>(44,141,924)</u>

Total Net Assets of governmental activities	<u>\$ 63,972,851</u>
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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	General Fund	Community Development Block Grant	Debt Service Fund	Commonwealth Legislative Resolution	Landfill Improvement Fund	Convention Center Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 7,342,258	\$ -	\$ 3,983,831	\$ -	\$ -	\$ -	\$ -	\$ 11,326,089
Municipal license taxes	2,443,230							2,443,230
Municipal sales and use taxes	2,002,246		646,108					2,648,354
Licenses, permits and other local taxes	1,666,947							1,666,947
Intergovernmental	5,736,898			2,761,330			219,566	8,717,794
Fees, fines and charges for services	104,614							104,614
Rent of property	126,878							126,878
Investment income and interest	379,580	1,951,405					1,210,841	379,580
Federal grants							254,528	3,162,246
Miscellaneous	1,168,632							1,423,160
Total revenues	20,971,283	1,951,405	4,629,939	2,761,330	-	-	1,684,935	31,998,892
Expenditures								
Current:								
General government	8,122,157							8,122,157
Public safety	2,471,681						157,096	2,628,777
Public works and sanitation	9,095,216			5,095,549	65,000		2,627,981	16,883,746
Health	3,906,880	171,292					955,572	5,033,744
Culture and recreation	1,184,793					4,861,032	17,924	6,063,749
Economic development							204,038	204,038
Housing, welfare, and community development	38,360	1,780,113						1,818,473
Urban development	355,890						20,681	355,890
Education								20,681
Debt service:								
Principal			2,335,000					2,335,000
Interest			1,530,114					1,530,114
Total expenditures	25,174,977	1,951,405	3,865,114	5,095,549	65,000	4,861,032	3,983,292	44,996,369
Excess (deficiency) of revenues over (under) expenditures	(4,203,694)	-	764,825	(2,334,219)	(65,000)	(4,861,032)	(2,298,357)	(12,997,477)
Other financing sources (uses)								
Proceed from bond issuance	3,596,000					3,255,000	3,950,000	10,801,000
Bond issuance costs	(15,533)					(12,268)	(15,575)	(43,376)
Transfers in	646,599						5,108	871,223
Transfers out	(224,624)				219,516		(297,278)	(871,223)
Total other financing sources (uses)	4,002,442	-	-	(349,321)	219,516	3,242,732	3,642,255	10,757,624
Net change in fund balances	(201,252)	-	764,825	(2,683,540)	154,516	(1,618,300)	1,343,898	(2,239,853)
Fund balance, beginning	140,411	-	5,658,752	8,485,237	(354,400)	4,133,255	4,536,080	22,599,335
Fund balance, ending	(60,841)	\$ -	\$ 6,423,577	\$ 5,801,697	\$ (199,884)	\$ 2,514,955	\$ 5,879,978	\$ 20,359,482

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (2,239,853)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	11,616,980
Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period.	-
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(3,078,911)
Governmental Funds report capital assets sold as revenues. However, in the Government-Wide Statement of Activities and Changes in Net Assets, Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets.	-
Governmental Funds report the effect of bond issuance costs as expenditures when debt is first issued, and amortized in the Statement of Activities. This amount is the effect of this differences.	6,787
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments.	(8,466,000)
Retirement System Administration payment plan, was reported in the Government-Wide Statement of Activities and Change in Net Assets, Repayment of long term payment plan debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following represented the change in Retirement system administration debt.	55,263
Property tax debt related to current year final liquidation and LIMS repayment plan, was reported in the Government-Wide Statement of Activities and Change in Net Assets, Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following represented the change in property tax debt.	(303,908)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year.	(608,936)
Change in Landfill Accrual	(1,185,971)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This classification includes notes payable, Obligation under capital leases, Christmas bonus, claims and judgements, Payable to PREPA, and other miscellaneous expenses.	129,084
Change in Net Assets of Governmental Activities	<u>\$ (4,075,465)</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Cabo Rojo** (the Municipality) was founded on the year 1771. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

The Municipality's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year ended on June 30, 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, *The Financial Reporting Entity*, of the GASB, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Components Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Pursuant to the provisions set forth by GASB No. 54, the municipality reported the following governmental funds in the accompanying GFFS:

General Fund- is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Community Development Block Grant-is a major governmental fund used to account and report the proceeds of revenues from the US Department of Housing and Urban Development program grants for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. The uses and limitations of this special revenue fund are specified by federal statutes.

Debt Service Fund- is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Commonwealth Legislative Resolutions Fund-is a major governmental fund used to account for and report the proceeds of specific that are legally restricted or committed to expenditure for specific purposes other than debt service or capital project. Revenue sources can be used for the construction and improvement of capital facilities and for welfare purposes.

