

Autonomous Municipality of Caguas

*Financial Statements for the Fiscal Year Ended
June 30, 2010 and Independent Auditors'
Report Thereon*

UNIDAD DE CORREO
11 JAN 21 AM 9:38

Autonomous Municipality of Caguas

Table of Contents

	Pages
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Government Wide Financial Statements:	
Statements of Net Assets	17
Statement of Activities	19
Fund Financial Statements	
Governmental Funds Balance Sheet	20
Reconciliation of Fund Balance of Governmental Funds to Net Assets of Governmental Activities	22
Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	25
Schedule of Revenues, Expenditures-Budget and Actual – General Fund	26
Statements of Net Assets – Proprietary Funds	27
Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	29
Statements of Cash Flows – Proprietary Funds	30
Notes to Financial Statements	31



PARISSI P.S.C.

Certified Public Accountants, Tax & Business Advisors

INDEPENDENT AUDITORS' REPORTS

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Caguas

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 Autonomous Municipality of Caguas (the Municipality) as of and for the fiscal year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express 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. 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 Autonomous Municipality of Caguas as of June 30, 2010, 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.

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 Accounting Principles Generally Accepted in the United States of America. 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 30, 2010
San Juan, Puerto Rico

Stamp No. E282 was affixed
to the original of this report.
License No. 88 Exp. December 1, 2011



Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010



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

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, 2010. Certain reclassifications have been made to the prior year amount within the Management Discussion and Analysis to conform current year presentation. 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 \$387,520,392(*net assets*).
- The government's total assets, in the Government Activities increased by \$5,662,491, and government's liabilities increased in by \$18,395,197. These changes resulted in a decrease in total net assets by \$(12,732,706) (net (decrease) in net assets \$(15,952,223) plus prior period adjustment \$3,219,517).
- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$47,220,106, as restated, after a total and combined net increase of \$10,859,051
- The Municipality's total general long-term debt increased by \$17,249,172 during the current fiscal year. The key factor to this increase was \$32,025,000 of special loans used mostly for infrastructure development.

Overview of the Financial Statements

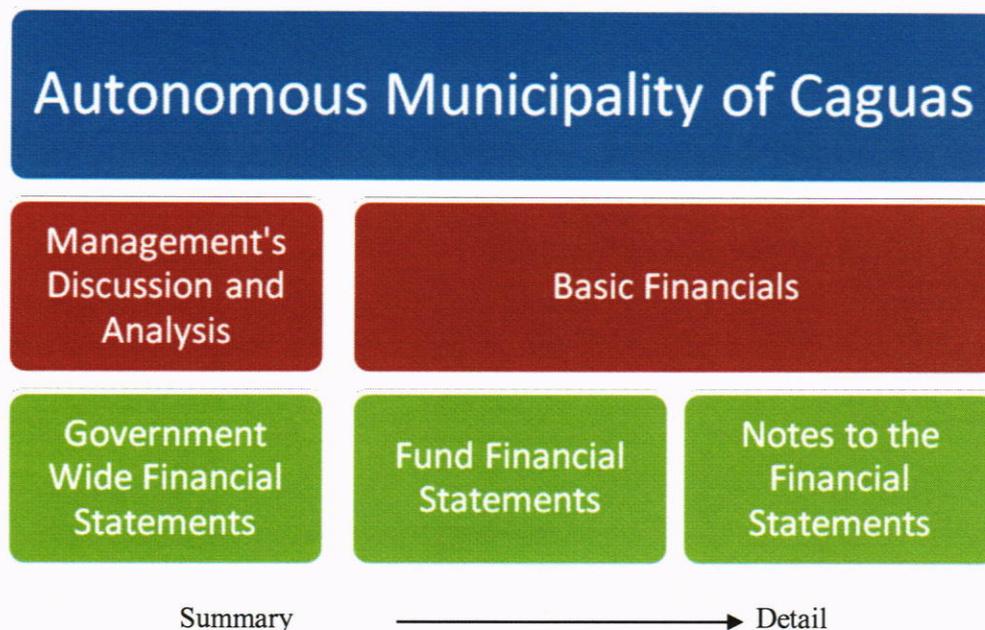
This discussion and analysis are intended to serve as an introduction to The Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. 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.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Pages 17 through 19) 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 22 through 25 and 23 and 24) are the **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.

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.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

The *Statement of Net Assets* presents information on all of the Municipality'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 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's 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 17 through 19 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.

Governmental funds are reported using an accounting method called *modified accrual basis of accounting*. This method is also known as 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 22 and 25).

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

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 26).

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 Statements of Revenues, Expenses and Changes in Net Assets (see Pages 27 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 31 through 68 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 \$358,218,122 as of June 30, 2010. The Municipality's net assets decreased by \$12,732,706 (net (decrease) in net assets of \$(15,952,223) plus prior period adjustment \$3,219,517) for the fiscal year ended June 3, 2010.

One of the largest portions (\$370,652,456) 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 (\$38,934,117) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

The Municipality's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 129,002,739	123,018,796	3,450,026	2,373,919	132,452,765	125,392,715
Capital assets	538,762,391	539,083,843	23,722,874	17,155,385	562,485,265	556,239,228
Loan receivable, net	—	—	2,581,248	2,568,192	2,581,248	2,568,192
Total assets	<u>667,765,130</u>	<u>662,102,639</u>	<u>29,754,148</u>	<u>22,097,496</u>	<u>697,519,278</u>	<u>684,200,135</u>
Current liabilities	75,614,859	73,626,080	377,038	174,990	75,991,897	73,801,070
Other liabilities	233,932,149	217,525,731	74,840	74,840	234,006,989	217,600,571
Total liabilities	<u>309,547,008</u>	<u>291,151,811</u>	<u>451,878</u>	<u>249,830</u>	<u>309,998,886</u>	<u>291,401,641</u>
Net assets:						
Invested in capital assets, net of related debt	370,652,456	387,689,421	23,722,874	17,155,385	394,375,330	404,844,806
Restricted	38,934,117	16,171,912	—	—	38,934,117	16,171,912
Unrestricted	(51,368,451)	(32,910,505)	5,579,396	4,692,281	(45,789,055)	(28,218,224)
Total net assets	<u>\$ 358,218,122</u>	<u>370,950,828</u>	<u>29,302,270</u>	<u>21,847,666</u>	<u>387,520,392</u>	<u>392,798,494</u>

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

The Municipality's Changes In Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 2,081,244	5,809,023	257,095	346,570	2,338,339	6,155,593
Operating grants and contributions	33,176,474	32,729,207	—	—	33,176,474	32,729,207
Capital grants and contributions	4,264,705	2,736,340	—	—	4,264,705	2,736,340
General revenues:						
Property taxes	55,698,431	45,200,224	—	—	55,698,431	45,200,224
Volume of business taxes	23,060,087	37,477,506	—	—	23,060,087	37,477,506
Sales taxes	19,464,329	19,653,668	—	—	19,464,329	19,653,668
Intergovernmental	11,272,151	10,902,119	—	—	11,272,151	10,902,119
Interest and investment income	682,234	2,088,394	17,485	16,951	699,719	2,105,345
Gain on disposal of capital assets	—	(44,589)	1,528,317	—	1,528,317	(44,589)
Other	1,075,040	235,591	16,699	(435,919)	1,091,739	(200,328)
Total revenues	<u>150,774,695</u>	<u>156,787,483</u>	<u>1,819,596</u>	<u>(72,398)</u>	<u>152,594,291</u>	<u>156,715,085</u>
Expenses:						
General government	40,414,023	43,407,060	—	—	40,414,023	43,407,060
Public safety	11,721,689	9,965,172	—	—	11,721,689	9,965,172
Public works	23,517,464	31,999,201	—	—	23,517,464	31,999,201
Cultural and recreation	5,310,329	7,429,284	—	—	5,310,329	7,429,284
Health and welfare	19,589,340	19,062,734	—	—	19,589,340	19,062,734
Economic development	9,563,934	9,675,386	—	—	9,563,934	9,675,386
Housing	12,034,862	18,836,679	—	—	12,034,862	18,836,679
Sanitation and environmental	14,573,005	15,092,658	—	—	14,573,005	15,092,658
Education	15,691,577	14,691,953	—	—	15,691,577	14,691,953
Debt service	—	—	—	—	—	—
Interest	8,611,307	9,448,175	—	—	8,611,307	9,448,175
Loss on disposal of capital asset	—	—	—	—	—	—
Community Development Bank	—	—	240,526	614,851	240,526	614,851
Multitenant	—	—	343,960	179,062	343,960	179,062
Total expenses	<u>161,027,530</u>	<u>179,608,302</u>	<u>584,486</u>	<u>793,913</u>	<u>161,612,016</u>	<u>180,402,215</u>
Increase (decrease) in net assets before transfer	(10,252,835)	(22,820,819)	1,235,110	(866,311)	(9,017,725)	(23,687,130)
Transfer	(5,699,388)	(3,982,084)	5,699,388	3,982,084	—	—
Net increase (decrease) in net assets	<u>(15,952,223)</u>	<u>(26,802,903)</u>	<u>6,934,498</u>	<u>3,115,773</u>	<u>(9,017,725)</u>	<u>(23,687,130)</u>
Net assets, beginning as previously reported	370,950,828	403,106,997	21,847,666	18,385,590	392,798,494	421,492,587
Prior period adjustments	3,219,517	(5,353,266)	520,106	346,303	3,739,623	(5,006,963)
Net assets, beginning as restated	<u>374,170,345</u>	<u>397,753,731</u>	<u>22,367,772</u>	<u>18,731,893</u>	<u>396,538,117</u>	<u>416,485,624</u>
Net assets, ending	\$ <u>358,218,122</u>	<u>370,950,828</u>	<u>29,302,270</u>	<u>21,847,666</u>	<u>387,520,392</u>	<u>392,798,494</u>

