



Lcdo. William Miranda Martín
Alcalde

ESTADO LIBRE ASOCIADO DE PUERTO RICO
MUNICIPIO AUTÓNOMO DE CAGUAS

09-09-2009

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1 de julio de 2009

POR MENSAJERO

Sra. Maurín Calderón Alers
Examinadora Asuntos Fiscales Municipales
Oficina Centro de Asuntos Municipales (OCAM)
Avenida Ponce de León 255, Esquina Bolivia
Edificio MCS Plaza, Ofic. 600, Piso 6
Hato Rey, Puerto Rico

RE: ESTADOS FINANCIEROS – 30 DE JUNIO 2008

Estimada señora Calderón Alers:

Acompañamos copia de los Estados Financieros de nuestro Municipio al 30 de junio de 2008, según solicitado por usted mediante llamada telefónica el 25 de junio de 2009.

Cualquier duda o pregunta sobre el particular, favor de comunicarse al (787) 653-8833, extensiones 2715 o 2701.

Cordialmente,

Diana M. Claudio Sauri
Diana M. Claudio Sauri, CPA
Directora
Oficina de Auditoría Interna

Anejo



Accountants &
business advisers

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS**

FINANCIAL STATEMENTS
(with Independent Auditors' Report Thereon)

**FISCAL YEAR ENDED
JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Municipal Legislature
Commonwealth of Puerto Rico
Municipality of Caguas
Caguas, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Caguas as of and for the fiscal year ended June 30, 2008, 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 an opinion 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 the Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico, Municipality of Caguas as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.



Accountants &
business advisers

To the Honorable Mayor and
Members of the Municipal Legislature
Commonwealth of Puerto Rico
Municipality of Caguas
Page 2

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2008 on our consideration of the Municipality of Caguas'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information for the general fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



December 23, 2008
San Juan, Puerto Rico

PKF, LLP
License No. 22
Expires December 1, 2010



To the Citizens and the Municipal Legislature
of the Municipality of Caguas

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis
June 30, 2008

As management of the Autonomous Municipality of Caguas (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of the Municipality exceeded its liabilities at the close of the fiscal year by \$421,492,587 (*net assets*).
- The government's total net assets increased by \$47,413,400, primarily due to an increase in assets of \$62,750,008 less an increase in liabilities by \$15,336,608.
- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$69,751,070, after a net decrease in fund balance of \$16,783,596. The amount of \$21,440,725 available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,219,413, or 2.31 percent of total general fund expenditures for the fiscal year.
- The Municipality's total general long-term debt increased by \$16,478,420 during the current fiscal year. The key factors to this increase were the \$6.802 million in bonds issuance and \$18.570 million of special loans used for infrastructure development.

Overview of the Financial Statements

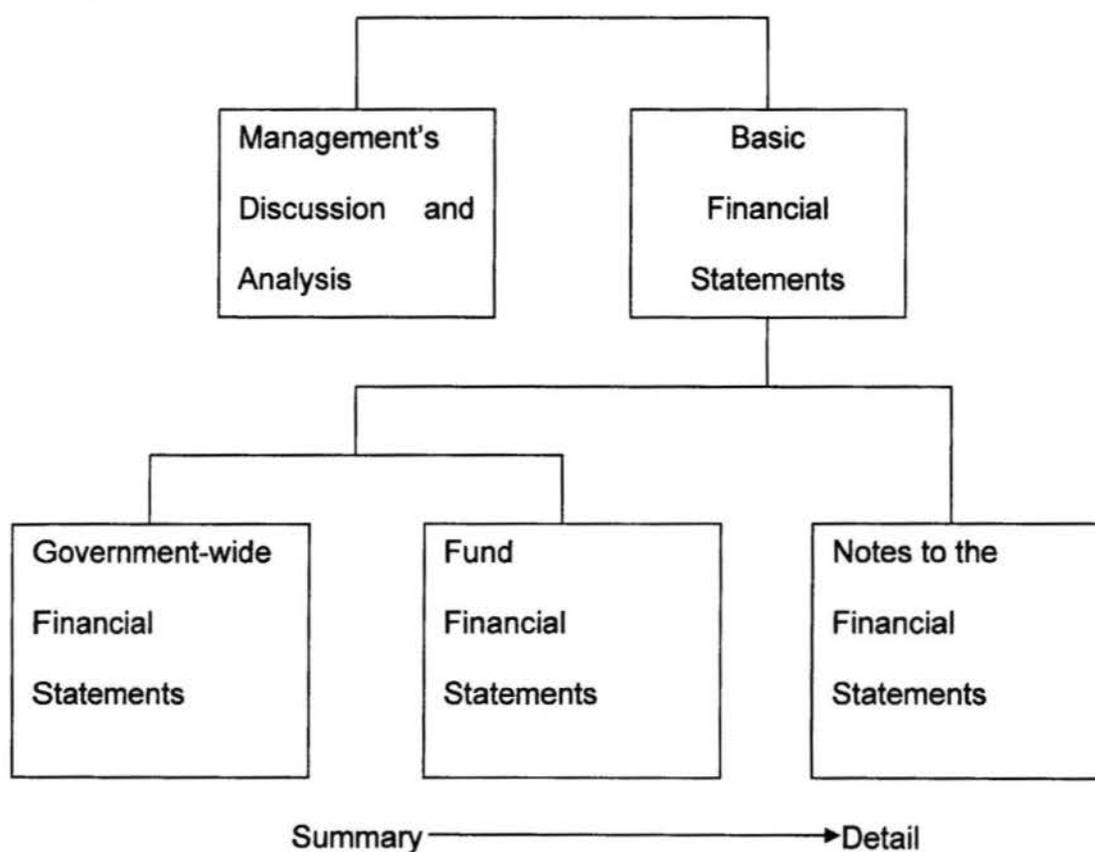
This discussion and analysis are intended to serve as an introduction to The Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Municipality through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Pages 16 through 18) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Municipality's financial status.

The next statements (Pages 19 through 29) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes to the financial statements**. The notes to the financial statements explain in detail some of the data contained in those statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Municipality's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Municipality's financial status as a whole.

The *Statement of Net Assets* presents information on all of the Municipality of Caguas's assets and liabilities, with the difference between the two 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 of Caguas 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit, if any). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various Municipality activities and the degree to which activities are subsidized by general revenues.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Municipality's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Municipality charges directly to users to provide the service. These include Community Development Bank and Multi-tenant fund.

The government-wide financial statements are included from pages 16 through 18 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Municipality's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Municipality's budget ordinance. All of the funds of the Municipality can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Municipality's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Municipality's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements (see page 21).

The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Municipality, the management of the Municipality, and the decisions of the Municipal Legislature about which services to provide and how to pay for them. It also authorizes the Municipality to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Municipality complied with the budget ordinance and whether or not the Municipality succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the municipal legislature; 2) the final budget as amended by the municipal legislator; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges (see page 25).

Proprietary Funds – The Municipality has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Municipality uses enterprise funds to account for its Government Development Bank activity and for its multi-tenant operations. These funds are the same as those separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities (see Pages 26 through 29).

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on pages 30 through 65 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Municipality exceeded liabilities by \$421,492,587 as of June 30, 2008. The Municipality's net assets increased by \$47,413,400 for the fiscal year ended June 30, 2008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

One of the largest portions (84.85%) reflects the Municipality's investment in capital assets (e.g. land, buildings, infrastructure, and equipment), less any related debt still outstanding that was issued to acquire those items. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Municipality's net assets (11.89%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$13,742,399 is unrestricted.

The Municipality's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 124,300,017	\$ 134,798,767	\$ 2,842,512	\$ 3,414,352	\$ 127,142,529	\$ 138,213,119
Capital assets	533,978,824	465,859,960	13,006,233	7,754,461	546,985,057	473,614,421
Loan receivable, net	-	-	2,850,537	2,400,575	2,850,537	2,400,575
Total assets	<u>658,278,841</u>	<u>600,658,727</u>	<u>18,699,282</u>	<u>13,569,388</u>	<u>676,978,123</u>	<u>614,228,115</u>
Current liabilities	59,397,833	56,949,576	157,736	157,931	59,555,369	57,107,507
Other liabilities	195,774,211	182,761,986	155,956	279,435	195,930,167	183,041,421
Total liabilities	<u>255,171,844</u>	<u>239,711,562</u>	<u>313,692</u>	<u>437,366</u>	<u>255,485,536</u>	<u>240,148,928</u>
Net assets:						
Invested in capital assets, net of related debt	344,613,386	293,057,489	13,006,233	7,754,461	357,619,619	300,811,950
Restricted	50,130,569	59,016,483	-	5,377,561	50,130,569	64,394,044
Unrestricted	8,363,042	8,873,193	5,379,357	-	13,742,399	8,873,193
Total net assets	<u>\$ 403,106,997</u>	<u>\$ 360,947,165</u>	<u>\$ 18,385,590</u>	<u>\$ 13,132,022</u>	<u>\$ 421,492,587</u>	<u>\$ 374,079,187</u>

Figure 2

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 614,207	\$ 4,626,334	\$ 358,703	\$ 510,408	\$ 972,910	\$ 7,082,562
Operating grants and contributions	31,614,880	31,160,356	-	-	31,614,880	31,160,356
Capital grants and contributions	60,901,514	17,467,339	1,061,000	1,710,000	61,962,514	19,177,339
General revenues:						
Property taxes	53,966,882	53,882,740	-	-	53,966,882	53,882,740
Volume of business	25,672,625	29,428,186	-	-	25,672,625	29,428,186
Sales tax	18,978,615	19,510,957	-	-	18,978,615	19,510,957
Licenses and permits	4,463,529	8,902,337	-	-	4,463,529	8,902,337
Interest and investment income	3,203,796	3,135,304	59,075	105,112	3,262,871	3,240,416
Indirect costs	750,000	-	-	-	750,000	-
Other	1,021,244	-	-	-	1,021,244	-
Total revenues	201,187,292	168,113,553	1,478,778	2,325,520	202,666,070	172,384,893
Expenses:						
General government	36,885,789	46,092,597	-	-	36,885,789	46,092,597
Public safety	10,734,003	9,272,095	-	-	10,734,003	9,272,095
Public works	25,560,207	41,441,711	-	-	25,560,207	41,441,711
Cultural and recreation	12,403,733	7,804,848	-	-	12,403,733	7,804,848
Health and welfare	15,819,886	15,630,447	-	-	15,819,886	15,630,447
Economic development	5,378,274	6,327,654	-	-	5,378,274	6,327,654
Housing	12,405,463	10,959,641	-	-	12,405,463	10,959,641
Sanitation and environmental	15,109,993	13,263,809	-	-	15,109,993	13,263,809
Education	16,545,308	14,076,737	-	-	16,545,308	14,076,737
Debt service	11,775,259	10,472,894	-	-	11,775,259	10,472,894
Community Development Bank	-	-	195,895	249,921	195,895	249,921
Multitenant	-	-	206,873	165,216	206,873	165,216
Total expenses	162,617,915	175,342,433	402,768	415,137	163,020,683	175,757,570
Increase (decrease) in net assets before transfer	38,569,377	(7,228,880)	1,076,010	1,910,383	39,645,387	(5,318,497)
Transfer - in (out)	(276,682)	(547,075)	276,682	547,075	-	-
Net increase (decrease) in net assets	38,292,695	(7,775,955)	1,352,692	2,457,458	39,645,387	(5,318,497)
Net assets, beginning as previously reported	360,947,165	243,966,970	13,132,022	12,303,143	374,079,187	256,270,113
Prior period adjustments	3,867,137	124,756,150	3,900,876	(1,628,579)	7,768,013	123,127,571
Net assets, beginning as restated	364,814,302	368,723,120	17,032,898	10,674,564	381,847,200	379,397,684
Net assets, ending	\$ 403,106,997	\$ 360,947,165	\$ 18,385,590	\$ 13,132,022	\$ 421,492,587	\$ 374,079,187