Landfill Improvement Fund-is used to account for the improvement and land acquisitions to increase capacity of the municipal landfill.

Convention Center Fund-is used to account for the bond proceeds of Governmental Development Bank (GDB) loans for the amounts of \$9,405,000 and \$3,255,000, for construction of the Convention Center in Cabo Rojo, Puerto Rico.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted for a particular purpose.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Section 8 Housing Choice Voucher - Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Fund - Local and State Grants - Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements - The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2012. At June 30, 2012, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

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

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final liquidations of advances made by CRIM to the Municipality corresponding to collections from property taxes and legislative appropriations from the Commonwealth of Puerto Rico plus final liquidation of contributions in lieu of taxes payable by the Puerto Rico Electric Power Authority (PREPA) to the Municipality. Intergovernmental Receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs. The Municipal sales and use tax is collected on a contract basis with the Commonwealth of Puerto Rico Department of Treasury.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>
Land improvements	20 years
Building and building improvements	20-50 years
Infrastructure	20-40 years
Vehicles, machinery and equipment	5 to 15 years

5. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2012 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. Long-term obligations- The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. **Deferred bond issuance costs** – Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

8. **Compensated absences**- Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

9. **Claims and judgments**- The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

10. **Fund Balances**- In the current year, 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 upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered 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:

- a. *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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. *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.
- c. *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 the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications 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 signal 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 formal minimum fund balances amounts as of for the fiscal year ended June 30, 2012.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Net Assets- Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net assets are segregated into three categories:

- a. *Invested in capital assets, net of related debt:* Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. *Restricted net assets:* Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- c. *Unrestricted net assets*: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

12. Accounting for Pension Costs- For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

13. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. *Operating Transfers*- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. *Intra-Entity Transactions*- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

14. Risk financing- The Municipality carries commercial 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 ("CRIM") for the year ended June 30, 2012 amounted to \$370,414. The current insurance policies have not been cancelled or terminated.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2012 amounted to \$444,637.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

15. Use of estimates

The preparation of the basic financial statements in accordance 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 basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. The Municipality decided to invest in debt and marketable securities. Because those investments in debt securities from the Commonwealth of Puerto Rico totaled 88% of total investments, there is a credit risk exposure. Also, the ratings on all Commonwealth debt securities was placed at BBB by Standards & Poor's as of June 30, 2012, two grades before non-investing grade. However, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits and investments is considered low at June 30, 2012.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As of June 30, 2012, the Municipality's investments held in commercial bank consists of the following debt securities:

	<u>Maturities</u>	<u>Fair Values as of June 30, 2012</u>
PR Government Development Bank , subject to extraordinary call.	2/01/2019	\$ 279,785
PR Government Development Bank , continuously callable from 09/01/2011*	8/01/2019	500,185
PR Government Development Bank , continuously callable from 02/01/2013*	8/01/2019	1,458,439
Massachusetts EDL FING Auth. Ed , continuously callable from 07/01/2021*	7/01/2022	402,676
PR Government Development Bank , continuously callable from 02/01/2013*	8/01/2022	301,386
PR Public Finance Corp , Appropriation Ser-A	8/01/2022	399,488
PR Government Development Bank , continuously callable from 02/01/2013*	8/01/2023	1,128,296
PR Government Development Bank , continuously callable from 09/01/2011*	8/01/2025	490,020
PR Government Development Bank , continuously callable from 02/01/2013*	8/01/2026	1,129,421
PR Commw. Aqueduct. and Sewer Auth., continuously callable from 07/01/2015*	7/01/2027	100,949
PR Public Build. Auth., subject to extraordinary call.	7/01/2028	792,430
PR Public Build. Auth., continuously callable from 07/01/2014*	7/01/2029	307,215
PR Elec Power Auth., continuously callable from 07/01/2020*	7/01/2032	513,505
Tennessee VY Auth., continuously callable from 03/15/2013*	3/15/2025	253,783
Tennessee VY Auth., continuously callable from 04/15/2016*	4/15/2032	60,354
Federal Farm CR BKS Cons, continuously callable from 02/22/2013*	2/22/2027	250,628
	Total	<u>\$ 8,368,560</u>

*These bonds are callable on any date after the first call date until its maturity

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The Municipality does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Also, at June 30, 2012, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2012, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB, and in commercial banks (Popular Securities) are uninsured and uncollateralized. However, no losses related to defaults by GDB or Popular Securities, on deposit transactions have been incurred by the Municipality through June 30, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

Cash in Banks—The Municipality's cash and investments at June 30, 2012 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks.

Commonwealth of Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or Puerto Rico's Government. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Government laws.