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

Governmental activities – Governmental activities decreased the Municipality's net assets by \$12,732,706, (net (decrease) in net assets \$(15,952,223) plus prior period adjustment \$3,219,517), thereby accounting for almost the total reduction in the net assets of the Municipality. Key elements of this decrease are as follows:

- Total revenues decreased 3.86% over prior year reported.
 - Decrease in volume of business taxes
 - Decrease on interest on investment income,

As is of common knowledge, the world economy has undergone excruciating conditions in the 2009-2010 reporting year, and Caguas was not immune to it. As is reported in this statement, total revenues decreased in the Municipality of Caguas across most segments. Additionally, given the reduction in interest rates in the banking sector, the municipality of Caguas was also affected with lower returns on its bank deposits.

- Total expenses decreased by 10.37% over prior year

Major decreases in expense includes: general government, public works, housing and, cultural and recreation. In response to economic indications pointing to lower revenues, the municipality of Caguas adopted precautionary measures. A plan of cost reduction was implemented. As a result, the Municipality was successful in lowering the expenses of its operations. Major decreases in expenses were achieved in: general government, public works, housing, cultural and recreation. Despite the reductions, the Municipality found it pertinent to increase investments in public safety and education.

- Major increase in expenses includes: public safety and education.

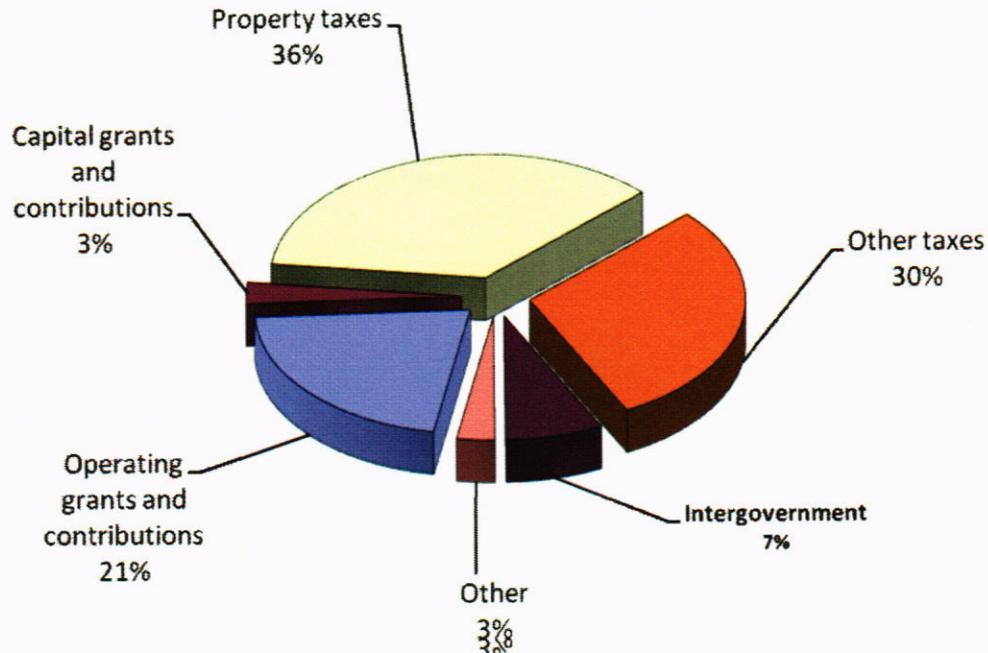
This space has been intentionally left in blank

Autonomous Municipality of Caguas

Management's Discussion and Analysis

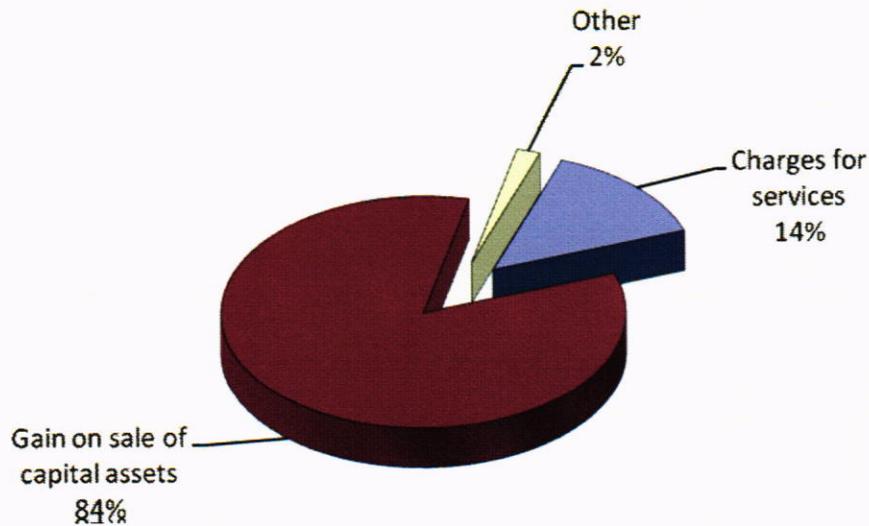
June 30, 2010

Revenues by Source - Governmental Activities



Business-type activities: Business-type activities increased the Municipality's net assets by \$1,891,994, amortizing the decrease in the government's net assets.

Revenues by Source - Business Type Activities



Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

- Total revenues increased by \$1,891,994 over prior year reported.
 - Decrease in charge for services by \$89,475
 - During the fiscal year the Municipality sold certain capital assets at a gain of \$1,528,317
 - Increase on other income by \$453,152
- Total expenses decreased by \$209,427 over prior year
 - Major decreases in expense include: Community Development Bank.
 - Major increase in expenses includes: Multitenant.

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.

At June 30, 2010, the governmental funds of the Municipality reported a combined fund balance of \$47,220,106, as restated. This amount represents an increase of forty three percent over last year. The primary reason for this increase was increase of excess of revenues and other financing sources over expenditures and other financing uses of \$10,859,051 and a prior period adjustment of \$3,219,517 (see note 15 of the accompanying financial statements).

This space has been intentionally left in blank

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

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. During the fiscal year ended as of June 30, 2010 no amendments to the General Fund were made.

The Municipality's Budget Activity

	<u>Original</u>	<u>Amendments</u>	<u>Transfers</u>	<u>Final</u>
Resources:				
Property taxes	\$ 33,506,086	—	—	33,506,086
Volume of business taxes	26,000,000	—	—	26,000,000
Sales taxes	17,200,000	—	—	17,200,000
Fines and penalties	210,000	—	—	210,000
Interest and investment income	1,500,000	—	—	1,500,000
Intergovernmental	8,449,674	—	—	8,449,674
Licenses and permits	5,011,000	—	—	5,011,000
Parking lot fees	207,090	—	—	207,090
Rent and other resources	14,587,078	—	—	14,587,078
Amounts available for appropriation	<u>106,670,928</u>	<u>—</u>	<u>—</u>	<u>106,670,928</u>
Expenditures charged to appropriations:				
Culture and recreation	6,844,989	—	(616,732)	6,228,257
Economic and social development	6,164,489	—	366,337	6,530,826
Education	3,174,688	—	(57,094)	3,117,594
General government	37,190,320	—	3,175,673	40,365,993
Health and welfare	12,369,978	—	(453,573)	11,916,405
Housing	976,709	—	(98,445)	878,264
Sanitation and environmental	16,108,275	—	(1,327,071)	14,781,204
Public safety	11,245,776	—	(584,318)	10,661,458
Public works	12,595,704	—	(404,777)	12,190,927
Total charges to appropriations	<u>106,670,928</u>	<u>—</u>	<u>—</u>	<u>106,670,928</u>
Excess of resources over appropriations	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

- Actual budgetary transactions generated an excess of resources over appropriations of \$4,287,496 due to the following:
 - A decrease in resources over of budget by \$926,620 mainly in other rent and other resources.
 - A decrease in appropriations by \$5,214,116 mainly in a reduction of appropriations in general government and public works.