The Municipality's Changes in Net Assets

Figure 3

Governmental activities. Governmental activities increased the Municipality's net assets (as restated) by \$41,883,150, thereby accounting for 88.85% of the total growth in the net assets of the Municipality. Key elements of this increase are as follows:

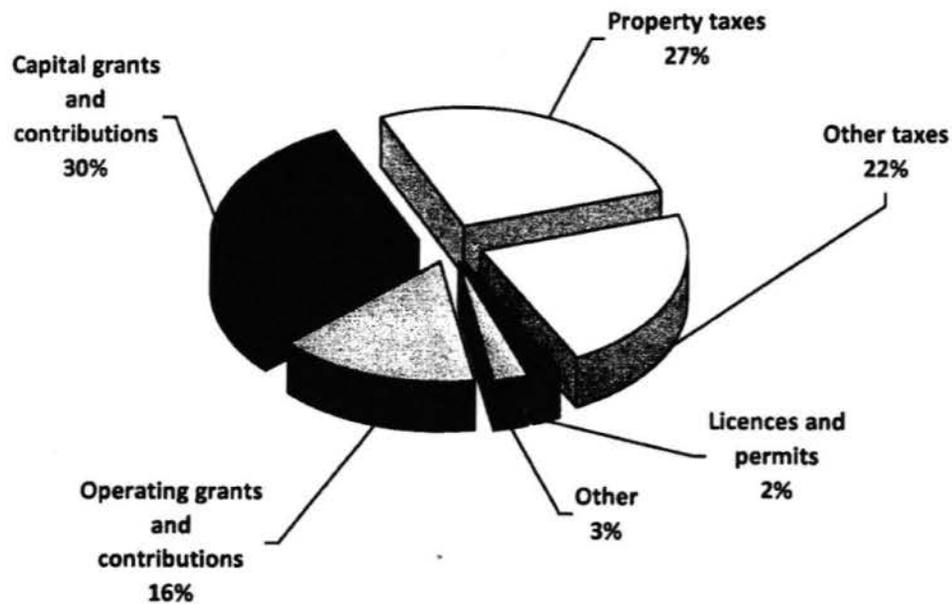
- Total revenues increased 19.67% over prior year reported.
 - Increase in capital grants and contribution

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

- Increase in operating grants and contributions
- Total expenses decreased by 7.26% over prior year
 - Major decreases in expense includes: general government and Public works.
 - Major increase in expenses includes: cultural and recreation, health and welfare, and sanitation.

Revenues by Source - Governmental Activities



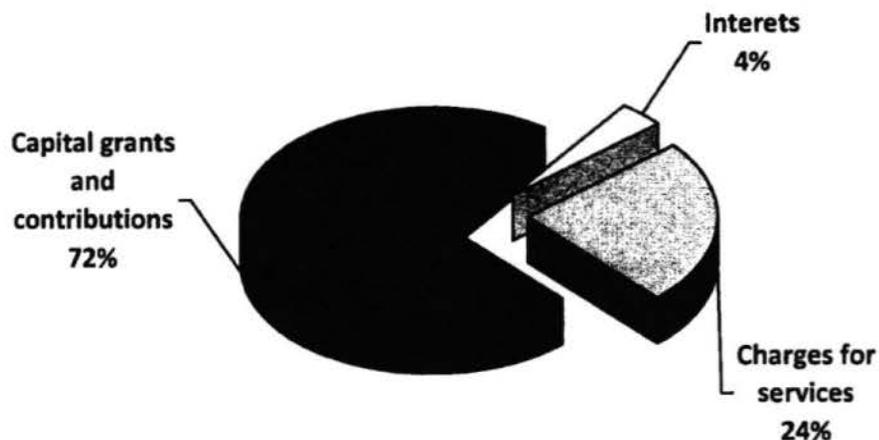
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Business-type activities: Business-type activities increased the Municipality's net assets by \$5,253,568, accounting for 11.48% of the total growth in the government's net assets.

**Revenues by Source - Business Type
Activities**



Financial Analysis of the Municipality's 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 usable resources. Such information is useful in assessing the Municipality's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Municipality. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,219,413, while total fund balance reached \$8,363,042. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.31 percent of total General Fund expenditures, while total fund balance represents 8.74 percent of that same amount.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

The primary reason for this reduction was the use of resources for major capital expenditures within the Municipality.

General Fund Budgetary Highlights: During the fiscal year, the Municipality revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities. Total amendments to the General Fund increase revenues by \$11,040,050.

**THE MUNICIPALITY'S BUDGET ACTIVITY
FIGURE 4**

	Original	Amendments	Transfers	Final
Resources:				
Property taxes	\$ 33,157,467	\$ -	\$ 1,966,643	\$ 35,124,110
Volume of business taxes	29,000,000	-	-	29,000,000
Sales taxes	16,000,000	-	-	16,000,000
Licenses and permits	300,000	-	-	300,000
Fines and penalties	2,500,000	-	-	2,500,000
Interest and investment income	8,538,726	-	-	8,538,726
Intergovernmental	8,609,550	-	(1,966,643)	6,642,907
Parking lot fees	194,544	-	-	194,544
Rent and other resources	11,075,418	11,040,050	-	22,115,468
Amounts available for appropriation	<u>109,375,705</u>	<u>11,040,050</u>	<u>-</u>	<u>120,415,755</u>
Expenditures charged to appropriations:				
Culture and recreation	6,896,854	607,600	(324,247)	7,180,207
Economic and social development	4,922,414	973,250	(13,897)	5,881,767
Education	3,124,050	483,000	6,468	3,613,518
General government	53,604,928	5,087,777	1,594,090	60,286,795
Health and welfare	4,311,325	155,000	25,193	4,491,518
Housing	915,252	-	52,022	967,274
Sanitation and environmental	14,602,097	400,000	(985,229)	14,016,868
Public safety	10,147,425	316,000	(443,904)	10,019,521
Public works	10,851,360	3,017,423	89,503	13,958,286
Total charges to appropriations	<u>109,375,705</u>	<u>11,040,050</u>	<u>-</u>	<u>120,415,755</u>
Excess of resources over appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- The Municipal Legislature amended the budget during the year by \$11,040,50, mainly by unreserved resources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Actual budgetary transactions generated an excess of resources over appropriations of \$1,798,774.

Proprietary Funds. The Municipality's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Community Development Bank at the end of the fiscal year amounted to \$4,127,484, and those of the Multi-tenant Fund equaled \$1,251,873. The total growth in net assets for both funds was \$5,253,568 and \$933,369 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Municipality's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Municipality's capital assets for its governmental and business – type activities as of June 30, 2008, totals \$546,985,057 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

- Addition of construction in progress for infrastructure, buildings and facilities
- Land acquisition and improvements
- Purchased new equipment and vehicles for the Municipality as a whole
- Disposal of old equipment
- In addition to major capital assets transactions, a material retroactive adjustment of infrastructure assets was made, related to bridges and parks and recreational facilities, including the related accumulated depreciation. The adjustment was made as a requirement of the government accepted standard board number 34. The required inclusions of infrastructure assets by GASB 34, have been substantially recorded during fiscal years 2002-2003 to 2006-2007.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

The Municipality's Capital Assets
(net of depreciation)

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Capital assets not being depreciated						
Land and improvements	\$ 46,495,788	\$ 38,595,449	\$ 3,937,554	\$ 2,982,254	\$ 50,433,342	\$ 41,577,703
Construction in progress	87,330,153	81,271,668	6,493,694	2,156,083	93,823,847	83,427,751
Works of art and historical treasures	3,402,461	2,989,541	-	-	3,402,461	2,989,541
Total not being depreciated	<u>137,228,402</u>	<u>122,856,658</u>	<u>10,431,248</u>	<u>5,138,337</u>	<u>147,659,650</u>	<u>127,994,995</u>
Capital assets net of depreciation						
Facilities and improvements	13,590,047	4,345,775	-	-	13,590,047	4,345,775
Buildings and improvements	81,597,193	36,720,629	2,574,985	2,614,408	84,172,178	39,335,037
Roads and streets	284,656,315	286,988,498	-	-	284,656,315	286,988,498
Equipment and vehicles	16,906,967	16,314,484	-	1,716	16,906,967	16,316,200
Total net of depreciation	<u>396,750,422</u>	<u>344,369,386</u>	<u>2,574,985</u>	<u>2,616,124</u>	<u>399,325,507</u>	<u>346,985,510</u>
Total capital assets net of depreciation	<u>\$ 533,978,824</u>	<u>\$ 467,226,044</u>	<u>\$ 13,006,233</u>	<u>\$ 7,754,461</u>	<u>\$ 546,985,157</u>	<u>\$ 474,980,505</u>

Additional information on the Municipality's capital assets can be found in note 6 of the Basic Financial Statements.

Project	Amount
Nuevo Centro de Gobierno Trabajos Estructurales	\$ 1,865,584
Escuela Ciencias, Matemáticas y Tecnología (Esc. Iman)	1,466,980
Adq. Antiguo Edif. SEARS Centro Criollo de Ciencias	2,750,000
Escuela Ciencias, Matemáticas y Tecnología (IMAN)	820,000
	<u>\$ 6,902,564</u>

Major additions to constructions in progress (disbursements of more than \$800,000) as of June 30, 2008 are as follows:

Long-term Debt. As of June 30, 2008, The Municipality had total bonded debt outstanding of \$189,644,873 all of which is debt backed by the full faith and credit of the Municipality.

The Municipality's Outstanding Debt

General Obligation Bonds

Figure 6

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 115,103,680	\$ 114,153,680	\$ 279,435	\$ 363,982	\$ 115,383,115	\$ 114,517,662
Federal loans and notes	8,229,000	8,605,000	-	-	8,229,000	8,605,000
Special loans	66,032,758	50,043,791	-	-	66,032,758	50,043,791
Total	<u>\$ 189,365,438</u>	<u>\$ 172,802,471</u>	<u>\$ 279,435</u>	<u>\$ 363,982</u>	<u>\$ 189,644,873</u>	<u>\$ 173,166,453</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

The Municipality's total debt increased by \$16,478,420 (9.52 percent) during the past fiscal year, primarily due to the \$6,802,000 bond anticipation notes issued for infrastructure development and the \$18,570,000 issued in special loans for infrastructure development.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a unit of government can issue to 10 percent of the total assessed value of taxable property located within that government's boundaries. The total legal debt margin for the Municipality is approximately \$10,874,338 on the Government Development Bank.

Also, the Municipality has a Municipal Redemption Fund composed of .2% of the .5% of the total sales tax of 1.5%, to be used to grant loans for the exclusive benefit of the municipalities. This fund, in addition to other variables, is used to calculate the Municipality's borrowing power within a specific timeframe. The Municipality's borrowing margin for the audited year was approximately \$29,000,000 with a contribution to the fund (in the audited year) of approximately \$1,721,766. The debt margin over this fund is \$5,670,000.

Additional information regarding the Municipality's long-term debt can be found in note 7 beginning on page 51 of this audited financial report.

Summary of Local Economy

The Municipality of Caguas ("Caguas") was founded in 1775 and is fifth largest of the municipalities of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") in terms of population. Its boundaries encompass an area of approximately 59.07 square miles, and according to the 2007 Puerto Rico Community Survey the population of Caguas was 142,984. Caguas is bounded on the North by the Municipalities of San Juan and Trujillo Alto, on the South by the Municipalities of Cayey and San Lorenzo, on the East, by the Municipalities of Gurabo and San Lorenzo, and on the West by the Municipalities of Aguas Buenas and Cidra.