Under Commonwealth of 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The Municipality's bank balances in commercial banks of approximately \$1,272,827 in the general fund, \$3,202, \$378,429, \$135,566, and \$2,314,239 in the community development block grant, commonwealth legislative resolutions, landfill improvements, and other governmental funds, respectively, were fully collateralized at June 30, 2012. The deposits at GDB of approximately \$1,468,158 in the general fund, \$9,368,976 in the debt service fund, \$2,514,955 that is restricted for the construction of a convention center and, \$4,290,829 that is restricted for other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

Investment held with commercial bank- The investment held with commercial bank consists of \$7,793,030, and \$621,861 undisbursed proceeds of Commonwealth Legislative Resolutions, and General Fund, respectively. The funds with an outstanding balance of \$8,414,891 as of June 30, 2012, earn interest at a variable rate (between 3.34% and 6.05%). The outstanding balance is valued at fair market value.

3. RECEIVABLES

A. *Municipal License Tax*- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. Municipal license tax receivable of \$43,358 represents filed municipal license tax returns that were uncollected as of June 30, 2012, net of allowance for uncollectibles.

B. *Municipal Sales and Use Tax* - Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of \$177,888 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible amounts.

C. *Rents and construction permits* - The Municipality has various facilities which generate rent revenue, and had reported \$4,889 for rents due but not paid as of June 30, 2012. The Municipality imposes a construction permit tax on construction activities performed within its territory, and had reported \$37,370 for eligible construction activities which had not yet paid the tax as of June 30, 2012. Also, fines and forfeitures for \$9,473, are included.

D. *Others* - Other receivables mainly consist of other taxes and accrued interest receivable.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

Amounts due from governmental entities as of June 30, 2012 follows:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

4. DUE FROM (TO) GOVERNMENTAL ENTITIES (CONTINUED)

Commonwealth government:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center ("CRIM") (Debt Service Fund)	\$ 63,631
PR Treasury Department (Christmas bonus)	174,248
PR Treasury Department (Sales and Use Tax-Debt Service Fund)	90,725
PR Department of Labor-Law No.52	242,604
PR Department of Labor-Law No.82	39,097
Commonwealth Legislative Resolutions	24,586
PR Solid Waste Management Authority	<u>572,000</u>
Total	<u>\$ 1,206,891</u>

Federal government:

<u>Governmental Entity</u>	<u>Amount</u>
US Department of Housing and Urban Development-CDBG	\$ 199,619
Child Care Block Grants	159,544
Others	<u>1,231</u>
Total	<u>\$ 360,394</u>

5. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2012, and interfund transfers during the fiscal year ended at June 30, 2012, are summarized as follows:

a. Due from/to other fund and Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	CDBG Programs Fund	Reimbursable Expenditures	\$ 7,601
General Fund	Commonwealth Legislative Resolutions Fund	Reimbursable Expenditures	124,461
General Fund	Other Governmental Funds	Reimbursable Expenditures	215,747
Commonwealth Legislative Resolutions Fund	General Fund	Reimbursable Expenditures	<u>141,414</u>
Total			<u>\$ 489,223</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Landfill Improvement Fund	Capital Projects	\$ 219,516
Commonwealth Legislative Resolutions Fund	General Fund	Transfer of funds	349,321
Other Governmental Funds	General Fund	Reimbursement and Transfer of funds	297,278
General Fund	Other Governmental Funds	Deposit errors	<u>5,108</u>
Total			<u>\$ 871,223</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2012 is as follows:

Governmental Activities:	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 9,940,281	\$ 440,809	\$ -	\$ 10,381,090
Construction in progress	<u>21,042,533</u>	<u>8,131,329</u>	<u>(1,701,425)</u>	<u>27,472,437</u>
Total capital assets not being depreciated	<u>30,982,814</u>	<u>8,572,138</u>	<u>(1,701,425)</u>	<u>37,853,527</u>
Capital assets, being depreciated:				
Land improvements	2,727,093	751,000		3,478,093
Buildings and building improvements	35,295,309	894,183		36,189,492
Infrastructure	23,709,602	1,965,257		25,674,859
Vehicles, machinery and equipment	<u>11,451,416</u>	<u>1,135,827</u>	<u>-</u>	<u>12,587,243</u>
Total capital assets being depreciated	<u>73,183,420</u>	<u>4,746,267</u>	<u>-</u>	<u>77,929,687</u>
Less accumulated depreciation for:				
Land improvements	(1,963,073)	(145,406)		(2,108,479)
Buildings and building improvements	(8,293,801)	(1,002,777)		(9,296,578)
Infrastructure	(9,575,638)	(1,135,423)		(10,711,061)
Vehicles, machinery and equipment	<u>(6,194,888)</u>	<u>(795,305)</u>	<u>-</u>	<u>(6,990,193)</u>
Total accumulated depreciation	<u>(26,027,400)</u>	<u>(3,078,911)</u>	<u>-</u>	<u>(29,106,311)</u>
Total capital assets being depreciated, net	<u>47,156,020</u>	<u>1,667,356</u>	<u>-</u>	<u>48,823,376</u>
Governmental activities capital assets, net	<u>\$ 78,138,834</u>	<u>\$ 10,239,494</u>	<u>\$ (1,701,425)</u>	<u>\$ 86,676,903</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 438,405
Public works and sanitation	1,485,266
Public safety	170,068
Culture and recreation	844,711
Health	628
Welfare and community development	126,424
Education	<u>13,409</u>
Total depreciation expense-governmental activities	<u>\$ 3,078,911</u>

7. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center ("CRIM"), a governmental entity created by the government of Puerto Rico as part of the Municipal Legislation approved in August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections, as modified by the quarterly revisions of estimates required by law. The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. 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. The CRIM issued the preliminary settlement noting that the advances exceeded collections by \$641,184. This balance will be retained by the CRIM during fiscal year 2013-2014. Those amounts are presented in the government wide financial statements.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. PROPERTY TAXES (CONTINUED)

On June 26, 1997, Public Law No. 21 was enacted, authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. During the first five years of the note, commenced in July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. As of June 30 2012, the related unpaid property tax advances included in the Statement of Net Assets amounted to \$266,686.

The annual tax rate is 10.08% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 5.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 3.25% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. MUNICIPAL SALES AND USE TAX

On July 4, 2006, the Commonwealth Legislature approved Act. No. 117 ("Act 117") which amends the Puerto Rico Internal revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically impose over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax effective on November 15, 2006.

On July 29, 2007, the Commonwealth of Puerto Rico Legislature approved Act No. 80 ("Act 80") which amends Act No. 117 of July 4, 2006 to impose to all municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective on August 1, 2007 1% of the 1.5% is collected by the Municipality's and the remaining .5% of the 1.5% is collected by the Puerto Rico

Department of the Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs

Amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank ("GDB"), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- .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;
- .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; this funds will be distributed based on legislation from the Commonwealth's Legislature

8. MUNICIPAL SALES AND USE TAX (CONTINUED)

The Municipal Legislature amended Municipal Ordinance No. 3 Series 2006-2007 to conform

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

to dispositions of Act 80.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month.

The Municipality collected \$2,002,246 during the year ended June 30, 2012. Also, \$646,108 from the Municipal Redemption Fund are included in the Debt Service Fund.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 are summarized as follows:

Description	General Fund	Community Development Block Grant Funds	Debt Service Fund	Commonwealth Legislative Resolutions Fund	Landfill Improvement Fund	Convention Center Fund	Other Governmental Funds	Total
Accounts payable	\$ 602,085	\$ 195,003	\$ -	\$ 2,386,715	\$ 335,450	\$ -	\$ 597,610	\$ 4,116,863
Accrued liabilities	<u>645,593</u>	-	-	-	-	-	-	<u>645,593</u>
Total	<u>\$ 1,247,678</u>	<u>\$ 195,003</u>	<u>\$ -</u>	<u>\$ 2,386,715</u>	<u>\$ 335,450</u>	<u>\$ -</u>	<u>\$ 597,610</u>	<u>\$ 4,762,456</u>

10. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	\$ 4,479
Municipal Revenue Collection Center ("CRIM")	1,034,288
Government of Puerto Rico Employee Association (AEGPR)	15,182
Puerto Rico Aqueduct and Sewer Authority	<u>54,916</u>
Total	<u>\$ 1,108,865</u>

11. LINE OF CREDIT

In July 2010, the Municipality entered into a \$809,948.93 line of credit with a commercial bank for the acquisition of equipment for various departments and facilities. The line has a term of one year and will bear an interest of 2% of "Broker Call Rate" for a balance of over \$500,000. An investment of \$7,550,000 with the same institution will serve as collateral. Line of credit activity for the year ended June 30, 2012, was as follows:

Beginning balance	\$ 269,949
Additions	-
Reductions	<u>(199,321)</u>
Ending balance	<u>\$ 70,628</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

12. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$1,547,586 in the general fund relates to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

B. Commonwealth Government- Deferred revenues from the Commonwealth Government represent revenues not available as required by current standards. A detail of those balances follows:

<u>Major fund-General Fund:</u>	<u>Amount</u>
P.R. Department of Treasury-Christmas Bonus reimbursement	\$ 174,247
P.R. Department of Labor –Law No. 52	238,458
P.R. Department of Labor –Law No. 82	39,099
<u>Major fund-Debt Service Fund:</u>	
P.R. Department of Treasury – sales and use taxes (debt service fund)	30,000
<u>Major fund-Commonwealth Legislative Resolutions Fund:</u>	
Commonwealth Legislative Resolutions	24,586
<u>Major fund-Landfill Improvement Fund:</u>	
P.R. Solid Waste Management Authority	<u>572,000</u>
Total	<u>\$ 1,078,390</u>

C. Federal Government- The deferred revenues represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Community development block grant fund</u>	<u>Amount</u>
Homelessness Prevention and Rapid Re-housing Program	\$ <u>217</u>
Total	<u>\$ 217</u>

Other governmental funds

	<u>Amount</u>
Office of Elderly Affairs	\$ 22,324
Edward Byrnes Justice Department Block Grant	15,362
Homeland Security Grant Program	41,605
Others	<u>1,221</u>
Total	<u>\$ 80,512</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General, Special Obligations Bonds and Notes	\$26,375,000	\$10,801,000	\$(1,615,000)	\$ 35,561,000	\$ 2,338,000
Notes payable to CRIM-LIMS	45,043	-	(45,043)	-	-
Note payable to CRIM-Financing of delinquent accounts	280,020	-	(13,334)	266,686	13,334
Note payable to P.R. Department of Labor	181,224	-	(90,612)	90,612	90,612
Landfill Closure and Post- Closure costs	3,942,304	1,185,971	-	5,128,275	-
Note payable to ERS	55,263	-	(55,263)	-	-
Obligation under capital leases	174,194	143,851	(174,194)	143,851	-
Compensated absences	3,543,671	999,634	(390,698)	4,152,607	325,000
Christmas bonus	379,406	348,495	(379,406)	348,495	348,495
Claims and judgments	46,432	27,282	(4,500)	69,214	69,214
Payable to CRIM-excess of property tax advances over actual collections	278,900	641,184	(278,900)	641,184	-
Total	<u>\$35,301,457</u>	<u>\$14,147,417</u>	<u>\$(3,046,950)</u>	<u>\$ 46,401,924</u>	<u>\$ 3,184,655</u>

- 1. General and special obligation bonds and notes** – The Municipality’s outstanding general and special obligation bonds and notes at June 30, 2012 amount to \$35,561,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a “Municipal Redemption Fund” to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES (CONTINUED)

A detail of the general and special obligation bonds and notes as of June 30, 2012 follows:

Description	Outstanding Amount
1992 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5.0 %	\$ 226,000
1993 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5.0 %	144,000
1997 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	310,000
1997 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	705,000
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 5.86% to 6.56% (5.86% at June 30, 2011)	575,000
1999 general obligation bonds of \$1,310,000 due in annual installments ranging from \$50,000 to \$140,000 through July 1, 2013; bearing interest rates ranging from 5.86% to 6.11% (5.86% at June 30, 2011)	270,000
2000 general obligation bonds of \$2,040,000 due in annual installments ranging from \$80,000 to \$215,000 through July 1, 2014; bearing interest at rates ranging from 4.30% to 4.73% (4.30% at June 30, 2011)	600,000
2003 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest at rates ranging from 4.30% to 5.60% (4.30% at June 30, 2011)	3,415,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	405,000
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	435,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Amount
2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	820,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$40,000 to \$65,000 through July 1, 2014; bearing interest at rates ranging from 4.36% to 4.73% (4.50% at June 30, 2011)	180,000
2006 general obligation bonds of \$850,000 due in annual installments ranging from \$100,000 to \$145,000 through July 1, 2012; bearing interest at rates ranging from 1.53438% to 7.00% (1.53438% at June 30, 2011)	145,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest at rates ranging from 4.36% to 5.31% (4.50% at June 30, 2011)	315,000
2006 general obligation note of \$1,775,000 due in annual installments ranging from \$200,000 to \$315,000 through July 1, 2013; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	605,000
2007 general obligation note of \$710,000 due in annual installments ranging from \$80,000 to \$125,000 through July 1, 2014; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	350,000
2008 general obligation note of \$1,850,000 due in annual installments ranging from \$45,000 to \$175,000 through July 1, 2028; bearing interest at rates ranging from 1.53438% to 7.50% (1.53438% at June 30, 2011)	1,710,000
2010 general obligation bonds of \$9,405,000 due in annual installments ranging from \$135,000 to \$785,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50%.	9,120,000
2011 special obligation bonds of \$4,530,000 due in annual installments ranging from \$100,000 to \$415,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50%.	4,430,000
2012 general obligation bonds of \$3,255,000 due in annual installments ranging from \$45,000 to \$270,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	3,255,000
2012 general obligation bonds of \$1,040,000 due in annual installments ranging from \$15,000 to \$90,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	1,040,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Amount
2012 special obligation bonds of \$2,556,000 due in annual installments ranging from \$100,000 to \$271,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50%.	2,556,000
2012 general obligation note of \$1,580,000 due in annual installments ranging from \$175,000 to \$275,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50%.	1,580,000
2012 general obligation note of \$2,370,000 due in annual installments ranging from \$270,000 to \$420,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50%.	<u>2,370,000</u>
Total	<u>\$35,561,000</u>