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 \$3,068,774, and those of the Multi-tenant Fund equaled \$2,510,622. The total increase (decrease) in net assets for both funds was \$(675,478) and \$7,609,976, 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, 2010, totals \$562,485,265 (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

This space has been intentionally left in blank

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

The Municipality's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<u>Capital assets not being depreciated</u>						
Land and improvements	\$ 47,310,740	46,577,146	3,937,554	3,937,554	51,248,294	50,514,700
Construction in progress	36,364,509	33,041,929	4,673,329	—	41,037,838	33,041,929
Works of art and historical treasures	3,474,561	3,428,661	—	—	3,474,561	3,428,661
Total not being depreciated	<u>87,149,810</u>	<u>83,047,736</u>	<u>8,610,883</u>	<u>3,937,554</u>	<u>95,760,693</u>	<u>86,985,290</u>
<u>Capital assets net of depreciation</u>						
Facilities and improvements	26,846,079	25,732,265	—	—	26,846,079	25,732,265
Buildings and improvements	118,405,672	113,360,130	15,110,056	13,217,363	133,515,728	126,577,493
Roads and streets	291,325,602	300,795,438	—	—	291,325,602	300,795,438
Equipment and vehicles	15,035,228	16,148,274	1,935	768	15,037,163	16,149,042
Total net of depreciation	<u>451,612,581</u>	<u>456,036,107</u>	<u>15,111,991</u>	<u>13,218,131</u>	<u>466,724,572</u>	<u>469,254,238</u>
Total capital assets net of depreciation	\$ <u>538,762,391</u>	<u>539,083,843</u>	<u>23,722,874</u>	<u>17,155,685</u>	<u>562,485,265</u>	<u>556,239,528</u>

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

Major additions to constructions in progress (disbursements of more than \$800,000) as of June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Interactive Science and Technology Center	\$ 5,143,297
Bo Cañaboncito Community Center	1,068,912
Downtown Infrastructure's Betterment	1,041,240
Roads maintenance	954,394
José Gautierre Benitez's Residential Remodeling	877,109
Betterments to Degetau Avenue	801,853
	<u>\$ 9,886,805</u>

Long-term Debt - As of June 30, 2010, The Municipality had total debt outstanding of \$235,192,677 all of which is debt backed by the full faith and credit of the Municipality.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

The Municipality's Outstanding Debt General Obligation Bonds

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 211,883,677	115,180,680	74,840	224,165	211,958,517	115,404,845
Federal loans and notes	5,470,000	6,555,000	—	—	5,470,000	6,555,000
Special loans	17,839,000	96,058,500	—	—	17,839,000	96,058,500
Total	<u>\$ 235,192,677</u>	<u>217,794,180</u>	<u>74,840</u>	<u>224,165</u>	<u>235,267,517</u>	<u>218,018,345</u>

The Municipality's total debt increased by \$17,249,172 (7.91%) during the past fiscal year, primarily due to \$32,025,000 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. On March 2009, the Government of Puerto enacted the Special Act Declaring a State of Fiscal Emergency and Establishing an Integrated Fiscal Stabilizing Plan to Save the Credit of Puerto Rico (Public Law 7). Among other things, this Law introduced a new way to view the Real Property valuation (see note 7 of the accompanying financial statements).

Also, the Municipality has a Municipal Redemption Fund composed of .2% of the .5% of the total sales tax of 1.5%, to support the debt service fund capacity. 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 \$2,660,009.

Additional information regarding the Municipality's long-term debt can be found in note 7 beginning on page 50 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 2009 Puerto Rico Community Survey the population of Caguas was 143,274. 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, Avon, Wal-Mart, Sam's Club and Amigo Supermarket retail chain, K-mart Corp., Costco, Centennial (now AT&T), Walgreen's and HIMA-San Pablo Hospital.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

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/10. This sector had a moderate grow at city level but it is being reduced at the State level since the fiscal year as required by Law 7. Government sector includes a diversity of employments areas such as education, electric power service, water supply, police, public works, culture and recreation, health, legal service and others.

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 adjacent small towns, 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 2010, HIMA San Pablo Hospital almost completed the construction of a modern medical facility for cancer treatment, parking lot facilities and a new medical office building.

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, Home Depot, and 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 for the economic growth in Caguas, continue its declining pattern during 2010 as well as the rest of the island and the continental US. Employment and gross receipts in construction continued declining for 2010 in terms of new projects and housing developments.

Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2010

Governmental initiative such as “Nuevo Edificio Centro de Gobierno”, “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 decreased in comparison to prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2010

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 (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>.

Autonomous Municipality of Caguas

Statements of Net Assets

As of June 30, 2010

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 4,709,145	1,650,843	6,359,988
Cash with fiscal agent	69,410,999	—	69,410,999
Investments	103,863	—	103,863
Accounts receivable:			
Volume of business tax, net	13,065,247	—	13,065,247
Sales taxes, net	3,005,174	—	3,005,174
Intergovernmental	5,383,940	—	5,383,940
Federal grants	12,765,304	—	12,765,304
License and permits, net	142,691	—	142,691
Rent and utilities, net	199,926	—	199,926
Other accounts	164,004	—	164,004
Internal balances	(1,799,183)	1,799,183	—
Deferred debt issued costs	1,337,676	—	1,337,676
Total current assets	108,488,786	3,450,026	111,938,812
Non-current assets:			
Restricted cash and cash equivalents commercial banks	8,022,274	—	8,022,274
Restricted cash and cash equivalents in governmental banks	12,294,339	—	12,294,339
Investments	197,340	—	197,340
Loans receivable, net	—	2,581,248	2,581,248
Capital assets not being depreciated	87,149,810	8,610,883	95,760,693
Capital assets, net of accumulated depreciation	451,612,581	15,111,991	466,724,572
Total non-current assets	559,276,344	26,304,122	585,580,466
Total assets	\$ 667,765,130	29,754,148	697,519,278

(Continued)

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Net Assets

As of June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 6,446,418	—	6,446,418
Accounts payable from restricted assets	7,610,030	—	7,610,030
Accrued liabilities	1,275,120	73,741	1,348,861
Volume of business tax deferred revenue	24,976,208	—	24,976,208
Deferred federal grant revenue	5,869,642	—	5,869,642
Accrued interest payable	3,985,997	—	3,985,997
Bonds, notes payable and special loans	19,385,000	35,269	19,420,269
Accrued compensated absences	1,457,314	—	1,457,314
Due to other governmental entities	3,986,846	—	3,986,846
Internal balance	(303,297)	303,297	—
Advance deposits	925,581	—	925,581
Total current liabilities	<u>75,614,859</u>	<u>412,307</u>	<u>76,027,166</u>
Non current liabilities net of current portions:			
Bonds, notes payable, special loans and notes	215,807,677	39,571	215,847,248
Accrued compensated absences	13,287,006	—	13,287,006
Accrued legal claims	2,995,901	—	2,995,901
Due to other governmental entities	1,841,565	—	1,841,565
Total non-current liabilities	<u>233,932,149</u>	<u>39,571</u>	<u>233,971,720</u>
Total liabilities	<u>309,547,008</u>	<u>451,878</u>	<u>309,998,886</u>
Net assets:			
Invested in capital assets, net of related debt	370,652,456	23,722,874	394,375,330
Restricted for:			
Housing program	3,978,634	—	3,978,634
Food and children program	608,957	—	608,957
Capital project	3,644,871	—	3,644,871
Debt service	19,995,667	—	19,995,667
Other special purposes	10,705,988	—	10,705,988
Unrestricted	(51,368,451)	5,579,396	(45,789,055)
Total net assets	<u>358,218,122</u>	<u>29,302,270</u>	<u>387,520,392</u>
Total liabilities and net assets	<u>\$ 667,765,130</u>	<u>29,754,148</u>	<u>697,519,278</u>

(Concluded)