The largest employers in Caguas are the State government, the Municipal government, Pfizer, Mova, Avon, Wal-Mart, Sam's Club and Amigo Supermarket retail chain, Banco Popular, San Pablo-HIMA Hospital, Mylan, St. Jude Medical and Atento (a marketing enterprise).

The City's economy has an industry composition somewhat similar to the rest of the island's largest Municipalities. In the 1960s textile's manufacturing and agriculture made up the largest amount of the local economy, but by the mid seventies the manufacturing share of employment had declined to a lower percentage.

Major Industries and Services (including government)

Government Services: The governmental service is the largest source of employment in the Municipality, accounting for the largest amount of the civilian employment in FY/08. This sector had a moderate grow at city level but it is being reduced at the State level since the last quarter of the fiscal year due to the economical weakness of the State. It is a diverse sector that includes jobs in the areas of education, electric power service, water supply, police, public works, culture and recreation, health, legal service and others.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Health Services: As a major regional medical center, the medical services industry is one of the largest employers in the area. It includes HIMA-San Pablo Hospital and the former Regional Hospital, now named San Juan Bautista, operated by the private sector. These facilities provide primary, secondary and tertiary health services to the residents of Caguas and are responsible for establishing and developing strategies and programs designed to promote health, prevent diseases, promote early detection and diagnosis of health problems, promote adequate treatment of health problems and rehabilitation services.

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of providing comprehensive health insurance coverage for qualifying low income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. The municipalities pay the Government of Puerto Rico an amount mandated by law, to cover part of the insurance premium paid by the Government of Puerto Rico for its citizens. Caguas participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

The health services industry had been one of the fastest growing sectors in Caguas. During fiscal year 2008, San Pablo HIMA Hospital almost completed the construction of a modern medical building and parking lot facilities.

Trade (retail and wholesale): The trade sector is the strongest growing sector in the area. Many major national chains such as Wal-Mart, Costco, Walgreen's, Best Buy, Office Depot, have expanded into the area, helping maintain relatively stable levels of consumer spending.

Construction: The construction in the private sector, an important source of economic growth in Caguas, had a decline during 2008 as well as the rest of the island and the continental US. Employment and gross receipts in construction declined on in terms of new projects and housing developments.

Governmental initiative such as "Portales Este y Oeste de la Ciudad", "Escuela de Ciencias, Matemáticas y Tecnología (Escuela IMAN)", "Centro Interactivo de Ciencias, Matemática y Tecnología (C3Tec)" and other infrastructure development mentioned above, had to maintain this economic sector. However, the inventory of new homes remains almost unsold at year end. The total revenue of construction permits decrease in comparison to prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Management's Discussion and Analysis (continued)
June 30, 2008

Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental Activities: Property taxes (benefiting from residential and industrial developments), city tax, and revenues from permits and fees are expected to lead the increase in revenue projections by 5 percent (without considering any inter-fund transfer). The Municipality will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to maintain unchanged as per prior year results. The largest increments are in employee compensation, including funding compensation and benefits adjustments, Capital Outlays and Public Works.

Requests for Information

This report is designed to provide an overview of the Municipality's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to: Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or <http://www.caguas.gov.pr>.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 77,896,527	\$ 2,976,129	\$ 80,872,656
Cash with fiscal agent	12,382,479	-	12,382,479
Volume of business tax receivable	11,832,156	-	11,832,156
Sales taxes receivable	4,330,551	-	4,330,551
Intergovernmental receivables	13,710,153	-	13,710,153
Federal grants receivable	1,504,529	-	1,504,529
License and permits receivable	571,064	-	571,064
Rent and utilities receivable	1,020,303	14,727	1,035,030
Indirect cost receivable	750,000	-	750,000
Other accounts receivable	153,911	-	153,911
Internal balances	148,344	(148,344)	-
Total current assets	<u>124,300,017</u>	<u>2,842,512</u>	<u>127,142,529</u>
Noncurrent assets:			
Loan receivable	-	2,850,537	2,850,537
Capital assets, net of accumulated depreciation	<u>533,978,824</u>	<u>13,006,233</u>	<u>546,985,057</u>
Total noncurrent assets	<u>533,978,824</u>	<u>15,856,770</u>	<u>549,835,594</u>
Total assets	<u>\$658,278,841</u>	<u>\$ 18,699,282</u>	<u>\$676,978,123</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Net Assets (continued)
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 16,105,969	\$ 34,257	\$ 16,140,226
Deferred volume of business tax revenue	26,834,070	-	26,834,070
Accrued interest payable	2,872,872	-	2,872,872
Bonds and notes payable, current	9,515,758	123,479	9,639,237
Accrued compensated absences, current	1,500,000	-	1,500,000
Accrued legal claims, current	350,000	-	350,000
Due to other governments, current	1,081,418	-	1,081,418
Advance deposits	1,137,546	-	1,137,546
Total current liabilities	59,397,633	157,736	59,555,369
Noncurrent liabilities net of current portions:			
Bonds and notes payable	179,849,680	155,956	180,005,636
Accrued compensated absences	8,494,827	-	8,494,827
Accrued legal claims	5,883,644	-	5,883,644
Due to other governments	188,604	-	188,604
Other accrued liabilities	1,357,456	-	1,357,456
Total noncurrent liabilities	195,774,211	155,956	195,930,167
Total liabilities	255,171,844	313,692	255,485,536
Net assets:			
Invested in capital assets, net of related debt	344,613,386	13,006,233	357,619,619
Restricted for:			
Housing programs	2,697,657	-	2,697,657
Food and children programs	1,461,284	-	1,461,284
Capital projects	40,981,984	-	40,981,984
Debt service	3,941,040	-	3,941,040
Other special purposes	1,048,604	-	1,048,604
Unrestricted	8,363,042	5,379,357	13,742,399
Total net assets	\$ 403,106,997	\$ 18,385,590	\$ 421,492,587
Total liabilities and net assets	\$ 658,278,841	\$ 18,699,282	\$ 676,978,123

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Activities
For the Fiscal Year Ended June 30, 2008

Functions Programs	Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 36,885,789	\$ 227,051	\$ 7,693,693	\$ -	\$ (28,965,045)	\$ -	\$ (28,965,045)
Public safety	10,734,003	133,892	-	828,929	(9,771,182)	-	(9,771,182)
Public works	25,560,207	-	-	5,072,585	(20,487,622)	-	(20,487,622)
Culture and recreation	12,403,733	-	-	-	(12,403,733)	-	(12,403,733)
Health and wealthfare	15,819,886	-	5,384,907	55,000,000	44,565,021	-	44,565,021
Economic and social development	5,378,274	190,856	-	-	(5,187,418)	-	(5,187,418)
Housing	12,405,463	-	8,616,253	-	(3,789,210)	-	(3,789,210)
Sanitation and environmental	15,109,993	62,408	123,600	-	(14,923,985)	-	(14,923,985)
Education	16,545,308	-	9,796,427	-	(6,748,881)	-	(6,748,881)
Debt service payments	11,775,259	-	-	-	(11,775,259)	-	(11,775,259)
Total governmental activities	162,617,915	614,207	31,614,880	60,901,514	(69,487,314)	-	(69,487,314)
Business-type activities:							
Community Development Bank	195,895	144,839	-	-	-	(51,056)	(51,056)
Multitenant	206,873	213,864	-	1,061,000	-	1,067,991	1,067,991
Total Business-type activities	402,768	358,703	-	1,061,000	-	1,016,935	1,016,935
General revenues:							
Property taxes					53,966,882	-	53,966,882
Volume of business taxes					25,672,625	-	25,672,625
Sales taxes					18,978,615	-	18,978,615
Licenses and permits					4,463,529	-	4,463,529
Interest and investment income					3,203,796	59,075	3,262,871
Indirect costs					750,000	-	750,000
Other					1,021,244	-	1,021,244
Total general revenues					108,056,691	59,075	108,115,766
Transfers-in (out)					(276,682)	276,682	-
Change in net assets					38,292,695	1,352,692	39,645,387
Net assets - beginning (as previously reported)					360,947,165	13,132,022	374,079,187
Prior period adjustments					3,867,137	3,900,876	7,768,013
Net assets - beginning (as restated)					364,814,302	17,032,898	381,847,200
Net assets - ending					\$ 403,106,997	\$ 18,385,590	\$ 421,492,587

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Governmental Funds Balance Sheet
June 30, 2008

	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Programs	Capital Projects	Debt Service	Legislative	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash and investments	\$ 7,836,940	\$ 4,425,977	\$ 16,106	\$ 1,981,223	\$ 59,210,325	\$ 3,270	\$ 986,656	\$ 3,436,030	\$ 77,896,527
Cash with fiscal agent	-	-	-	-	-	12,382,479	-	-	12,382,479
Volume of business tax receivable	11,832,156	-	-	-	-	-	-	-	11,832,156
Sales taxes receivable	4,330,551	-	-	-	-	-	-	-	4,330,551
Intergovernmental receivables	7,002,276	-	-	-	1,551,123	-	5,483	5,151,271	13,710,153
Federal grants receivable	-	327,093	205,724	479,604	132,944	-	-	359,164	1,504,529
Due from other funds	12,486,500	-	-	-	-	-	-	-	12,486,500
License and permits receivable	571,064	-	-	-	-	-	-	-	571,064
Rent receivable	887,836	-	-	-	119,064	-	-	13,403	1,020,303
Indirect cost receivable	750,000	-	-	-	-	-	-	-	750,000
Other accounts receivable	-	149,187	-	4,601	-	-	-	123	153,911
Total assets	45,697,323	4,902,257	221,830	2,465,428	61,013,456	12,385,749	992,139	8,959,991	136,638,173

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS
Governmental Funds Balance Sheet (continued)
June 30, 2008

	General	Housing Rental Program	Public Residential Administration	Head Start Food and Children Programs	Capital Projects	Debt Service	Legislative	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable and accrued liabilities	8,282,104	77,858	19,935	91,879	6,162,659	-	553,019	918,515	16,105,969
Bonds and interest payable	-	-	-	-	-	8,444,709	-	-	8,444,709
Due to other governments	892,814	-	-	-	-	-	-	-	892,814
Due to other funds	-	1,992,235	9,309	671,263	2,540,745	-	439,120	6,685,484	12,338,156
Deferred volume of business tax	26,834,070	-	-	-	-	-	-	-	26,834,070
Deferred federal grant revenues	-	327,093	-	226,473	70,609	-	-	307,388	931,563
Other deferred revenues	202,276	-	-	-	-	-	-	-	202,276
Advanced deposits	1,123,017	-	-	14,529	-	-	-	-	1,137,546
Total liabilities	37,334,281	2,397,186	29,244	1,004,144	8,774,013	8,444,709	992,139	7,911,387	66,887,103
Fund Balances:									
Reserved for encumbrances	6,143,629	-	-	-	-	-	-	-	6,143,629
Reserved for housing programs	-	814,041	142,604	-	-	-	-	-	956,645
Reserved for youth and children programs	-	-	-	1,164,052	-	-	-	-	1,164,052
Reserved for debt service	-	-	-	-	-	3,941,040	-	-	3,941,040
Reserved for capital projects	-	-	-	-	35,056,375	-	-	-	35,056,375
Reserved for special projects	-	-	-	-	-	-	-	1,048,604	1,048,604
Unreserved	2,219,413	1,691,030	49,982	297,232	17,183,068	-	-	-	21,440,725
Total fund balances	8,363,042	2,505,071	192,586	1,461,284	52,239,443	3,941,040	-	1,048,604	69,751,070
Total liabilities and fund balances	\$ 45,697,323	\$ 4,902,257	\$ 221,830	\$ 2,465,428	\$ 61,013,456	\$ 12,385,749	\$ 992,139	\$ 8,959,991	\$ 136,638,173