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,338,000	\$ 1,765,007
2014	2,357,000	1,992,615
2015	2,051,000	1,995,196
2016	1,767,000	1,900,176
2017	1,827,000	1,805,018
2018-2022	7,270,000	7,435,459
2023-2027	8,146,000	5,107,665
2028-2032	6,040,000	2,455,661
2033-2037	<u>3,765,000</u>	<u>566,438</u>
Total	<u>\$ 35,561,000</u>	<u>\$ 25,023,235</u>

1. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2012 as described in Note 7.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES (CONTINUED)

2. **Compensated absences-** The government-wide statement of net assets includes approximately \$2,276,812 of accrued sick leave benefits, and approximately \$1,549,206 of accrued vacation benefits, and approximately \$326,589 for compensatory leave benefits, representing the Municipality's commitment to fund such costs from future operations.

3. **Operating leases-**The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality's financial statements.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2013	\$ 72,812
2014	37,199
2015	25,344
2016	12,988
2017	3,250
Amount Representing interest	<u>(7,742)</u>
Total minimum payments required	<u>\$ 143,851</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

13. LONG-TERM LIABILITIES (CONTINUED)

4. **Christmas Bonus**- represents the accrued portion corresponding to fiscal year 2011-2012 of the Christmas bonus to be paid in December 2012.
5. **Claims and Judgments** - represent the final settlement of legal cases paid subsequent to June 30, 2012. The awarded amount will be paid with unrestricted funds.
6. **Payable to CRIM, property tax advances** - represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes.
7. **Department of Labor Repayment Plan**- This amount relates to an unemployment insurance debt. The Municipality agrees to repay the total of \$271,836 including interests, by an agreement signed in June, 2010. In this agreement, the Municipality accepted the debt for the total of \$297,336 and requests a payment plan to liquidate the debt in 36 monthly payments. As of June 30, 2012, the debt balance amounted to \$90,612.
8. **Landfill closure and post-closure costs** -See Note 15.

14. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Government of Puerto Rico's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities.

Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

14. PENSION PLAN (CONTINUED)

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation 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 1, 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. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a 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.

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

14. PENSION PLAN (CONTINUED)

Funding Policy

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

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2012	\$ 429,746	\$ 342,949
2011	\$ 408,788	\$ 299,129
2010	\$ 438,951	\$ 295,313

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, PR 00940-2003.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

15. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATIONS

State and federal laws and regulations require the Municipality to place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfills sites for a minimum of thirty (30) years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$ 5,128,275 reported as landfill postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 25 percent of the estimated capacity of the landfill. The Municipality will recognize the remaining estimated cost of closure and postclosure care of \$ 9,928,125 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all postclosure care in 2012. The Municipality expects to close the landfill in 2042. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The Municipality has reserved \$14,507 as of June 30, 2012 to finance future closure and post closure care costs of this solid waste landfill. This reserve has been created by legislation. However, if the reserve is inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenues.

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills in 1994. Since the Municipality has no legal claim over the property, final responsibility for the site has not been established and no amount of closure and postclosure care costs for this site was accrued.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

16. FUND BALANCE (DEFICIT)

As of June 30 2012, fund balance (deficit) is comprised of the following:

Fund Balance (Deficit)	General Fund	Community Development Block Grant Program	Debt Service Fund	Commonwealth Legislative Resolutions	Landfill Improvement Fund	Convention Center Fund	Other Governmental Funds	Total
Restricted for:								
General Government Welfare and Community Development	\$ 80,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,140
Public Works and Sanitation	3,922						328,589	332,511
Public Safety							966,115	966,115
Capital Projects				5,801,697		2,514,955	93,272	93,272
Debt Service			6,423,577				4,492,002	12,808,654
								6,423,577
Committed:								
Health	22,202							22,202
Public Works	16,655							16,655
Capital Projects	6,554							6,554
Unassigned	(190,314)				(199,884)			(390,198)
Total Fund Balance (Deficit)	\$ (60,841)	\$ -	\$ 6,423,577	\$ 5,801,697	\$ (199,884)	\$ 2,514,955	\$ 5,879,978	\$ 20,359,482