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Activities

For the Fiscal Year Ended June 30, 2010

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	\$ 40,414,023	758,210	—	—	(39,655,813)	—	(39,655,813)
Public safety	11,721,689	830,352	436,701	—	(10,454,636)	—	(10,454,636)
Public works	23,517,464	—	—	4,264,705	(19,252,759)	—	(19,252,759)
Culture and recreation	5,310,329	—	7,500	—	(5,302,829)	—	(5,302,829)
Health and welfare	19,589,340	—	3,228,072	—	(16,361,268)	—	(16,361,268)
Economic and social development	9,563,934	374,107	6,714,068	—	(2,475,759)	—	(2,475,759)
Housing	12,034,862	—	11,281,772	—	(753,090)	—	(753,090)
Sanitation and environmental	14,573,005	118,575	—	—	(14,454,430)	—	(14,454,430)
Education	15,691,577	—	11,508,361	—	(4,183,216)	—	(4,183,216)
Interest	8,611,307	—	—	—	(8,611,307)	—	(8,611,307)
Total governmental activities:	\$ 161,027,530	2,081,244	33,176,474	4,264,705	(121,505,107)	—	(121,505,107)
Business-type activities:							
Community Development Bank	\$ 240,526	191,591	—	—	—	(48,935)	(48,935)
Multitenant	343,960	65,504	—	—	—	(278,456)	(278,456)
Total business-type activities:	\$ 584,486	257,095	—	—	—	(327,391)	(327,391)
General revenue:							
Property taxes					\$ 55,698,431	—	55,698,431
Volume of business taxes					23,060,087	—	23,060,087
Sales taxes					19,464,329	—	19,464,329
Intergovernmental					11,272,151	—	11,272,151
Interest and investment income					682,234	17,485	699,719
Gain on disposal of capital assets					—	1,528,317	1,528,317
Other					1,075,040	16,699	1,091,739
Total general revenues					111,252,272	1,562,501	112,814,773
Transfers-in (out)					(5,699,388)	5,699,388	—
Changes in net assets					(15,952,223)	6,934,498	(9,017,725)
Net assets - beginning (as previously reported)					370,950,828	21,847,666	392,798,494
Prior period adjustments					3,219,517	520,106	3,739,623
Net assets - beginning (as restated)					374,170,345	22,367,772	396,538,117
Net assets - ending					358,218,122	29,302,270	387,520,392

See notes to financial statements.

Autonomous Municipality of Caguas

Governmental Funds Balance Sheet

As of June 30, 2010

Assets	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Program	Capital Project	Debt Service	Legislative	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 4,813,008	2,468,532	202,455	472,775	7,356,924	—	1,382,822	8,630,445	25,326,961
Cash with fiscal agent	19,953,223	—	—	—	15,973,615	33,484,161	—	—	69,410,999
Volume of business tax receivable, net	13,065,247	—	—	—	—	—	—	—	13,065,247
Sales taxes receivable, net	3,005,174	—	—	—	—	—	—	—	3,005,174
Intergovernmental receivables	628,473	—	—	—	1,405,827	—	5,483	3,344,157	5,383,940
Federal grants receivable	—	1,724,466	—	5,869,822	3,692,179	—	—	1,478,837	12,765,304
Due from other funds	9,104,631	—	—	376,978	—	—	—	—	9,481,609
License and permits receivable, net	142,691	—	—	—	—	—	—	—	142,691
Rent receivable, net	79,546	—	—	—	117,960	—	—	2,420	199,926
Other accounts receivable	—	161,032	—	2,972	—	—	—	—	164,004
Total assets	<u>\$ 50,791,993</u>	<u>4,354,030</u>	<u>202,455</u>	<u>6,722,547</u>	<u>28,546,505</u>	<u>33,484,161</u>	<u>1,388,305</u>	<u>13,455,859</u>	<u>138,945,855</u>

(Continued)

See notes to financial statements.

Autonomous Municipality of Caguas
Governmental Funds Balance Sheet
As of June 30, 2010

Liabilities and Fund Balances	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Program	Capital Project	Debt Service	Legislative	Other Governmental Funds	Total Governmental Funds
Liabilities:									
Accounts payable and accrued liabilities	\$ 6,446,418	320,527	102,496	243,948	4,745,817	—	316,669	1,880,573	14,056,448
Bonds and notes payable	—	—	—	—	—	9,599,000	—	—	9,599,000
Interest payable	—	—	—	—	—	3,889,494	—	—	3,889,494
Due to other governmental entities	796,109	—	—	—	—	—	—	—	796,109
Due to other funds	2,176,161	54,869	99,959	—	6,705,572	—	414,977	1,525,957	10,977,495
Deferred volume of business tax	32,416,741	—	—	—	—	—	—	—	32,416,741
Deferred sales taxes revenue	1,535,606	—	—	—	—	—	—	—	1,535,606
Deferred federal grant revenues	—	1,724,466	—	5,869,642	3,692,179	—	—	—	11,286,287
Other deferred revenues	813,901	150,331	—	—	1,087,792	—	5,485	4,185,479	6,242,988
Advance deposits	925,581	—	—	—	—	—	—	—	925,581
Total liabilities	45,110,517	2,250,193	202,455	6,113,590	16,231,360	13,488,494	737,131	7,592,009	91,725,749
Fund balances:									
Reserved for encumbrances	2,302,160	—	—	—	—	—	—	—	2,302,160
Reserved for housing programs	—	2,103,837	—	—	—	—	—	—	2,103,837
Reserved for youth and children programs	—	—	—	608,957	—	—	—	—	608,957
Reserved for debt service	—	—	—	—	—	19,995,667	—	—	19,995,667
Reserved for capital projects	—	—	—	—	12,315,145	—	—	—	12,315,145
Reserved for special projects	—	—	—	—	—	—	651,174	5,863,850	6,515,024
Unreserved	3,379,316	—	—	—	—	—	—	—	3,379,316
Total fund balances	5,681,476	2,103,837	—	608,957	12,315,145	19,995,667	651,174	5,863,850	47,220,106
Total liabilities and fund balances	\$ 50,791,993	4,354,030	202,455	6,722,547	28,546,505	33,484,161	1,388,305	13,455,859	138,945,855

(Concluded)

See notes to financial statements.

Autonomous Municipality of Caguas
Reconciliation of Fund Balance of Governmental Funds
to Net Assets of Governmental Activities
As of June 30, 2010

Fund balance per Fund statements	\$ 47,220,106
Amounts reported for governmental activities in the statements of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in funds	538,762,391
Liabilities, including due to other governmental entities \$5,032,302, Christmas Bonus \$1,275,120, compensated absences \$ 14,744,320 and legal claims \$2,995,901 are not due and payable in the current period and therefore are not reported in the funds.	(24,047,643)
Other economic resources not available to pay current year expenditures, but collectible after the period of availability, are not reported in the funds	20,635,772
Debt issued by the Municipality have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statements of net assets	1,337,676
General obligation bonds, special and federal loans are not due and payable in the current period and therefore not reported in the funds	<u>(225,690,180)</u>
Net assets of governmental activities	<u>\$ 358,218,122</u>

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Fiscal Year Ended June 30, 2010

	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Program	Capital Project	Debt Service	Legislative	Other Governmental Funds	Totals
Revenues:									
Property taxes	\$ 33,199,180	—	—	—	—	22,499,251	—	—	55,698,431
Volume of business taxes	26,043,011	—	—	—	—	—	—	—	26,043,011
Sales taxes	16,982,435	—	—	—	6,052	3,068,641	—	—	20,051,076
Licenses and permits	1,291,063	—	—	—	4,979,161	—	—	—	1,297,115
Federal grants	—	9,313,846	1,067,926	12,298,788	—	—	—	3,598,531	31,258,252
Fines and penalties	830,352	—	—	—	—	—	—	—	830,352
Interest and investment income	142,702	17,086	2,474	2,669	449,694	4,149	679	62,781	682,234
Intergovernmental	12,117,860	900,000	—	—	4,264,705	—	22,904	1,675,690	18,981,159
Parking lot fees	191,126	—	—	—	—	—	—	28,905	220,031
Rent	207,455	—	—	—	75,587	—	—	11,519	294,561
Solid waste disposal	118,575	—	—	—	—	—	—	—	118,575
Other	587,387	73,042	—	6,591	—	—	—	408,020	1,075,040
Total revenues	91,711,146	10,303,974	1,070,400	12,308,048	9,775,199	25,572,041	23,583	5,785,446	156,549,837
Expenditures:									
General government	35,080,593	—	—	—	274,818	—	—	232,638	35,588,049
Public safety	10,348,429	—	—	—	—	—	—	382,766	10,731,195
Public works	12,816,523	—	—	—	—	—	444,646	1,458,450	14,719,619
Culture and recreation	4,616,000	—	—	—	355,371	—	1,749	100,891	5,072,011
Health and welfare	11,840,578	—	—	—	8,228	—	—	2,434,236	14,283,042
Economic and social development	3,927,302	—	—	—	175,114	—	13,700	236,488	4,352,604
Housing	918,913	9,078,547	915,187	—	977,169	—	—	—	11,889,816
Sanitation and environmental	14,237,560	—	—	—	—	—	—	215,138	14,452,698
Education	1,770,063	—	—	11,949,445	—	—	1,140	1,937,915	15,658,563
Capital outlays	1,668,371	265,160	9,183	329,802	16,163,751	—	535,996	1,993,608	20,965,871
Debt service payments:									
Principal	3,922,623	—	—	—	1,085,000	10,684,000	—	—	15,691,623
Interest	210,422	—	—	—	436,808	7,964,077	—	—	8,611,307
Total expenditures	101,357,377	9,343,707	924,370	12,279,247	19,474,259	18,648,077	997,231	8,992,130	172,016,398
Excess (deficiency) of revenue over (under) expenditures	\$ (9,646,231)	960,267	146,030	28,801	(9,699,060)	6,923,964	(973,648)	(3,206,684)	(15,466,561)

(Continued)

See notes to financial statements.