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Reconciliation of Fund Balance of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2008

Fund balance per Fund statements	\$ 69,751,070
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resource and not reported in the funds	533,978,824
Other long-term liabilities, such as accrued compensated absences, litigations and other contingencies are not available to pay for current year expenditures and therefore not reported in the funds	(17,963,135)
Other economic resources not available to pay current year expenditures, but collectible after the period of availability, are not reported in the funds	1,133,839
General obligation bonds, special and federal loans are not due and payable in the current period and therefore not reported in the funds	<u>(183,793,601)</u>
Net assets of governmental activities	<u>\$ 403,106,997</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Housing and Rental Programs	Public Residential Administration	Head Start Food and Children Programs	Capital Projects	Debt Service	Legislative	Other Governmental Funds	Totals
Revenues :									
Property taxes	\$ 35,124,110	\$ -	\$ -	\$ -	\$ -	\$ 18,640,496	\$ -	\$ -	\$ 53,764,606
Volume of business taxes	25,672,625	-	-	-	-	-	-	-	25,672,625
Sales tax	17,256,849	-	-	-	-	1,721,766	-	-	18,978,615
Licenses and permits	4,140,037	-	-	-	12,925	-	-	310,567	4,463,529
Federal grants	-	7,372,043	924,343	11,277,608	4,288,570	-	-	2,278,897	26,141,461
Fines and penalties	133,892	-	-	-	-	-	-	-	133,892
Interest and investment income	1,343,678	125,734	5,304	19,784	1,666,213	-	7,936	35,147	3,203,797
Intergovernmental	7,693,693	97,467	-	-	977,874	-	49,400	1,901,597	10,720,031
Parking lot fees	167,431	-	-	-	7,000	-	-	52,620	227,051
Rent	179,961	-	-	-	-	-	-	10,895	190,856
Indirect costs	750,000	-	-	-	-	-	-	-	750,000
Solid waste disposal	62,408	-	-	-	-	-	-	-	62,408
Other	360,822	220,494	41,985	9,594	117,270	-	-	271,079	1,021,244
Total revenues	92,885,506	7,815,738	971,632	11,306,986	7,069,852	20,362,262	57,336	4,860,803	145,330,115
Expenditures									
General government	30,030,235	-	-	-	-	-	-	117,381	30,147,616
Public safety	9,133,759	-	-	-	-	-	-	1,246,130	10,379,889
Public works	13,530,828	-	-	-	1,700,199	-	1,238,435	728,420	17,197,882
Culture and recreation	5,845,648	-	-	-	1,733,390	-	15,768	670,119	8,264,925
Health and welfare	12,180,675	-	-	1,702,883	107,044	-	174,385	1,584,872	15,749,859
Economic and social development	3,787,501	-	-	-	413,574	-	8,856	968,669	5,178,600
Housing	863,335	9,850,339	985,999	-	221,231	-	-	-	11,920,904
Sanitation and environmental	14,283,204	-	-	-	-	-	-	566,711	14,849,915
Education	2,157,159	-	-	9,429,377	4,474	-	96,459	2,436,030	14,123,498
Capital outlays	4,061,507	506,398	19,070	157,051	23,964,625	-	1,745,099	2,078,257	32,532,007
Debt service payments	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	9,098,033	-	-	9,098,033
Interest	-	-	-	-	-	11,775,259	-	-	11,775,259
Total expenditures	95,873,851	10,356,737	1,005,069	11,289,311	28,144,537	20,873,292	3,279,002	10,396,589	181,218,387
Excess (deficiency) of revenues over expenditures	(2,988,345)	(2,540,999)	(33,437)	17,675	(21,074,685)	(511,030)	(3,221,666)	(5,535,786)	(35,888,273)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS, PUERTO RICO

Statement of Revenues, Expenditures and Changes in Fund Balances-(continued)
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Housing and Rental Programs	Public Residential Administration	Head Start Food and children Programs	Capital Projects	Debt Service	Legislative	Other Governmental Funds	Totals
Excess (deficiency) of revenues over expenditures	\$ (2,988,345)	\$ (2,540,999)	\$ (33,437)	\$ 17,675	\$ (21,074,685)	\$ (511,030)	\$ (3,221,666)	\$ (5,535,786)	\$ (35,888,273)
Other financing sources (uses)									
Proceeds from debt issuance	13,937,000	-	-	-	12,059,000	-	-	-	25,996,000
Property taxes transferred from debt service fund	8,052,582	-	-	-	-	(8,052,582)	-	-	-
Interest transferred from debt service fund	620,162	-	-	-	-	(620,162)	-	-	-
Operating transfer in	870,000	-	-	-	4,056,925	6,806,686	-	5,460,720	17,194,331
Operating transfer out	(15,051,689)	-	-	-	(1,889,324)	-	-	(530,000)	(17,471,013)
Other financing sources, net	8,428,055	-	-	-	14,226,601	(1,866,058)	-	4,930,720	25,719,318
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	5,439,710	(2,540,999)	(33,437)	17,675	(6,848,084)	(2,377,088)	(3,221,666)	(605,066)	(10,168,955)
Fund balances at beginning of year (as previously reported)	8,873,193	8,245,433	226,023	1,443,609	59,087,526	6,318,128	687,083	1,653,671	86,534,666
Prior period adjustment	(5,949,861)	(3,199,363)	-	-	-	-	2,534,583	-	(6,614,641)
Fund balances at beginning of year (as restated)	2,923,332	5,046,070	226,023	1,443,609	59,087,526	6,318,128	3,221,666	1,653,671	79,920,025
Fund balances at end of year	\$ 8,363,042	\$ 2,505,071	\$ 192,586	\$ 1,461,284	\$ 52,239,442	\$ 3,941,040	\$ -	\$ 1,048,605	\$ 69,751,070

CAD
8/6/09

See notes to financial statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS**

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Fiscal Year Ended June 30, 2008**

Net change in fund balance - total governmental funds \$ (10,168,955)

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 11,796,032

General long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets. This is the amount by which proceeds exceed or are below the repayments. (16,897,967)

Hospital's building and land was transferred at no cost to the Municipality by the Commonwealth of Puerto Rico as a capital contribution, which are economic resources and not reported in the governmental funds. 55,000,000

Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues and expenditures in the governmental funds. (1,159,733)

Change in net assets of governmental activities \$ 38,569,377

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Revenues and Expenditures
Budget and Actual- General Fund
Non GAAP Budgetary Basis
for the Fiscal Year Ended June 30, 2008

	Original Budget	Final Budget	Actual amounts in the budgetary basis	Variance Favorable (Unfavorable)
Resources:				
Property taxes	\$ 33,157,467	\$ 35,124,110	\$ 35,124,110	\$ -
Property taxes transferred from debt service	-	-	8,050,000	8,050,000
Volume of business taxes	29,000,000	29,000,000	25,672,625	(3,327,375)
Sales taxes	16,000,000	16,000,000	17,256,919	1,256,919
Fines and penalties	300,000	300,000	130,892	(169,108)
Interest and investment income	2,500,000	2,500,000	1,343,678	(1,156,322)
Interest transferred from debt service	-	-	620,162	620,162
Intergovernmental	8,538,726	8,538,726	7,578,693	(960,034)
Licenses and permits	8,609,550	6,642,907	4,140,037	(2,502,870)
Parking lot fees	194,544	194,544	167,430	(27,114)
Rent and other resources	11,075,418	22,115,468	15,321,824	(6,793,644)
Amounts available for appropriation	<u>\$ 109,375,705</u>	<u>\$ 120,415,755</u>	<u>\$ 115,406,369</u>	<u>\$ (5,009,386)</u>
Expenditures charged to appropriations:				
Culture and recreation	6,896,854	7,180,207	6,678,732	501,475
Economic and social development	4,922,414	5,881,767	5,704,597	177,170
Education	3,124,050	3,613,518	3,539,964	73,554
General government	53,604,928	60,286,796	57,080,589	3,206,207
Health and welfare	4,311,325	4,491,518	4,306,278	185,240
Housing	915,252	967,274	921,312	45,962
Sanitation and environmental	14,602,097	14,016,868	11,927,415	2,089,453
Public safety	10,147,425	10,019,521	9,508,393	511,128
Public works	10,851,360	13,958,286	13,940,315	17,971
Total charges to appropriations	<u>109,375,705</u>	<u>120,415,755</u>	<u>113,607,595</u>	<u>6,808,160</u>
Excess of resources over appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,798,774</u>	<u>\$ 1,798,774</u>

See notes to the financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Net Assets
Proprietary Funds
June 30, 2008

	Community Development Bank	Multitenant Buildings	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,715,658	\$ 1,260,471	\$ 2,976,129
Rent receivable	-	14,727	14,727
Total current assets	<u>1,715,658</u>	<u>1,275,198</u>	<u>2,990,856</u>
Noncurrent Assets:			
Loans receivable, net	<u>2,850,537</u>	-	<u>2,850,537</u>
Capital assets:			
Land	-	3,937,554	3,937,554
Building and improvements	-	3,017,270	3,017,270
Equipment	33,603	2,145	35,748
Less: Accumulated depreciation	(33,603)	(444,430)	(478,033)
Construction in progress	-	6,493,694	6,493,694
Capital assets net	<u>-</u>	<u>13,006,233</u>	<u>13,006,233</u>
Total non-current assets	<u>2,850,537</u>	<u>13,006,233</u>	<u>15,856,770</u>
Total assets	<u>4,566,195</u>	<u>14,281,431</u>	<u>18,847,626</u>

MUNICIPALITY OF CAGUAS

Statement of Net Assets (continued)
Proprietary Funds
June 30, 2008

	Community Development Bank	Multitenant Buildings	Totals
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities			
Notes payable (current portion)	\$ 123,479	\$ -	\$ 123,479
Due to other fund	140,161	8,183	148,344
Accounts payable and accrued liabilities	19,115	15,142	34,257
Total current liabilities	<u>282,755</u>	<u>23,325</u>	<u>306,080</u>
Noncurrent liabilities:			
Notes payable (net of current portion)	<u>155,956</u>	<u>-</u>	<u>155,956</u>
Total liabilities	<u>438,711</u>	<u>23,325</u>	<u>462,036</u>
Net assets:			
Investment in capital assets (net of related debt)		13,006,233	13,006,233
Unrestricted	<u>4,127,484</u>	<u>1,251,873</u>	<u>5,379,357</u>
Total net assets	<u>4,127,484</u>	<u>14,258,106</u>	<u>18,385,590</u>
Commitments and contingencies	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 4,566,195</u>	<u>\$ 14,281,431</u>	<u>\$ 18,847,626</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2008

	Community Development Bank	Multitenant Buildings	Totals
Operating revenues:			
Rent, interest on loans and origination fees	\$ 144,839	\$ 213,864	\$ 358,703
Operating expenses:			
Payroll	18,940	-	18,940
Depreciation	10	61,174	61,184
Professional fees	141,255	100,299	241,554
Bank service charges	2,730	-	2,730
Repairs and maintenance	-	29,104	29,104
Office supplies	-	-	-
Rent	19,200	-	19,200
Utilities	6,000	-	6,000
Other	1,020	16,296	17,316
Total operating expenses	189,155	206,873	396,028
Income (loss) before contributions and transfers	(44,316)	6,991	(37,325)
Non-operating revenues (expenses)			
Interest income	24,968	34,107	59,075
Interest expense	(6,740)	-	(6,740)
Total non-operating revenues (expenses)	18,228	34,107	52,335
Income (loss) before contributions and transfers	(26,088)	41,098	15,010
Contributions:			
Federal grants	-	1,061,000	1,061,000
Transfers from governmental funds	276,682	-	276,682
	276,682	1,061,000	-
Changes in net assets	250,594	1,102,098	1,352,692
Net assets at beginning of fiscal year			
(as previously reported)	3,983,028	9,148,994	13,132,022
Prior period adjustment	(106,138)	4,007,014	3,900,876
Net assets at beginning of fiscal year (as restated)	3,876,890	13,156,008	17,032,898
Net assets at end of fiscal year	\$ 4,127,484	\$ 14,258,106	\$ 18,385,590