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

17. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Public Insurance Department 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. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

18. COMMITMENTS AND CONTINGENCIES

A. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2012, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

B. Claims and lawsuits:

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$69,214 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

C. Construction:

The Municipality has commitments at June 30, 2012 of approximately \$2.6 millions for construction, improvements or renovations of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

18.COMMITMENTS AND CONTINGENCIES (CONTINUED)

D. Other commitments:

At June 30, 2012 the general fund had commitments of approximately \$500,533 for executory purchase orders or contracts that will be honored during the subsequent year.

19.FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2012:

- a. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. The requirements of this statement are effective for periods beginning after June 15, 2012.
- b. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- c. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- d. GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- e. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- f. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2012

	<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>
REVENUES:				
Property taxes	\$ 7,342,258	\$ 7,342,258	\$ 7,342,258	\$ -
Municipal license tax	2,700,000	2,700,000	2,401,295	(298,705)
Municipal use and sales tax	2,500,000	2,500,000	1,995,816	(504,184)
Intergovernmental	5,186,425	5,500,505	5,308,454	(192,051)
Fees, fines and charges for services	2,925,000	2,925,000	2,300,269	(624,731)
Interest	600,000	600,000	363,841	(236,159)
Other	<u>1,000,000</u>	<u>1,000,000</u>	<u>746,324</u>	<u>(253,676)</u>
Total revenues, including budget carryover	<u>22,253,683</u>	<u>22,567,763</u>	<u>20,458,257</u>	<u>(2,109,506)</u>
EXPENDITURES:				
Current:				
General government	6,916,579	7,494,120	7,597,732	(103,612)
Public safety	2,810,625	2,550,041	2,473,210	76,831
Public works and sanitation	8,173,434	8,272,011	8,061,227	210,784
Health	900,768	900,768	800,489	100,279
Culture and recreation	1,507,575	1,499,630	1,182,907	316,723
Welfare and community development	1,899,702	1,975,583	1,900,719	74,864
Education	<u>35,000</u>	<u>35,000</u>	<u>30,960</u>	<u>4,040</u>
Total expenditures	<u>22,243,683</u>	<u>22,727,153</u>	<u>22,047,244</u>	<u>679,909</u>
OTHER FINANCING SOURCES (USES):				
Transfer in	-	159,390	159,390	-
Transfer out	<u>10,000</u>	-	-	-
Total other financing sources (uses):	<u>(10,000)</u>	<u>159,390</u>	<u>159,390</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,429,597)</u>	<u>\$ (1,429,597)</u>

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 20,617,647
Differences-budget to GAAP:	
Long term debt issued, net of bond issuance costs	3,580,467
Non-budgeted transfer in	487,209
Revenues recorded in the accrual basis for financial reporting purposes but not in current year budget	<u>513,026</u>

Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances

\$ 25,198,349

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 22,047,244
Differences-budget to GAAP:	
Expenditures recorded in the accrual basis for financial reporting purposes, whose financing Sources were not included in the current year budget	3,476,968
Non-budgeted transfer out	224,624
Prior year encumbrances recorded as current year expenditures for GAAP basis	151,298
Current year encumbrances recorded as expenditures for budgetary purposes	<u>(500,533)</u>

Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances

\$ 25,399,601

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2012

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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 ordinance at June 30, 2012 representing original budget. There were no supplemental appropriations for the year ended June 30, 2012.

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

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Cabo Rojo, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the Municipality of Cabo Rojo and others within the entity, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
March 15, 2013

González Torres & Co., CPA, PSC
GONZÁLEZ TORRES & CO., CPA, PSC
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The stamp number 2672862
was affixed to the original report.



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

The Honorable Mayor, Members of the
Municipal Legislature and People of
the Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited Municipality of Cabo Rojo's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Municipality of Cabo Rojo's major federal programs for the year ended June 30, 2012. Municipality of Cabo Rojo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of Cabo Rojo's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Cabo Rojo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Cabo Rojo's compliance with those requirements.

In our opinion, Municipality of Cabo Rojo complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item Finding 2012-01.

Internal Control Over Compliance

Management of Municipality of Cabo Rojo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Cabo Rojo's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

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

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Cabo Rojo's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items Finding 2012-01. 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.