Autonomous Municipality of Caguas
Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Program	Capital Project	Debt Service	Legislative	Other Governmental Funds	Totals
Excess (deficiency) of revenue over (under) expenditures	\$ (9,646,231)	960,267	146,030	28,801	(9,699,060)	6,923,964	(973,648)	(3,206,684)	(15,466,561)
Other financings sources (uses)									
Proceeds from debt issuance	20,030,000	—	—	—	7,690,000	—	—	4,305,000	32,025,000
Transfer in	20,670	—	—	—	324,000	5,862,606	—	2,844,434	9,051,710
Transfer out	(8,401,667)	—	—	—	(6,328,761)	—	—	(20,670)	(14,751,098)
Other financing sources, net	11,649,003	—	—	—	1,685,239	5,862,606	—	7,128,764	26,325,612
Net change in fund balance	2,002,772	960,267	146,030	28,801	(8,013,821)	12,786,570	(973,648)	3,922,080	10,859,051
Fund balances at beginning of year (as previously reported)	245,132	941,338	81,329	24,128	24,443,301	7,209,097	19,678	177,535	33,141,538
Prior period adjustment	3,433,572	202,232	(227,359)	556,028	(4,114,335)	—	1,605,144	1,764,235	3,219,517
Fund balances at beginning of year (as restated)	3,678,704	1,143,570	(146,030)	580,156	20,328,966	7,209,097	1,624,822	1,941,770	36,361,055
Fund balances at end of year	\$ 5,681,476	2,103,837	—	608,957	12,315,145	19,995,667	651,174	5,863,850	47,220,106

(Concluded)

See notes to financial statements.

Autonomous Municipality of Caguas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities For the Fiscal Year Ended June 30, 2010

Net change in fund balance - total governmental funds \$ 10,859,051

Amounts reported in the statements of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$21,263,816) exceeded capital outlays (\$20,965,871) in the current period. (297,945)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. (5,775,142)

Debt and advances proceeds provide current financial resources to governmental funds, but issuing debt and advances 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 net proceeds (\$32,025,000) exceeded principal expenditures (\$15,691,623). (16,333,377)

Debt issuance costs are expenditures to governmental funds, but are deferred assets in the statements of net assets. This is the amount of debt issue costs for the year. 70,283

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount by which the net increases in accrued compensated absences (\$3,437,630), loss on disposition of capital assets (\$23,507) and liability for claim and judgements (\$673,384), Christmas bonus for (\$3,633) and liability to government agency for (\$525,543) exceeded the net decreases in liability to other governmental agencies \$188,604. (4,475,093)

Change in net assets of governmental activities \$ (15,952,223)

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Revenues, Expenditures – Budget and Actual – General Fund

Non GAAP Budgetary Basis

For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual amounts in the Budgetary Basis	Variance
Resources:				
Property taxes	\$ 33,506,086	33,506,086	34,499,528	993,442
Volume of business taxes	26,000,000	26,000,000	24,560,715	(1,439,285)
Sales taxes	17,200,000	17,200,000	16,098,568	(1,101,432)
Fines and penalties	210,000	210,000	830,946	620,946
Interest and investment income	1,500,000	1,500,000	145,260	(1,354,740)
Intergovernmental	8,449,674	8,449,674	6,757,038	(1,692,636)
Licenses and permits	5,011,000	5,011,000	1,138,270	(3,872,730)
Parking lot fees	207,090	207,090	191,126	(15,964)
Rent and other resources	14,587,078	14,587,078	21,522,857	6,935,779
Amounts available for appropriation	<u>106,670,928</u>	<u>106,670,928</u>	<u>105,744,308</u>	<u>(926,620)</u>
Expenditures charge to appropriations:				
Culture and recreation	6,844,989	6,228,256	6,015,051	213,205
Economic and social development	6,164,489	6,530,826	6,266,159	264,667
Education	3,174,688	3,117,594	3,025,040	92,554
General government	37,190,320	40,365,993	36,745,349	3,620,644
Health and welfare	12,369,978	11,916,405	11,814,462	101,943
Housing	976,709	878,264	832,640	45,624
Sanitation and environmental	16,108,275	14,781,205	14,560,108	221,097
Public safety	11,245,776	10,661,458	10,430,914	230,544
Public works	12,595,704	12,190,927	11,767,089	423,838
Total charges to appropriations	<u>106,670,928</u>	<u>106,670,928</u>	<u>101,456,812</u>	<u>5,214,116</u>
Excess of resources over appropriations	\$ —	—	<u>4,287,496</u>	<u>4,287,496</u>

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Net Assets – Proprietary Funds

As of June 30, 2010

Assets	Community Development Bank	Multitenant Buildings	Totals
Current assets:			
Cash and cash equivalents	\$ 907,931	742,912	1,650,843
Due from other fund	—	1,799,183	1,799,183
Total current assets	907,931	2,542,095	3,450,026
Non current assets:			
Loans receivable, net	2,581,248	—	2,581,248
Capital assets:			
Land and improvements	—	3,937,554	3,937,554
Construction in progress	—	4,673,329	4,673,329
Total assets not being depreciated	—	8,610,883	8,610,883
Building and improvements	—	15,293,126	15,293,126
Equipment	8,279	35,748	44,027
Total assets subject to depreciation	8,279	15,328,874	15,337,153
Less: Accumulated depreciation	—	(225,162)	(225,162)
Capital assets, net	8,279	23,714,595	23,722,874
Total non current assets	2,589,527	23,714,595	26,304,122
Total assets	\$ 3,497,458	26,256,690	29,754,148

(Continued)

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Net Assets – Proprietary Funds

As of June 30, 2010

	Community Development Bank	Multitenant Buildings	Totals
Liabilities and Net Assets			
Liabilities:			
Current liabilities:			
Notes payable (current portion)	\$ 35,269	—	35,269
Due to other fund	303,297	—	303,297
Accounts payable and accrued liabilities	42,268	31,473	73,741
Total current liabilities	380,834	31,473	412,307
Non current liabilities:			
Notes payable (net of current portion)	39,571	—	39,571
Total liabilities	420,405	31,473	451,878
Net assets:			
Investments in capital assets (net of related debt)	8,279	23,714,595	23,722,874
Unrestricted	3,068,774	2,510,622	5,579,396
Total net assets	3,077,053	26,225,217	29,302,270
Total liabilities and net asstes	\$ 3,497,458	26,256,690	29,754,148

(Concluded)

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2010

	Community Development Bank	Multitenant Buildings	Totals
Operating revenue:			
Rent, interest on loans and origination fees	\$ 191,591	65,504	257,095
Operating expenses:			
Payroll	6,990	—	6,990
Depreciation	—	109,645	109,645
Bad debt expense	105,992	—	105,992
Professional fees	97,950	141,404	239,354
Bank service charges	2,727	—	2,727
Repairs and maintenance	—	43,845	43,845
Rent	20,400	—	20,400
Utilities	6,162	—	6,162
Other	305	49,066	49,371
Total operating expenses	<u>240,526</u>	<u>343,960</u>	<u>584,486</u>
Operating loss before contributions and transfers	<u>(48,935)</u>	<u>(278,456)</u>	<u>(327,391)</u>
Non-operating revenues (expenses):			
Interest income	5,801	14,655	20,456
Gain on sale of capital assets	—	1,528,317	1,528,317
Other	—	16,699	16,699
Interest expense	(2,971)	—	(2,971)
Total non-operating revenues	<u>2,830</u>	<u>1,559,671</u>	<u>1,562,501</u>
Income (loss) before contributions and transfers	<u>(46,105)</u>	<u>1,281,215</u>	<u>1,235,110</u>
Transfers from (to) governmental funds	<u>(629,373)</u>	<u>6,328,761</u>	<u>5,699,388</u>
Changes in net assets	<u>(675,478)</u>	<u>7,609,976</u>	<u>6,934,498</u>
Net assets at beginning of fiscal year (as previously reported)	3,603,206	18,244,460	21,847,666
Prior period adjustments	149,325	370,781	520,106
Net assets at beginning of fiscal year (as restated)	<u>3,752,531</u>	<u>18,615,241</u>	<u>22,367,772</u>
Net assets at end of fiscal year	<u>\$ 3,077,053</u>	<u>26,225,217</u>	<u>29,302,270</u>

See notes to financial statements.