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Statement of Cash-Flows
Proprietary Funds
June 30, 2008

	Community Development Bank	Multitenant Buildings	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 144,839	\$ 213,682	\$ 358,521
Disbursements of loans	(815,150)	-	(815,150)
Collections of principal on loans receivable	462,769	-	462,769
Payments to suppliers and professional services	(170,205)	(448,094)	(618,299)
Payments to employees	(18,940)	-	(18,940)
Net cash provided by (used in) operating activities	<u>(396,687)</u>	<u>(234,412)</u>	<u>(631,099)</u>
Cash flows from capital and related financing activities:			
Capital assets investments	-	(1,061,000)	(1,061,000)
Capital contributions from Federal Government	-	1,061,000	1,061,000
Increase in amount due from Federal Government	-	-	-
Net cash provided by (used in) capital and financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from non-capital financing activities:			
Principal payments on notes payable	(84,547)	-	-
Interest payments in notes payable	(6,740)	-	-
Transfer from governmental funds	276,682	-	276,682
Increase (decrease) in loan due to general fund	(243,940)	(222,059)	(465,999)
	<u>(58,545)</u>	<u>(222,059)</u>	<u>(189,317)</u>
Cash flows from investing activities:			
Interest income	24,968	34,107	59,075
Net cash provided by investing activities	<u>24,968</u>	<u>34,107</u>	<u>59,075</u>
Net increase (decrease) in cash and cash equivalents	(615,659)	(422,364)	(1,038,023)
Cash and cash equivalents at beginning fiscal year	2,331,317	1,682,835	4,014,152
Cash equivalente at end fiscal year	<u>1,715,658</u>	<u>1,260,471</u>	<u>2,976,129</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Adjustments to reconcile operating income (loss) to net cash provided in (used) in operating activities:			
Operating income (loss)	(44,316)	6,991	(37,325)
Depreciation	-	61,174	61,174
Increase in accounts payable	18,325	(302,394)	(284,069)
(Increase) in rent and loan receivable	(370,706)	(183)	(370,889)
Net cash provided by (used in) operating activities	<u>\$ (396,697)</u>	<u>\$ (234,412)</u>	<u>\$ (631,109)</u>

See notes to financial statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements
June 30, 2008

Note 1 - Summary of significant accounting policies

The Municipality of Caguas (the Municipality), founded in 1894, is a municipality of the Commonwealth of Puerto Rico. It is governed by a Major and a 16 member Municipal Assembly elected for a four-year term. The Municipality provides services to its residents in the areas of health, public works, education, public safety, urban development, economic development, culture and recreation, and other services.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Financial reporting entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14 of the Governmental Accounting Standards Board (GASB). The basic, but not the only criterion for including a potential component unit within the reporting entity, is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government 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.

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments. GASB-34 significantly changed the way in which the Municipality reported its finances.

GASB-34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major funds rather than fund types. Capital assets, including infrastructure assets, and depreciation charges are reported on the entity-wide perspective financial statements. The management's discussion and analysis information precedes the basis financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

The Municipality implemented this statement in fiscal year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

Basic Financial Statements GASB Statement No. 34

Government Wide Financial Statements:

The focus of the government wide financial statements is on the overall financial position and activities of the Municipality as a whole. The government wide financial statements will provide with the following:

- Present financial information about the overall government without presenting information about the individual funds or fund types.
- Differentiate between the Municipality's governmental activities and business type activities.
- Measure and present all financial balances and activities based on the economic resources measurement focus and the accrual basis of accounting.

The flow of economic resources measurement and accrual accounting are the basis upon which government wide financial statements are prepared. Under the flow of economic resources measurement focus and accrual basis of accounting, revenues are recognized when earned and expenses are incurred when incurred when these activities are related to exchange and exchange like activities. In addition, long-lived assets are capitalized and depreciated over their estimated economic lives.

The government wide statements include the Statement of Net Assets and the Statement of Activities:

Statement of net assets:

Presentation of assets and liabilities – Assets and liabilities should be presented in the statement of net assets based on their relative liquidity. The liquidity of the assets is determined based their ability to be converted in cash and the absence of any restriction that might limit their conversion to cash. The liquidity of liabilities is based on maturity dates or expected payment dates.

Presentation of capital assets – The governmental entity should report all of its capital assets in the statement of net assets, based on their original historical cost. Capital assets that have been donated should be capitalized at their estimated fair value at the date of the receipt.

Presentation of long-term liabilities - Long-term liabilities include debts such as bonds, notes, and federal loans. In addition, operating liabilities such as compensated absences and claims must be reported in the statement of net assets.

Presentation of component of net assets - Net assets represent the difference between the Municipality's total assets and its total liabilities. The statement of net assets must identify the components of the net assets, namely (a) invested in capital assets, net of related debt; (b) restricted net assets; and (c) unrestricted net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

Invested in capital assets, net of related debt is the difference between capital assets (net of accumulated depreciation) and liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted net assets arise if either of the following conditions exists: (a) externally imposed by creditor, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Assets that are not classified as invested in capital assets (net of related debt) or restricted are included in the category of unrestricted net assets.

Revenues and other financing inflows – A fundamental concept in the presentation of the statement of activities is the identification of resources inflows to the Municipality that are related to specific programs and those that are general in nature. Revenues are divided in program revenues and general revenues.

Program revenues - Program revenues are those that are identified with a specific function, otherwise the revenues would not flow to the Municipality. As established before, program revenues are presented in the statement of activities as a subtraction of related program expenses in order to identify the net cost or benefit of a particular program. Program revenues are divided in charges for services, operating grants and contributions and capital grants.

General revenues – General revenues included resources that are not specifically related with a specific function, but that are used in the operation of the Municipality.

Expenses – The Municipality reports expenses, including depreciation expense by function. Direct expenses are those that are specifically associated with a service, program or department and are clearly identifiable to a particular function.

Generally, the cost (net of estimated salvage value) of capital assets should be depreciated over their estimated useful lives. Depreciation expense is reported as direct expense of the specific functional category with which the related capital asset has relationship.

Fund Financial Statements:

Fund based financial statements are included in order to demonstrate that restrictions imposed by statutes, regulations, or contracts have been followed. The Municipality has the following major funds:

Governmental funds - These financial statements have a short term emphasis and generally measure and account for cash and other assets that can easily be converted to cash and are used to account for the Municipality's expendable financial resources and the related liabilities. The measurement focus is upon determination of any changes in financial position. The Municipality's major funds are the following:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

General fund

The general fund is used to account for all financial transactions, except those required to be accounted for in another fund.

Housing and Rental Programs

Accounts for current financial resources restricted mainly for housing rental programs to low and very low income family units. Resources are funded by the United States Department of Housing and Urban Development, mainly through the Section 8 Housing Voucher and Home Investment Partnership Programs.

Head Start Food and Children Program

It was previously reported as Head Start Youth and Children funds. Accounts for current financial resources restricted for the education of pre-school aged children that are mainly funded by the United States Department of Health and Human Services and the United States Department of Agriculture.

Capital Projects

Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Debt service funds

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Legislative funds

The legislative funds account the accumulation of resources approved by the Legislature of the Commonwealth of Puerto Rico designated for the investment of such in special projects related mainly with health and welfare, public works, economic development and others as requested by the Municipality's citizenship.

Public Residential Administration

On March 26, 2003, the Municipality entered into an Intergovernmental Management Agreement with the Puerto Rico Public Housing Administration (PRPHA). The purpose of the Agreement was to designate the Municipality to act as independent contractor for the PRPHA to manage, administer and operate the low income housing project denominated as José Gautier Benítez, under the United States Housing Act of 1937, as amended. The Project is located at State Road No. 1, behind Villa del Carmen Shopping Center, Caguas, Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

As part of the Agreement, the Municipality submits, on the 1st day of February of each year, an Annual Management Plan in which it delineates its proposed budgets for the year and any work to be performed in the Project.

The Municipality operates the Program using fiscal periods beginning on July 1st and ending June 30th.

Other Governmental funds

It was previously reported as Other Special Revenue funds. Current financial resources used to account for the proceeds of specific revenue sources (other than debt service or capital projects) such as federal grants, that are legally restricted to expenditures for various specified purposes.

The financial statements of the governmental funds are the following:

Balance sheet – Reports information at June 30 about the current financial resources (assets, liabilities and fund balances) of each major governmental fund.

Statement of revenues, expenditures and changes in fund balance - Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30.

Proprietary funds – Financial statements for proprietary funds are based on the flow of economic resources (measurement focus) and the accrual basis of accounting. They are used to account for activities, which are similar to operations in the private sector. The proprietary fund type consists of enterprise funds.

Enterprise funds

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

Community Development Bank - Accounts for the economic resources designated mainly for the approval of loans for economic development, education and emergency in the benefit of the Caguas citizenship.

Multi-tenant Buildings (previously reported as Multi-tenant Funds) - Accounts the deposit of rental resources designated for the Municipality's normal operation other than those functions accounted in the general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

The financial statements of the proprietary funds are the following:

Statement of net assets or balance sheet - Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities.

Statement of revenues, expenditures and changes in fund net assets - Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

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

Basis of accounting

The basis of accounting determines when the Municipality recognizes revenues and expenditures/expenses and related assets and liabilities.

Governmental fund types follow the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In applying the susceptible to accrual concept to governmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Municipality; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Municipality reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when the Municipality receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and revenue is recognized.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

Licenses, permits, service charges, fines and forfeits and miscellaneous revenues are recorded as revenues on the cash basis, which includes amounts collected shortly after June 30. Investment income is recorded as revenue when received. The enterprise fund follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. Expenditures and related liabilities are generally recorded, except as described below, in the accounting period in which the liability is incurred. Expenditures and related liabilities for interest on long-term obligations, are recorded when due, except for interest due July 1st of the following year which is accounted for as paid on June 30. Vacation, sick leave, disallowances and litigation are recorded in the statement of net assets.

Budgetary accounting

The Municipality's annual budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipality's City Council prior to the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the City Council. Non-capital encumbrances lapse at the end of the next fiscal year. Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the general fund in the accompanying Statement of Revenues and Expenditures - Budget and Actual - General Fund is presented on the budgetary basis to enhance comparability. The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are considered as expenditures for budgetary purposes.
2. Prior year encumbrances settled during the year and recorded as expenditures for GAAP Basis.
3. Effect of GAAP basis accruals.

The following is reconciliation, of the differences between GAAP and the budgetary basis for the general fund excess of expenditures and other financing uses over revenues and other financing sources:

Change in fund balance as per Statement of Revenues, Expenditures and Change in Fund Balance (GAAP Basis)	\$ 5,439,710
Prior year's encumbrances settled during the current fiscal year	290,238
Current fiscal year encumbrances treated as current year expenditures for budgetary purposes	(4,017,472)
Non-budgeted revenues	<u>86,298</u>
Excess of resources over appropriations - Non GAAP Budgetary Basis	<u>\$ 1,798,774</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

Cash and investments

Substantially all cash balances are commingled in a deposit and checking accounts, certificates of deposits and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Investment earnings are all credited to the general fund.