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

This report is intended for the information and use of management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
March 15, 2013

González Torres CPA, PSC
GONZÁLEZ TORRES & CO., CPA, PSC
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Expires December 1, 2014

The stamp number 2672863
was affixed to the original report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

	CFDA NUMBER	TOTAL FEDERAL EXPENDITURE PER PROGRAM
U.S. Department Of Agriculture		
Child And Adult Care Food Program Pass Through Department Of Education	10.558	\$ 17,063
<i>Total U.S. Department Of Agriculture</i>		<u>17,063</u>
U.S. Department Of Housing And Urban Development		
Community Development Block Grant-Entitlement Grants	14.218	1,762,003
Community Development Block Grant-Recovery Entitlement Grants	14.253	18,110
Seccion 8 Housing Choice Vouchers	14.871	509,375
Homelessness Prevention And Rapid Re-Housing Program	14.257	171,292
<i>Total U.S. Department Of Housing And Urban Development</i>		<u>2,460,780</u>
U.S. Department Of Justice		
Edward Byrne Memorial Justice Assistance Grant Program (EBJAG) Pass Through Commonwealth Of Puerto Rico-Department Of Justice	16.803	59,638
<i>Total U.S. Department Of Justice</i>		<u>59,638</u>
U.S. Department Of Energy		
Energy Efficiency And Conservation Block Grant Program	81.128	204,038
<i>Total U.S. Department Of Energy</i>		<u>204,038</u>
U.S. Department Of Health and Human Services		
Special Programs For Aging - Title III, Part B - Grant For Supportive Services And Senior Center Pass Through Commonwealth Of Puerto Rico - Governors Office (Elderly Office)	93.044	77,543
Child Care And Development Block Grant Pass Through The Commonwealth Of Puerto Rico - Family Department:	93.575	188,741
<i>Total U.S. Department Of Health and Human Services</i>		<u>266,284</u>
U.S. Department Of Homeland Security		
Homeland Security Grant Program Pass Through Office For Domestic Preparedness	97.067	171
Homeland Security Grant Program (Operation Stonegarden) Pass Through Governor's Office (Office Of Public Safety Affairs)	97.067	97,458
<i>Total U.S. Department Of Homeland Security</i>		<u>97,629</u>
Total		<u>\$ 3,105,432</u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of the Municipality of Cabo Rojo of the Commonwealth of Puerto Rico. The Municipality of Cabo Rojo reporting entity is defined in Note 1 to the Municipality's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of Municipality of Cabo Rojo and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information of this schedule is presented in accordance with the requirements of the OMB Circular A-133, Audit of State, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparations of the basic financial statements.

3. FEDERAL CFDA NUMBER

The CFDA number included in this schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Assistance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

Material weakness identified? Yes ___ No X

Significant deficiencies identified not considered to be material weaknesses? Yes ___ No X

Noncompliance material to financial statements noted? Yes ___ No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes ___ No X

Significant deficiencies identified not considered to be material weaknesses? Yes ___ No X

Type of auditors' report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No ___

Identification of major program

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant - Entitlements Grants (State Administered Small Cities Program)
14.248	Community Development Block Grant, Section 8 Loan Guarantee
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000*
Auditee qualified as low-risk auditee?	Yes ___ No <u>X</u>
Waive risk criteria under 520 (i) of Circular A-133?	Yes ___ No <u>X</u>

*Or less amount when ARRA funds were disbursed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

NONE

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-01

Federal program:

CFDA 14.218 **COMMUNITY DEVELOPMENT BLOCK**
GRANTS/ENTITLEMENT GRANTS

Category

Compliance / Internal control

Compliance requirements

Reporting

Condition found

As part of our audit we perform a reporting test for the CDBG Program that consisted in reviewing the Applicable reports and its timely submission to the corresponding agencies

For the period ended in June 30, 2012 the Municipality does not have evidence of submission for three of the four quarterly reports they should have submitted during the year.

Criteria

According to A-133 Compliance Supplement, the following reports must be submitted to the federal agency:

1. **Financial Reporting**
 - d. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* – Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee’s program year. Auditors are only expected to test information extracted from IDIS in the following system-generated reports:
 - (1) C04PR03 – Activity Summary Report
 - (2) C04PR26 – CDBG Financial Summary

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

2. **Performance Reporting**

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, (OMB No. 2529-0043) – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002. (24 CFR sections 135.3(a), 135.90, and 570.607).

Key Line Items –

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
 - (1) A. Total dollar amount of construction contracts awarded on the project
 - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
 - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts
 - (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
 - (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
 - (3) D. Total number of Section 3 businesses receiving non-construction contracts

Effect

The conditions, if not corrected, could result in material noncompliance with laws and regulations of the Program Requirements.

Questioned costs

Undetermined

Recommendations

The Municipality should maintain in its records evidence of all reports submissions to the federal agencies.

Management Response

See Corrective Action Plan

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SUMMARY OF PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

NONE