Autonomous Municipality of Caguas

Statements of Cash Flows – Proprietary Funds

As of June 30, 2010

	Development Bank	Multitenant Buildings	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 178,535	65,504	244,039
Payments to suppliers and professional services	(201,485)	(218,291)	(419,776)
Payments to employees	(6,990)	—	(6,990)
Net cash used in operating activities	<u>(29,940)</u>	<u>(152,787)</u>	<u>(182,727)</u>
Cash flows used in capital activities-			
Capital assets investments	(8,279)	(478,351)	(486,630)
Proceeds from the sale of capital assets	—	1,666,575	1,666,575
Net cash provided by (used in) capital activities	<u>(8,279)</u>	<u>1,188,224</u>	<u>1,179,945</u>
Cash flows from non-capital financing activities			
Interest payments in notes payable	(2,971)	—	(2,971)
Other	—	16,699	16,699
Transfer to governmental funds	(629,373)	—	(629,373)
Increase in loan due from general fund	—	(1,591,866)	(1,591,866)
Decrease in loan due to general fund	(192,845)	—	(192,845)
Net cash used in non-capital financing activities	<u>(825,189)</u>	<u>(1,575,167)</u>	<u>(2,400,356)</u>
Cash flows from investing activities:			
Interest income	5,801	14,655	20,456
Net cash provided by investing activities	<u>5,801</u>	<u>14,655</u>	<u>20,456</u>
Net decrease in cash and cash equivalents	(857,607)	(525,075)	(1,382,682)
Cash and cash equivalents at beginning of fiscal year	1,765,538	1,267,987	3,033,525
Cash and cash equivalents at end of fiscal year	<u>907,931</u>	<u>742,912</u>	<u>1,650,843</u>
Reconciliation of operating loss to net cash used in operating activities:			
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	(48,935)	(278,456)	(327,391)
Depreciation	—	109,645	109,645
Bad debt expense	105,992	—	105,992
Increase in accounts payable	32,051	16,024	48,075
Increase in rent and loan receivable	(119,048)	—	(119,048)
Net cash used in operating activities	<u>\$ (29,940)</u>	<u>(152,787)</u>	<u>(182,727)</u>

Supplementary information:

During current year, the Municipality's management restated the beginning net assets of business type activities by \$370,781 to correct the interfund beginning balance and this effect was considered within current year cash flow statement.

During current year there were transfers from the capital project fund to the multi-tenant fund for the construction projects of the Science and Technology Center and for the C3Tec project amounting to \$6,328,761.

During current year, as a result of a capital sale, the Municipality recorded a gain on the sale of multi-tenant spaces of \$1,528,317 which was included as a non-operating item.

See notes to financial statements.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Caguas (the Municipality), was founded in 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under the Law No. 81 of August 30, 1991, known as the "Autonomy Municipalities Laws of the Commonwealth of Puerto Rico". It is governed by a Mayor and a 16 member Municipal Legislature 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 general and administrative 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) as amended by GASB No. 39, "Determining whether Certain Organizations are Component Unit" – and amendment of GASB Statement No. 14. The basic, but not the only criterion for including a potential component unit within the reporting entity, is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary 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.

GASB No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units. A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balance; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended. 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 No. 34 significantly changed the way in which the Municipality reported its finances.

GASB No. 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.

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

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

expenses are recognized 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.

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.

Statement of Activities:

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

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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:

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.

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 Jose Gautier Benitez (the Project), 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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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.

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. It also accounts the grants and donated food to maintain a food service program for eligible children and adults in nonresidential day care settings.

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. It also includes the Community Development Block Grants (CDBG) which are awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

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.

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, 2010 about the current financial resources (assets, liabilities and fund balances) of each major governmental fund.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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, 2010.

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.

Each enterprise fund has the option under GASB No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standard Board (FASB) pronouncements issued after November 30, 1989, unless this conflict with a GASB pronouncement. The enterprise funds within the Municipality have elected to apply FASB pronouncements issued after November 30, 1989. 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.

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

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 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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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 – sixty days – 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.

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. 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.

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. The enterprise funds also distinguish operating revenue and expenses from non operating items. Operating revenue and expenses generally results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The major operating revenue of the Municipality's enterprise fund are interests and loan origination fees on loans granted to the Caguas citizenship.

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

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

general checking account beyond immediate needs is invested in interest bearing deposits. Investment earnings are all credited to the general fund. Cash and cash equivalents include investments with original maturities of ninety days or less from the date of acquisition. The Municipality has also implemented the provision of GASB No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. This statement establishes and modifies disclosure requirements related to investment risks; credit risk, foreign currency risk, and deposits risk, as applicable.

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 includes property tax collections withheld by the Municipal Revenue Collection Center (CRIM, as per its Spanish acronyms) which are restricted for the payment of the Municipality's general obligations through the debt service fund. It also includes loans disbursements which were received by the Municipality after the end of fiscal year.

Receivables

The receivable in the general fund include predominantly amounts owed by taxpayers for volume of business tax and for the sales and use tax, net of estimated uncollectible amounts. These items are recognized as revenue when they become measurable and available based on actual collections during the soon enough period following the fiscal year end related to tax returns due before year end. These receivables also include amounts owned by taxpayers on income earned in periods prior to June 30, 2010, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund.

Accounts receivable are stated net of estimated allowances for uncollectible accounts which are determined based upon past collection experience and current economic conditions.

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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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 with an individual cost of \$40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the estimated fair market value at the date of donation. Equipment and other with a cost of \$100 or more are recorded at cost or estimated historical cost.

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 600 months
Building and building improvements	60 to 600 months
Infrastructure	nil to 600 months
Personal property, plaques and monuments	36 to 180 months
Software	12 to 72 months

The Municipality follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries – an amendment of GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

Deferred Revenue

Deferred revenue at the governmental fund level arises when potential revenue does not meet either the measurable or available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Municipality has a legal claim to them as in the case of the volume of business tax which is collected on April 15 each year, but which are available to use within the immediate following fiscal year operations and activities. In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for the deferred revenue is reclassified to revenue. Deferred revenue at the government-wide and proprietary fund levels arises only when the Municipality receives resources before it has a legal claim to them.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Accrued Compensated Absences

Employees accrue vacation leave at a rate of 2.5 days per month up to a maximum of 30 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, 2010 amounts to \$14,744,320.

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. Long term obligations financed by proprietary fund types are recorded as liabilities in those funds. Other long term liabilities besides the bonds, notes and special loans, as the accrued compensated absences, and accrued legal claims are liquidated using resources from the general fund.

Premiums, discounts, and issuance costs, whenever arise, are presented in the respective fund column and are deferred and amortized over the life of the debt. Bond issue costs are presented as deferred charges in the government-wide financial statements while being reported as expenditures within the fund financial statements.

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.

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 – Represent 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 – Represent fund balances available to finance activities oriented to the housing rent, acquisition, construction and rehabilitation for the Municipality's eligible citizenship.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Special Projects – Represent fund balances available to finance activities which serve different purposes as stated through donor's imposed restrictions.

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.

Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2010, that are determined to be significant and material for financial statement purposes. Within this process, management consults with its legal counsel and perform monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2010:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple—employer other postemployment benefit (OPEB) plans. The provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurement are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Earlier application of this Statement is encouraged.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

- GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is effective for periods beginning after June 15, 2010.

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

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.

The annual effective tax rate for fiscal year 2010 is 10.03% for real property and 8.53% for personal property of which 1.03% of each 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 for in the general fund. The basic property tax rate is segregated by CRIM and accounted for 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. The equalization fund assures that every municipality receive at least an amount equal to the tax collected to its base year or prior year.

(b) 3% of each 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% portion of the tax rates to compensate the municipality for a discount granted to the taxpayers. Accordingly the taxpayer's imposed tax rate for real and personal property is 9.83% and 7.83%, respectively.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, it shall report to the Municipality the estimated and actual revenues related to property taxes, as well as the cost of its operational expenses allocated to the Municipality. During the fiscal year ended June 30, 2010, the allocated expenses amounted to \$1,480,981 (before final liquidation).