Investments are carried at fair market value. Investments are composed of highly liquid U.S. Treasury Securities which are covered by the provisions of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" therefore, the Municipality accounts for changes in the market value of its investments at the closing of the period.

Cash with fiscal agent reports property tax collections retained by the "Centro de Recaudaciones de Ingresos Municipales" (CRIM) and restricted for the payment of the Municipality's general obligations through the debt service fund.

Inter-fund transactions

The Municipality has the following types of transactions among funds:

Operating transfers - Transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund.

Receivables and payable - Transactions between funds outstanding at the end of the fiscal year are referred as due to/from other funds. The general fund provides services, at cost, to other funds. The amounts charged to other funds are treated as reductions in expenditures of the general fund.

Eliminations are made in the government wide statements of the amounts reported as inter-fund receivables as well as operating transfers, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

Capital assets

Capital assets acquired or constructed, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

The cost of normal maintenance and repairs that do not add to the value of the capital asset or extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Finally, major outlays for capital assets and improvements are capitalized as the projects are constructed.

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

Installations and recreational parks	120 to 720 months
Building and building improvements	60 to 360 months
Streets and roads	nil to 600 months
Personal property	36 to 180 months
Software	60 to 72 months

Accrued compensated absences

Employees accrue 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. 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 unpaid sick leave at their then current rate of pay, if the employee has at least 10 years of service with the Municipality. Total vested pay benefits accrued for compensated absences at June 30, 2008 amounts to approximately \$9,994,827.

Long-term debt

The liabilities reported in the government-wide statements include the Municipality's general obligation bonds and notes for the realization of capital projects, and other long-term liabilities including vacation, sick leave, and litigation.

Reserves of fund balance

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

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

Debt service - Represents fund balance available to finance future debt service payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

Capital projects - Represent fund balance available to finance future capital outlays and other public works projects. Also includes fund balances available to finance projects approved by the Legislature of the Commonwealth of Puerto Rico for housing, culture and recreation, public works, economic development and other activities requested by the Municipality's citizenship.

Head Start Food and Children programs - Represents fund balances available to finance activities of education and care of the eligible elderly population, mainly through the Head Start, Child Care and Child Care Food federal programs.

Housing projects - Represents fund balances available to finance activities oriented to the housing rent, acquisition, construction and rehabilitation for the Municipality's eligible citizenship.

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. The government wide financial statements include an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

Note 2 - Annual revenues

Property taxes

The CRIM is responsible for the assessment of all real and personal property located within the Municipality of Caguas and for the levy, administration and collection of the corresponding taxes. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of assessment.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000. The Department of the Treasury instead of the property taxpayer becomes the source of payment in these cases.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

The annual tax rate for fiscal year 2008 is 9.53% for real property and 7.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.00% and 4.00% respectively, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted in the general fund. Such amount is deposited by the CRIM 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) 2.5% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

The Commonwealth makes a contribution equivalent to .20% of each of the tax rates to compensate the municipality for a discount granted to the taxpayers.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality records the revenues related to property taxes, net of the operational expenses allocated by the CRIM to the Municipality, when such revenues are reported by the CRIM. During the fiscal year ended June 30, 2008 the allocated expenses amounted to \$1,411,000.

At the end of fiscal year, the amount receivable or payable arising from the fiscal year end settlement of actual property tax collections versus property tax advances made by the CRIM to the Municipality are reported as an increase or deduction of property tax revenue in the general fund, as applicable. Advances of property tax on (a) and (b) above, are recorded as revenues on the General Fund and Debt Service Fund, respectively.

Municipal license taxes

The Municipality imposes a volume of business tax pursuant to Act No. 82 of August 30, 1991, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

Collections of volume of business tax revenues received mainly in April 15, are accounted as deferred revenues, since such collections have a time requirement and should be used starting July 1st of next fiscal year. In the next fiscal year, the deferred volume of business tax revenues are recognized as revenue, net of any credit or refunds payable to taxpayers.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Sales taxes

On February 25, 2005, the Municipal Legislature of Caguas became the first Municipality in Puerto Rico to approve the Ordinance No. 05A-46 which defined public policy establishing a Municipal Citizen's Contribution (a sales tax) of 1% over retail sales inside the municipal jurisdiction. Said Ordinance was amended on June 30th and October 31, 2005 to include the scope, limitations and administrative provisions for the management of the Contribution and other tax-free items, respectively. A ruling was also approved by the Mayor on September 1, 2005 to provide a better understanding of the Ordinances.

Up to this point the sales tax had been kept and managed at the Municipal level. However, on July 4, 2006, Law No. 117 known as "Tax Justice Law of 2006" (hereinafter the "Act") incorporated a set of amendments to Law No. 120 of October 31, 1994 - "Internal Revenue Code of Puerto Rico of 1994". One of the objectives of this Act was to impose a general sales and use tax of 5.5% at the Commonwealth level. Of this 5.5% the Act authorized the Municipalities to impose a sales and use tax of 1.5% at the Municipal level following the same regulations imposed in the Act. It was a mandate that the 1.5% was approved and established by Ordinance approved by the Municipal Legislature.

On July 12, 2006, the Municipality approved Ordinance No. 6A-6, Series 2006-2007 imposing the 1.5% sales and use tax as authorized in the Act, effective September 1, 2006. Consequently, Ordinance No. 05A-46 as amended was rescinded effective August 31, 2006.

The Internal Revenue Code of Puerto Rico of 1994 was again amended with Law No. 80 of July 29, 2007, specifically addressing Law No. 117. Law No. 80 made it a requirement for Municipalities to impose a 1.5% municipal tax uniformly across the Commonwealth. Municipalities would collect 1% as previously established in Sections 2410 and 6189 of the Act and the remaining .5% would be collected by the Department of Treasury of the Commonwealth of Puerto Rico. In order to comply with the new State Tax Code, on August 3, 2007 the Municipality approved Ordinance 07B-4 (effective August 1, 2007), which abolished Ordinance No. 6A-6, Series 2006-2007 and took the Municipality out the role of imposing regulations over the sales and use tax. From this point on all amendments, new laws, rules, and regulations are responsibilities of the Commonwealth of Puerto Rico as stated by the law.

As the last amendment, the current Law 80 dictates that the .5% collected by the Department of Treasury will be deposited and administered by the Puerto Rico Government Development Bank and will be used for the following purposes:

1. Municipal Redemption Fund – composed of .2% of the .5%. To be used to grant loans for the exclusive benefit of the municipalities. This fund, in addition to other variables, is used to calculate the Municipality's borrowing power within a specific timeframe. The Municipality's borrowing margin for the audited year was approximately \$29,000,000 with a contribution to the fund (in the audited year) of approximately \$1,721,766.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

2. Municipal Development Fund – composed of .2% of the .5%. To be used to establish a Municipal Development Fund to be distributed among all municipalities according to the formula established as part of the Law. The benefit received from this fund in the audited year was approximately \$170,526.
3. Municipal Improvements Fund - .1% of the .5%. To be distributed according to Legislation pass by the Legislative Assembly for capital improvement projects in the municipalities.

Note 3 - Cash, cash equivalents, and investments

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit. The Municipality is subject to the following credit risks:

Custodial credit risk:

The Municipality is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico. Such deposits should be kept in separate accounts in the name of the Municipality. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. During the year ended June 30, 2008, the Municipality invested its funds in bank accounts bearing interest.

At June 30, 2008 the Municipality had bank balances as follows:

Insured by the federal deposits insurance corporation.	\$ 659,310
Collateralized by securities held by the pledging financial institution's trust department in the Corporation's name.	
	<u>12,555,850</u>
Total	<u>\$ 13,215,160</u>

In addition, as of June 30 2008, the Municipality's custodial credit risk was approximately \$24 million, which is the bank balance of cash deposited at the Government Development Bank for Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Interest rate credit risk:

At June 30, 2008, the Municipality maintains investments in debt securities with a fair market value of approximately \$8 millions, which are secured by the Federal Government. Market values of such investments are very sensitive to the changes in the interest rates. At June 30, 2008, the Municipality had a risk of not recovering the market value of such investments if such investments are sold.

Note 4 - Intergovernmental revenues

Sources of intergovernmental revenues are primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as Puerto Rico Electric Power Authority (PREPA). The amount of contribution in lieu of tax for the year 2007-2008 was \$7,982,618.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, subsidies through legislative appropriations mainly for capital improvements.

Note 5 - Inter-fund loans

Due from/to other funds

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2008:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Housing and Rental Program	\$ 1,992,235
	Public Residential Administration	9,309
	Head Start Food and Children Program	671,263
	Capital Project	2,540,745
	Legislative	439,120
	Other Governmental Funds	6,685,484
	Community Development Bank	140,161
	Multitenant	8,183
General		<u>\$ 12,486,500</u>

The purpose of each inter-fund balances are the following:

Payables to the general funds:

Housing and rental - includes expenditures mainly of the Section 8 Housing Choice Voucher, HOME Investment Partnership Program and other housing projects sponsored by the Municipality, which are initially disbursed through the general fund.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Public Residential Administration – includes maintenance expenditures allowable under the intergovernmental agreement between the Municipality and the Puerto Rico Public Housing Administration regarding the José Gautier Benítez public residential housing project, by which the Municipality is a Management Agent for the maintenance of the dwelling units and the facilities of the project, as well as other certain administration tasks. These expenditures are initially disbursed through the general fund.

Head Start Food and Children - includes expenditures mainly of the Head Start, Child Care and USDA Food and Children programs and other related projects sponsored by the Municipality, which are initially disbursed through the general fund.

Capital project fund - includes expenditures mainly of the Community Development Block grants and Community Facilities Loans Programs and other related projects sponsored by the Municipality, which are initially disbursed through the general fund.

Community Development Bank (CDB) - includes professional fees, rent and other operating expenses of the CDB, but disbursed initially through the general fund.

Multi-tenant Funds – includes expenditures to finance mainly the construction of various projects whose use will be oriented to technology development, in the "Multifabril" Buildings", which were disbursed initially through the general fund.

Other governmental funds - includes expenditures mainly to finance certain public safety and health and welfare projects that involve both the use of federal and municipal funds and which were initially disbursed through the general fund.

Transfers in/out

Inter-fund transfers in/out reflect the transfers of resources between from one fund to another without the attempt of recovering. Following is a summary of inter-fund transfers for the year ended June 30, 2008:

<u>Transferred in</u>	<u>Transferred out</u>	<u>Amount</u>
General		\$ 350,000
Debt service		1,539,324
	Capital project	<u>1,889,324</u>
Capital Project		4,046,925
Debt service		5,267,362
Other governmental		5,460,720
Community Development Bank		<u>276,682</u>
	General	<u>15,051,689</u>
Capital project		10,000
General		<u>520,000</u>
	Other governmental	<u>\$ 530,000</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

The purpose of each inter-fund balances are the following:

Transfers-out from the general fund – current financial resources transferred for the performing of capital projects, housing, operational loans debt service payments, public safety, public works and health and welfare projects and CDB's debt service and administrative expenses.

Transfer-outs from capital project fund – current financial resources transferred to the debt service fund for the debt service payment of federal loans and notes and to the general fund for public work projects.

Transfers-out from the other governmental funds - current financial resources transferred to the capital projects and the general fund for the realization of various projects of capital improvements and public works.

Note 6 - Capital assets

A summary of the activity of capital assets for governmental activities group follows:

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
<u>Capital assets not being depreciated</u>					
Land and improvements	\$ 38,595,449	\$ 7,900,339	\$ -	\$ -	\$ 46,495,788
Construction in progress	81,271,668	26,176,983	-	(20,118,498)	87,330,153
Works of art and historical treasures	2,989,541	412,920	-	-	3,402,461
Total not being depreciated	122,856,658	34,490,242	-	(20,118,498)	137,228,402
<u>Other capital assets</u>					
Facilities and improvements	12,627,444	-	-	10,002,371	22,629,815
Buildings and improvements	106,698,494	50,000,000	-	2,053,872	158,752,366
Computer software	1,112,084	-	-	-	1,112,084
Roads and streets	394,865,016	-	-	8,062,255	402,927,271
Equipment and vehicles	35,245,769	3,041,765	(540,649)	-	37,746,885
Total Other capital assets	550,548,807	53,041,765	(540,649)	20,118,498	623,168,421
<u>Accumulated depreciation</u>					
	Balance June 30, 2007	Depreciation Expense	Retirements	Transfers	Balance June 30, 2008
Facilities and improvements	8,281,669	758,100	-	-	9,039,769
Building and improvements	69,977,865	7,177,308	-	-	77,155,173
Equipment and vehicles	19,727,202	2,404,630	(497,397)	-	21,634,435
Computer software	316,167	1,500	-	-	317,667
Roads and streets	107,876,518	10,394,437	-	-	118,270,955
Total	206,179,421	20,735,975	(497,397)	-	226,417,999
Capital assets, net	\$ 467,226,044	\$ 66,796,032	\$ (43,252)	\$ -	\$ 533,978,824

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

A summary of the activity of capital assets for business-type activities group follows:

	Balance at June 30, 2007	Additions	Disposals	Balance at June 30, 2008
Capital assets not being depreciated				
Land and improvements	\$ 3,937,554	\$ -	\$ -	\$ 3,937,554
Construction in progress	5,432,694	1,061,000	-	6,493,694
Total not being depreciated	<u>9,370,248</u>	<u>1,061,000</u>	<u>-</u>	<u>10,431,248</u>
<u>Other capital assets</u>				
Building and improvements	3,017,270	-	-	3,017,270
Equipment	<u>35,748</u>	<u>-</u>	<u>-</u>	<u>35,748</u>
Total other capital assets	<u>3,053,018</u>	<u>-</u>	<u>-</u>	<u>3,053,018</u>
<u>Accumulated depreciation</u>				
Building and improvement	382,737	60,745	-	443,482
Equipment	<u>34,122</u>	<u>429</u>	<u>-</u>	<u>34,551</u>
	<u>416,859</u>	<u>61,174</u>	<u>-</u>	<u>478,033</u>
Capital assets, net	<u>\$ 12,006,407</u>	<u>\$ 999,826</u>	<u>\$ -</u>	<u>\$ 13,006,233</u>

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

General government	\$ 4,444,600
Public safety	354,114
Public works	8,362,325
Culture and recreation	4,138,808
Health and welfare	70,007
Education	2,421,809
Housing	484,559
Sanitation and environmental	260,078
Economic development	199,675
	<u>\$ 20,735,975</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Note 7 - General long - term debt

The legal debt margin of the Municipality is equal to 10% of the total assessment of property located within the Municipality. At June 30, 2008, total property assessments, based on information reported by the Municipal Revenue Collection Center amounted to \$1,260,376,436 of which \$659,566,108 and \$600,810,328 are real and personal property, respectively. All of the Municipality's long-term debt has been issued for the construction of capital projects in benefit of the citizenship.

Changes in general long - term debt of governmental activities for the fiscal year ended July 2, 2008 are summarized as follows:

	Bonds	Federal Loan and Notes	Operational Loans	Totals
Balance at July 2, 2007	\$ 114,153,680	\$ 8,605,000	\$ 50,043,791	\$ 172,802,471
Payments	(5,852,000)	(1,000,000)	(2,581,033)	(9,433,033)
New debt issued	6,802,000	624,000	18,570,000	25,996,000
Balance at July 2, 2008	<u>\$ 115,103,680</u>	<u>\$ 8,229,000</u>	<u>\$ 66,032,758</u>	<u>\$ 189,365,438</u>

As of July 2, 2008, debt service requirements for the above long-term debt, are as follows:

Fiscal year	Principal	Interest	Total
2009	\$ 9,515,758	\$ 9,319,506	\$ 18,835,264
2010	9,702,003	7,500,462	17,202,465
2011	9,357,000	8,383,669	17,740,669
2012	8,650,000	7,674,946	16,324,946
2013-2017	44,831,000	30,380,130	75,211,130
2018-2022	39,014,907	18,995,441	58,010,347
2023-2027	39,653,000	7,125,703	46,778,703
2028-2032	28,641,770	418,121	29,059,891
	<u>\$ 189,365,438</u>	<u>\$ 89,797,978</u>	<u>\$ 279,163,416</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

General obligation bonds payable as of June 30, 2008 are as follows:

Bonds:

<u>Series</u>	<u>Interest Rate</u>	<u>Payable Through</u>	<u>Original Issue</u>	<u>Balance</u>
1984	5	2008	\$ 663,000	\$ -
1986	5	2010	\$ 1,118,000	167,003
1987	6.13	2011	\$ 1,870,000	418,000
1987	5	2011	\$ 283,000	57,000
1989	5	2014	\$ 85,000	33,000
1991	5	2015	\$ 580,000	249,000
1994	5 - 7.71	2013	\$ 18,890,000	7,690,000
1994	5.63	2018	\$ 2,200,000	1,396,001
1996	4.7 - 6.58	2015	\$ 15,955,000	8,465,000
1996	4.5	2019	\$ 776,000	509,026
1999	4.5	2030	\$ 1,640,000	1,525,000
1999	4.86 - 6.34	2106	\$ 13,300,000	8,155,000
2000	2.7 - 7.29	2024	\$ 3,150,000	2,610,000
2000	2.7 - 7.29	2026	\$ 10,350,000	8,315,000
2000	4.75	2030	\$ 500,000	466,000
2002	2.7 - 5.6	2026	\$ 9,845,000	8,570,000
2002	2.7 - 5.6	2026	\$ 125,000	90,000
2002	5 - 5.6	2026	\$ 1,360,000	1,165,000
2003	1.65 - 5	2028	\$ 9,900,000	8,755,000
2004	2.36 - 6	2029	\$ 1,575,000	1,415,000
2004	2.52 - 5	2029	\$ 370,000	340,000
2004	2.52 - 5	2029	\$ 460,000	420,000
2005	4.37 - 5	2024	\$ 1,610,000	1,400,000
2007	5.32 - 6.25	2021	\$ 9,910,000	8,635,000
2007	4.74 - 5	2025	\$ 11,015,000	10,020,000
2007	4.74 - 5	2025	\$ 11,020,000	10,015,000
2008	5.54	2026	\$ 7,575,000	7,130,000
2008	4.75	2031	\$ 2,695,000	2,576,650
2008	6	2031	\$ 8,060,000	7,715,000
2008	7.5	2033	\$ 6,802,000	6,802,000
Total Bonds				\$ 115,103,680

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUASNotes to Financial Statements (continued)
June 30, 2008

<u>Federal loans and notes:</u>	<u>Balance</u>
Sec. 108 loans:	
\$8 million payable in annual installments fluctuating from \$200,000 to \$600,000 at 7.50% interest rate until year 2019, secured by building and adjacent parking facility owned by the Municipality and appraised at an aggregated fair market value of approximately \$11.8 million.	\$ 5,800,000
\$2,545,000 payable in annual installments fluctuating from \$350,000 to \$500,000 at 1.21% to 4.44% interest rate until year 2009, secured by public facilities of the Municipality	975,000
\$1.4 million payable in annual installments fluctuating from \$125,000 to \$270,000 at 6.57% interest rate until year 2011, secured by public facilities of the Municipality	830,000
Rural Development Administration loan in the amount of \$624,000 payable in annual installments fluctuating from \$18,000 to \$42,000 at 4.125% interest rate until year 2030, secured by public facilities of the Municipality	624,000
Total federal loans and notes	<u>\$ 8,229,000</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

<u>Operational loans:</u>	<u>Balance</u>
\$2,065,000 payable in annual installments from \$35,000 to \$165,000 with interest rate fluctuating from 3.65% to 6.67% until year 2027, secured by the Municipality	\$ 1,820,000
\$2,350,000 payable in annual installments from \$270,000 to \$400,000 with interest rate at 5.5% until year 2009, secured by the Municipality	400,000
\$540,662 payable in annual installments from \$6,758 to \$27,033 with interest rate at 8% until year 2008, secured by the Municipality	6,758
\$5,185,000 payable in annual installments from \$90,000 to \$400,000 with interest rate fluctuating from 3.65% to 6.67% until year 2027, secured by the Municipality	4,560,000
\$640,000 payable in annual installments from \$80,000 to \$110,000 with interest rate at 5% until year 2011, secured by the Municipality	300,000
\$15,385,000 payable in annual installments from \$260,000 to \$1,185,000 with interest rate fluctuating from 3.65% to 6.40% until year 2027, secured by the Municipality	13,540,000
\$1,385,000 payable in annual installments from \$245,000 to \$305,000 with interest rate fluctuating from 3.59% to 4.50% until year 2010, secured by the Municipality	595,000
\$10,015,000 payable in annual installments from \$300,000 to \$765,000 with interest rate fluctuating from 5% to 5.58% until year 2025, secured by the Municipality	9,060,000
\$8,575,000 payable in annual installments from \$275,000 to \$705,000 with interest rate fluctuating from 6.48% to 7% until year 2024, secured by the Municipality	8,010,000
\$10,075,000 payable in annual installments from \$255,000 to \$855,000 with interest rate fluctuating from 5.84% to 6.07% until year 2026, secured by the Municipality	9,540,000
\$3,185,000 payable in annual installments from \$60,000 to \$215,000 with interest rate at 5% until year 2032, secured by the Municipality	3,125,000
\$500,000 payable in annual installments from \$19,000 to \$52,000 with interest rate fluctuating from 6.48% to 7.50% until year 2022 secured by the Municipality	481,000
\$7,750,000 payable in annual installments from \$290,000 to \$676,000 with interest rate fluctuating from 4.15% to 5.72% until year 2024 secured by the Municipality	7,460,000
\$7,135,000 payable in annual installments from \$805,000 to \$1,255,000 with interest rate at 7.5% until year 2015, secured by the Municipality	7,135,000
Total operational loans	<u>\$ 66,032,758</u>

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Notes to Financial Statements (continued)
June 30, 2008

Long-term debt for business-type activities at June 30, 2008 is summarized as follows:

Special bond obligation for \$500,000 to provide financing for the construction and rehabilitation of housing project for citizens of low and moderate income; annual interest rate at 2% with maturity on January 1, 2010, secured by the Municipality	\$ 153,000
Special bond obligation for \$300,000 to provide for financing the reconstruction and rehabilitation of housing project for citizens of low and moderate income; annual interest rate at 2% with maturity on July 30, 2012, secured by the Municipality	<u>126,435</u>
	<u>\$ 279,435</u>

The debt service requirement for the long-term debt of Enterprise funds is scheduled as follow:

Fiscal year	Principal	Interest	Total
2009	\$ 123,479	\$ 4,942	\$ 128,421
2010	98,667	2,150	100,817
2011	35,619	970	36,589
2012	21,669	254	21,924
	<u>\$ 279,435</u>	<u>\$ 8,316</u>	<u>\$ 287,751</u>

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Notes to Financial Statements (continued)
June 30, 2008

Note 8 - Retirement plans

Retirement System of the Commonwealth of Puerto Rico

The Municipality participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation required 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 participants' gross salary. Total employer contributions during the year ended June 30, 2008 amounted to approximately \$2,873,000.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000 will only be allowed to become members of the System 2000. System 2000 will reduce the retirement age from 65 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 the System 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% of the employees' salary up to a maximum of 10%) will be invested in account which 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 System investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

For the year ended June 30, 2008, total covered payroll was approximately \$27 million. Covered payroll refers to all compensation paid by the Municipality to employees covered by the ERS on which contributions to the pension are based.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years, for those employees covered after March 31, 1990, the annuity shall be equal to one and one-half percent of the average compensation multiplied by the number of years of creditable service, in no case shall the annuity be less than \$2,400.