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Section 5803(b) of Law No. 80 of the CRIM, allows the municipalities to develop and carry on activities and programs to expedite the assessments of new constructions and existing properties not yet assessed. Accordingly, along with a covenant with the CRIM, the Municipality of Caguas engaged into an initiative in order to increase the basis of properties over which the tax rate is applied and also to collect the resulting taxes receivable in arrears at the CRIM (there is no receivable recorded within the Municipality's general ledger). The Municipality contracted an external consulting firm to assist and expedite these services. Among the different types of services offered, the consulting firm has engaged into the process of assisting the CRIM to assess the new construction and other existing properties. These assessments will become then part of the CRIM tax roll register. This is the subsidiary of all properties assessed for tax purposes.

The new assessed properties are submitted for review and validation by the CRIM which proceeds to assign the assessed valuation and the tax to be imposed. Then, the CRIM determines those new properties that would be added in the tax roll, either because they are from new construction or because are previous existing properties, with betterments identified but not reported previously. This process is performed either through physical inspections, knowledge of existent activities within the Municipality or by comparing the sales volume taxes returns (in case of commercial properties) with the property taxes returns, among other strategies. The updated information is delivered to the CRIM in order to be included within the tax roll for subsequent taxes levies.

Also, the consulting firm provides services to the Municipality by providing services to the taxpayer and by providing aggressive follow up on the CRIM taxes receivables in arrears. The purpose of these combined efforts is increasing the tax revenue for the Municipality.

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 each year. 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 for 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 is recognized as revenue, net of any credit or refunds payable to taxpayers.

Sales Taxes

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 sale and use tax of

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

5.5% at the Commonwealth level. Of this 5.5%, the Act authorized the Municipalities to impose 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 duly 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 forward all amendments, new laws, rules, and regulations are responsibilities of the Commonwealth of Puerto Rico as stated by the law.

As per the last amendment, the current Law No. 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% (equivalent to 40%). 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 \$3,068,641.
2. **Municipal Development Fund** – composed of .2% of the .5% (equivalent to 40%). 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.
3. **Municipal Improvements Fund** – .1% of the .5% (equivalent to 20%). To be distributed according to Legislation passed by the Legislative Assembly for capital improvement projects in the municipalities.

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:

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Custodian 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, 2010, the Municipality invested its funds in bank accounts bearing interest.

At June 30, 2010 the Municipality had bank balances as follows:

Insured by the Federal Deposits Insurance Corporation and the Securities Investor Protection Corporation	\$ 2,500,000
Collateralized by securities held by the pledging financial institution's trust department in the Municipality's name	<u>18,644,695</u>
Total	<u>\$ 21,144,695</u>

In addition, as of June 30 2010, the Municipality's custodial credit risk was approximately \$75.4 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.

Interest rate risk

At June 30, 2010, the Municipality maintains investments in debt securities with a fair market value of approximately \$2.7 million, 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, 2010, the Municipality had a risk of not recovering the market value of such investments if such investments are sold.

Concentration of Credit Risk

No investment in debt security in any organization represents 5% or more of the Municipality's net assets.

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 2009-2010 was \$8,710,559.

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

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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, 2010:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Housing and Rental Program	\$ 54,869
	Public Residential Administration	99,959
	Community Development Bank	303,297
	Legislative	414,977
	Other Governmental Fund	1,525,957
	Capital Project	6,705,572
General		<u>9,104,631</u>
	General	<u>1,799,183</u>
Multitenant		<u>1,799,183</u>
	General	<u>376,978</u>
Head Start Food and Children Program		<u>\$ 376,978</u>

The purposes 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.

Public Residential Administration – includes maintenance expenditures allowable under the intergovernmental agreement between the Municipality and the Puerto Rico Public Housing Administration regarding the Jose Gautier Benitez 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 other administration tasks. These expenditures 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.

Other Governmental Funds and Legislative 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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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.

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, 2010:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>
Capital Project		\$ 324,000
Debt Service		5,862,606
Other Governmental		2,215,061
	General	<u>\$ 8,401,667</u>
		\$ 6,328,761
Multitenant	Capital Project	<u>\$ (6,328,761)</u>
		\$ 629,373
Other Governmental	Community Development Bank	<u>\$ (629,373)</u>
		\$ 20,670
General	Other Governmental	<u>\$ (20,670)</u>

The purposes 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-out from Capital Project Fund – current financial resources transferred to the multi-tenant fund for the construction projects of the Science and Technology Center and for the C3Tec project.

Transfers-out from the Community Development Bank – current financial resources transferred to the governmental funds with regards to funding for the Vocational Technical Educational Council to guarantee student loans.

Transfers-out from the Other Governmental Funds – current financial resources transferred to the general fund for operational purposes.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

6. CAPITAL ASSETS

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

	Balance June 30, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
Capital assets not being depreciated					
Land and improvements	\$ 46,577,146	—	—	733,594	47,310,740
Construction in progress	33,041,929	19,243,500	—	(15,920,920)	36,364,509
Works of art and historical treasures	3,428,661	45,900	—	—	3,474,561
Total not being depreciated	<u>83,047,736</u>	<u>19,289,400</u>	<u>—</u>	<u>(15,187,326)</u>	<u>87,149,810</u>
Other capital assets					
Facilities and improvements	35,886,772	—	—	2,325,336	38,212,108
Buildings and improvements	194,394,872	—	—	9,371,660	203,766,532
Computer software	1,112,084	—	—	—	1,112,084
Infrastructure	433,336,422	—	—	3,490,330	436,826,752
Equipment and vehicles	39,484,654	1,676,471	(293,816)	—	40,867,309
Total other capital assets	<u>704,214,804</u>	<u>1,676,471</u>	<u>(293,816)</u>	<u>15,187,326</u>	<u>720,784,785</u>
Accumulated depreciation					
Facilities and improvements	10,154,508	1,211,523	—	—	11,366,031
Building and improvements	81,034,743	4,326,118	—	—	85,360,861
Equipment and vehicles	24,130,796	2,766,009	(270,309)	—	26,626,496
Computer software	317,667	—	—	—	317,667
Infrastructure	132,540,983	12,960,166	—	—	145,501,149
	<u>248,178,697</u>	<u>21,263,816</u>	<u>(270,309)</u>	<u>—</u>	<u>269,172,204</u>
Capital assets, net	<u>\$ 539,083,843</u>	<u>(297,945)</u>	<u>(23,507)</u>	<u>—</u>	<u>538,762,391</u>

During 2009, the Municipality changed its policy to transfer construction in progress properly concluded to other classification of capital assets. Originally, the Municipality used a certification from Public Works. However, since 2009 and prospectively, the Municipality determines the conclusion of a capital project if it is being used.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental funds within the capital outlays and included as additions in the roll-forward activity of the capital assets in the government-wide financial statement. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as a depreciation expense. As a result, fund balance decreases by the capital outlays balance – the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

The amount by which capital outlays exceeded the depreciation expense for current year follows. Also, the detail of these amounts is presented in the next table including the activity of the capital assets.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

<u>Description</u>	<u>Amount</u>
Depreciation expense	\$ 21,263,816
Capital outlays	<u>20,965,871</u>
Excess of depreciation expense over capital outlays	<u>\$ (297,945)</u>

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

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated					
Land and improvements	\$ 3,937,554	—	—	—	3,937,554
Construction in progress	—	6,806,813	—	(2,133,484)	4,673,329
Total not being depreciated	<u>3,937,554</u>	<u>6,806,813</u>	<u>—</u>	<u>(2,133,484)</u>	<u>8,610,883</u>
Other capital assets					
Buildings and improvements	13,721,690	—	(562,048)	2,133,484	15,293,126
Equipment	35,748	8,279	—	—	44,027
Total other capital assets	<u>13,757,438</u>	<u>8,279</u>	<u>(562,048)</u>	<u>2,133,484</u>	<u>15,337,153</u>
Accumulated depreciation					
Building and improvements	504,327	102,533	(423,790)	—	183,070
Equipment	34,980	7,112	—	—	42,092
	<u>539,307</u>	<u>109,645</u>	<u>(423,790)</u>	<u>—</u>	<u>225,162</u>
Capital assets, net	<u>\$ 17,155,685</u>	<u>6,705,447</u>	<u>(138,258)</u>	<u>—</u>	<u>23,722,874</u>

During current year, the Municipality sold two spaces of the multi-tenant building with a total square footage of 16,406 square feet, by \$1,666,575. The cost and accumulated depreciation of such property was \$562,048 and \$423,790, respectively. The Municipality recorded \$1,528,317 as a non-operating gain as a result of this transaction.