Retirement plan of Head Start Program

Effective January 1, 2002, the Municipality created a retirement plan (the Plan) for all employees of the whose salaries were funded with the Head Start federal financial award and which have at least one year of service and are age twenty-one or older. The Plan is part of the Popular Master Defined Contribution Retirement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Municipality was required to contribute three percent (3%) of the employees' annual compensation. Participants may contribute based on after tax contributions amounts representing up to ten percent (10%) of the aggregate compensation paid to the employee, excluding the Christmas Bonus.

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting is based on years of continuous service. The participant vesting schedule on such portion of their accounts is described below:

<u>Completed years of service</u>	<u>Vested percentage</u>
Less than 3 years	0%
At least 3 years	20%
At least 4 years	40%
At least 5 years	60%
At least 6 years	80%
At least 7 years	100%

The vesting provisions consider years of service before the employer established this Plan.

On termination of service due to death, disability or retirement, a participant or beneficiary may elect to receive a lump-sum amount equal to the value of the participants' vested interest in his/her account, or maintain the funds in the Plan. Also, ten years annuities are allowed under the plan. The normal retirement age is the latter of the date a participant attains his 65th birthday or the fifth anniversary of the first day of the plan year in which he/she commenced participation in the Plan. Early retirement distributions are not permitted. Under the provisions of the Plan, participants are not permitted to withdraw any amount contributed by the employer from the plan, unless separated from employment.

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Notes to Financial Statements (continued)
June 30, 2008

During the year ended June 30, 2008, the Municipality contributions to this plan amounted to approximately \$179,306. At June 30, 2008, the Municipality had a restricted amount of \$1,357,456, which is also reported as part of the accrued liabilities in the Statement of Net Assets for the vested benefits to Plan's participants.

Note 9 - Commitments

Operating leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2008 amounted to approximately \$1,481,000. Future operating lease commitments are scheduled as follows:

2009	\$	282,564
2010		184,962
2011		132,375
2012		90,315
2013		<u>32,362</u>
	\$	<u>722,578</u>

General construction of capital project commitments

The Municipality has commitments to invest approximately \$104,509,963 to complete construction and rehabilitation projects at several locations within the Municipality, which is allocated between Federal and Municipal funds for \$18,754,773 and \$85,755,190, respectively to satisfy these projects.

Solid waste disposal contract

In September 2001, the Municipality contracted E.C. Waste Inc. to provide the service of for the recollection, management and disposal of solid waste. This contract was amended in April 2003 to incorporate additional services related with those previously mentioned. In the contract it was established that the Municipality is committed to pay E.C. Waste Inc. \$10.50 per unit served applied to a starting minimum of 45,500 units with annual increases of two and a half percent (2.5%) up to fiscal year to be ended at June 30, 2010. Expenditure for the year ended June 30, 2008 for this service amounts to \$7,065,240. The minimum scheduled payments for this commitment are disclosed as follows:

2009	\$	7,065,240
2010		<u>7,065,240</u>
	\$	<u>14,130,480</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAGUAS

Notes to Financial Statements (continued)
June 30, 2008

In addition, the Municipality is committed to pay an additional \$37.52 per tons that the Municipality transports and deposits in the E.C. Waste, Inc.'s center of recollection of such solid wastes for their processing. The price of the rate is also subject to an annual increase of two and a half (2 ½ %). During the fiscal year ended June 30, 2008 the cost for the Municipality for this additional service amounted to approximately \$411,400.

Contributions not for profits corporations

Law #137 of August 9th, 2002, amended Article 17.001 and added Article 17.016 to the 1991 Autonomous Municipalities Law #81 of the Commonwealth of Puerto Rico. This amendment authorizes Municipalities "to be part of, participate, support and sponsor non-profit organizations under the General Law of Corporations of 1995, as amended, and as long as it is organized to promote economic and cultural development or social improvement of a municipality or region of which the municipality is part of and the corporation counts with the participation and engagement of, in addition of the municipalities, the different sectors composed of higher level educational institutions and industrial and commercial enterprises, including associations grouping businesses and industries...Municipalities' participation on the Board of Directors cannot exceed 1/3 of the total members."

Under this Article, the Municipality of Caguas, participates in various forms with (1) Corporacion de Bellas Artes de Caguas (COBAC); (2) Corporacion de Salud Aseguradora por Nuestra Organizacion Solidaria, Inc. (SANOS); (3) Corporación de Conservacion Etnoecologica Criolla, Inc. (CCECI); (4) Iniciativa Tecnologica Centro-Oriental, Inc. (INTECO); and (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO).

On October 8, 2004 representatives of the Municipality and COBAC signed a 15-year lease contract, transferring the operations of the Fine Arts Center (FAC) to COBAC effective July 1, 2004 for a \$1,000 annual rental fee payable to the Municipality. In addition, the Municipality is scheduled to make annual contributions for 5 years at par with the commitments that each representative on the Board has agreed to contribute. The contribution made by the Municipality to COBAC for the year ended June 30, 2008 was \$349,617. The remaining contribution for year ending June 30, 2009 is scheduled to be \$174,800. From there on, COBAC would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality's representation on the Board of Directors is 4 out of 17 members, or 24% of the voting power.

On July 1, 2006 representatives of the Municipality and SANOS signed a 5-year lease contract for the facilities where SANOS is currently located for a \$1 annual fee payable to the Municipality. In addition, the Municipality agreed to contribute \$300,000 annually for fiscal years 2006-2007 and 2007-2008 and pay the utilities until June 30, 2009. More recently, on December 1, 2007 the Municipality granted SANOS a contract for \$35,000 (to be matched by SANOS) to administer CDBG funds to develop and implement strategies to promote and educate citizens about suicide. From there on, SANOS would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality occupies up to 1/3 of the Board of Director's seats.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

On April 26, 2007 representatives of the Municipality and CCECI signed a 10-year lease contract for the land and facilities comprising the Caguas Botanical and Cultural Garden for an annual fee of \$1, effective April 18, 2007. The Municipality agreed to contribute (1) operation funds for \$500,000 for each fiscal year 2007-2008 and 2008-2009; \$350,000 for fiscal years 2009-2010 and 2010-2011; \$300,000 for fiscal year 2011-2012; (2) payment of utilities corresponding to the land and facilities included in the contract; (3) payment of the applicable insurance policies as the owner of the land and facilities; and (4) remaining funds assigned to the development of the Garden in the various dependencies/departments within the Municipality until June 30, 2007. From there on, CCECI would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. This contract was amended October 17, 2007 to provide CCECI an additional \$390,000 for the relocation and improvements of the Archeological Lab and other miscellaneous tasks. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members.

On September 3, 2003 representatives of the Caguas and other Municipalities signed a contractual agreement with INTECO to contribute funds; property; social, human, physical and technological capital from time to time. After the initial contribution, each Municipality would contribute approximately \$1 per person annually according to the most recent Census available. The Municipality of Caguas and INTECO have and will enter into contractual agreements for specific projects from time to time. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members.

On August 21, 2007 the Banco de Desarrollo de la Comunidad (BDC) was incorporated as a non-profit organization named BADECO. The plan is to expand BADECO regionally to 14 additional Municipalities. No contract has been signed between the Municipality of Caguas and BADECO. It is planned to have BADECO operating in a similar form as the organizations mentioned above. The proposed Board of Directors has not been convoked or approved. The corporation has no current activity.

Due to the Administration of the Retirement Systems

As a result of an audit performed in the Administration of the Retirement System of the Commonwealth of Puerto Rico (the System), it was determined that the System had not billed to the Municipality the costs of benefits due to inflation and pension increases during the fiscal periods covering from 2002-2003 to 2007-2008. Amount due to the System for this concept amounted to \$377,208.

Through the Ordinance 07B-22, the Municipality ratified a payment plan agreement with the System for the amount above mentioned and it is schedule to mature on May 2010, as follows:

2009	\$	188,604
2010		188,604
	\$	<u>377,208</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Housing and Rental Contracts

The Housing Choice Voucher Program (HCVP) provides rental assistance to help very low-income families afford decent, safe, and sanitary rental housing.

The Municipality as a local public housing agency (PHA) administers authorized under Federal and State laws to operate housing programs within an area or jurisdiction. The Municipality, as a PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent (a housing assistance payment (HAP)) on behalf of the family.

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR section 982.1).

HUD enters into annual contributions contracts (ACCs) with PHAs under which the Department of Housing and Urban Development (HUD) provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR section 982.151).

During the fiscal year ended June 30, 2008, the Municipality incurred in HAP's for \$6,700,000, and it is committed for the fiscal year 2008-2009 to disburse HAP's for additional \$2,211,341, in such existing contracts which are scheduled to finish in such fiscal year.

Professional services contracts

The Municipality maintains various professional service contracts covering various areas. During the fiscal year ended June 30, 2008, the total expenditure for professional service contracts was \$622,843. In addition the Municipality's commitment for contracts beyond June 30, 2008 is the following:

<u>Fiscal year</u>	<u>Amount</u>
2008-2009	\$ 1,917,863
2009-2010	249,108
2010-2011	186,831
	<u>\$ 2,353,802</u>

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Note 10 - Contingencies

Litigation

The Municipality is a defendant in 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 \$6,233,644 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

The amount presented in the total liabilities of the governmental activities in the statement of net assets represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

Federal financial assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

Note 11 - Healthcare costs

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately \$7,794,000 for the fiscal year ended June 30, 2008.

COMMONWEALTH OF PUERTO RICO
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Notes to Financial Statements (continued)
June 30, 2008

Note 12 - Accrued liabilities

At June 30, the Municipality had the following accrued liabilities:

	Balance at June 30, <u>2007</u>	<u>Additons</u>	<u>Deductions</u>	Balance at June 30, <u>2008</u>	Due within one <u>year</u>
Accrued compensated absences	\$ 9,797,200	\$ 1,657,038	\$ (1,459,411)	\$ 9,994,827	\$ 1,500,000
Accrued legal claims	<u>7,824,107</u>	<u>636,535</u>	<u>(2,226,998)</u>	<u>6,233,644</u>	<u>350,000</u>
	<u>\$ 17,621,307</u>	<u>\$ 2,293,573</u>	<u>\$ (3,686,409)</u>	<u>\$ 16,228,471</u>	<u>\$ 1,850,000</u>

Note 13 - Prior period adjustments

The Municipality restated the beginning fund balances at July 1, 2007 to correct the following:

Overstatement in rent and volume of business taxes receivable	\$ (5,949,861)
Overstatement in housing grant receivable	(3,199,363)
Overstatement in expenditures related with non-capital projects	<u>2,534,583</u>
	<u>\$ (6,614,641)</u>

The Municipality restated the beginning net assets of governmental activities to correct the following:

Overstatement in rent and volume of business taxes receivable	\$ (5,949,861)
Overstatement in housing grant receivable	(3,199,363)
Overstatement in expenditures related with non-capital projects	2,534,583
Understatement in general capital assets	1,366,084
Understatement of operating grants due to non inclusion of contribution in lieu of taxes from PREPA as progam revenue	6,521,200
Duplicity in accounts payable of governmental activities	<u>2,594,494</u>
	<u>\$ 3,867,137</u>

The Municipality restated the beginning net assets of business type activities to correct the following:

To correct overstatement in loans receivable	\$ (106,138)
To correct understatement in capital assets of Multitenant Buildings	<u>4,007,014</u>
	<u>\$ 3,900,876</u>