This Space Is Intentionally Left In Blank

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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

Public works	\$ 8,148,502
Economic development	5,071,319
General government	3,912,044
Health and welfare	3,581,446
Public safety	272,712
Culture and recreation	141,652
Sanitation and environmental	132,140
Education	3,660
Housing	341
	<u>\$ 21,263,816</u>

7. GENERAL LONG - TERM DEBT

The legal debt limit of the Municipality is equal to 10% of the total assessment of property located within the Municipality. As of June 30, 2010 the Municipality has a margin amounting to \$241,618,955. Following are the assessed value of real and personal property as of June 30, 2010:

	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
Taxable	\$ 6,908,458,026	641,411,184	7,549,869,210
Exempt	(451,354,212)	(259,018,920)	(710,373,132)
Exonerated	<u>(3,180,445,153)</u>	<u>(4,626,510)</u>	<u>(3,185,071,663)</u>
Net value	<u>\$ 3,276,658,661</u>	<u>377,765,754</u>	<u>3,654,424,415</u>

Law number 7 of March 9, 2009, as amended, known as Law for Declaration of a State of Fiscal Emergency, amended Property Tax Law number 83 of August 30, 2001. Such law established that for fiscal years 2009-2010, 2010-2011, 2011-2012, and 2012-2013, the assessed valuation of the real property will be determined in accordance with the regulations established under the Law No. 83 multiplied by ten (10) times. This amendment applies to those fiscal years beginning after June 30, 2009. The tax rate applicable to the real property will be determined in accordance with the regulations established under the Law No. 83 and will be reduced to one tenth (1/10).

Residential property owners are exonerated for the fiscal year 1992-1993 and subsequent years for an amount up to \$150,000 as per the provisions of the property tax law. For fiscal years 2009-2010, 2010-2011, 2011-2012, and 2012-2013, the exempt amount applicable to the residential property owners will be increased to \$150,000.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Changes in general long - term debt of governmental activities for the fiscal year ended June 30, 2010 are summarized as follows:

	<u>Bonds</u>	<u>Federal Loans and Notes</u>	<u>Other Loans</u>	<u>Totals</u>	<u>Due within one year</u>
Balance at June 30, 2009	\$ 115,180,680	6,555,000	96,058,500	217,794,180	
Adjustments	75,882,000	—	(75,882,000)	—	
	<u>191,062,680</u>	<u>6,555,000</u>	<u>20,176,500</u>	<u>217,794,180</u>	
Payments	(9,064,003)	(1,085,000)	(4,477,500)	(14,626,503)	
New debt issued	29,785,000	—	2,240,000	32,025,000	
Balance at June 30, 2010	<u>\$ 211,783,677</u>	<u>5,470,000</u>	<u>17,939,000</u>	<u>235,192,677</u>	<u>19,385,000</u>

As of June 30, 2010, debt service requirements for the above long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 19,385,000	9,260,752	28,645,752
2012	11,963,000	13,226,725	25,189,725
2013	12,368,000	12,476,917	24,844,917
2014	13,171,000	11,677,176	24,848,176
2015	14,491,000	11,460,124	25,951,124
2016-2020	51,741,027	43,006,641	94,747,668
2021-2025	56,514,000	28,065,352	84,579,352
2026-2030	34,101,000	12,519,531	46,620,531
2031-2035	19,783,650	4,027,731	23,811,381
2036-2039	<u>1,675,000</u>	<u>62,813</u>	<u>1,737,813</u>
Total	<u>\$ 235,192,677</u>	<u>145,783,761</u>	<u>380,976,438</u>

This Space Is Intentionally Left In Blank

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The following table presents the outstanding balance as of June 30, 2010 of the general obligation bonds which were issued for capital project activities within the Municipality separate from those issued for operational activities:

<u>Description</u>	<u>Balance</u>
<u>Issuance for capital project activities:</u>	
\$85,000 payable in annual installments from \$2,000 to \$7,000 with interest rate at 5% until year 2014, secured by the Municipality.	\$ 23,000
\$125,000 payable in annual installments of \$5,000 with interest rate fluctuating from 2.7% to 5.60% until year 2026, secured by the Municipality.	85,000
\$283,000 payable in annual installments from \$6,000 to \$20,000 with interest rate at 5% until year 2011, secured by the Municipality.	20,000
\$1,870,000 payable in annual installments from \$41,000 to \$148,000 with interest rate at 6.13% until year 2011, secured by the Municipality.	148,000
\$370,000 payable in annual installments from \$5,000 to \$25,000 with interest rate fluctuating from 2.53% to 5.31% until year 2029, secured by the Municipality.	330,000
\$460,000 payable in annual installments from \$10,000 to \$35,000 with interest rate fluctuating from 2.53% to 5.31% until year 2029, secured by the Municipality.	410,000
\$500,000 payable in annual installments from \$11,000 to \$33,000 with interest rate at 4.75% until year 2030, secured by the Municipality.	441,000
\$580,000 payable in annual installments from \$13,000 to \$41,000 with interest rate at 5% until year 2015, secured by the Municipality.	186,000
\$1,360,000 payable in annual installments from \$20,000 to \$115,000 with interest rate fluctuating from 2.7% to 5.6% until year 2026, secured by the Municipality.	1,130,000
\$1,575,000 payable in annual installments from \$30,000 to \$115,000 with interest rate fluctuating from 2.36% to 5.31 % until year 2028, secured by the Municipality.	1,375,000
\$1,610,000 payable in annual installments from \$50,000 to \$130,000 with interest rate fluctuating from 4.17% to 5.28% until year 2024, secured by the Municipality.	1,340,000

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

<u>Description</u>	<u>Balance</u>
<u>Issuance for capital project activities:</u>	
\$1,640,000 payable in annual installments from \$37,000 to \$107,000 with interest rate at 4.5% until year 2030, secured by the Municipality.	1,439,000
\$2,200,000 payable in annual installments from \$62,000 to \$177,000 with interest rate at 5.62% until year 2018, secured by the Municipality.	1,174,000
\$2,695,000 payable in annual installments from \$58,000 to \$178,650 with interest rate at 4.75% until year 2031, secured by the Municipality.	2,445,650
\$3,150,000 payable in annual installments from \$40,000 to \$275,000 with interest rate fluctuating from 2.7% to 7.81% until year 2024, secured by the Municipality.	2,525,000
\$7,575,000 payable in annual installments from \$215,000 to \$605,000 with interest rate fluctuating from 1.36% to 5.54% until year 2026, secured by the Municipality.	6,890,000
\$8,060,000 payable in annual installments from \$170,000 to \$545,000 with interest rate fluctuating from 1.93% to 6% until year 2031, secured by the Municipality.	7,530,000
\$9,845,000 payable in annual installments from \$145,000 to \$820,000 with interest rate fluctuating from 2.7% to 5.6% until year 2026, secured by the Municipality.	8,330,000
\$9,900,000 payable in annual installments from \$205,000 to \$670,000 with interest rate fluctuating from 1.61% to 5.02% until year 2028, secured by the Municipality.	8,490,000
\$9,910,000 payable in annual installments from \$400,000 to \$905,000 with interest rate fluctuating from 2.43% to 6.62% until year 2028, secured by the Municipality.	8,165,000
\$10,350,000 payable in annual installments from \$305,000 to \$755,000 with interest rate fluctuating from 2.7% to 7.81% until year 2026, secured by the Municipality.	8,060,000
\$11,015,000 payable in annual installments from \$315,000 to \$875,000 with interest rate fluctuating from .52% to 5% until year 2025, secured by the Municipality.	9,650,000
\$11,020,000 payable in annual installments from \$315,000 to \$875,000 with interest rate fluctuating from .32% to 5% until year 2025, secured by the Municipality.	9,645,000
\$13,300,000 payable in annual installments from \$355,000 to \$1,315,000 with interest rate fluctuating from 4.87% to 6.34% until year 2016, secured by the Municipality.	7,390,000

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

<u>Description</u>	<u>Balance</u>
<u>Issuance for capital project activities:</u>	
\$15,955,000 payable in annual installments from \$345,000 to \$1,505,000 with interest rate fluctuating from 4.70% to 8% until year 2015, secured by the Municipality.	7,515,000
\$776,000 payable in annual installments from \$25,000 to \$57,027 with interest rate at 4.5% until year 2019, secured by the Municipality.	434,027
\$624,000 payable in annual installments from \$18,000 to \$42,000 with interest rate at 4.5% until year 2030, secured by the Municipality.	587,000
\$18,890,000 payable in annual installments from \$415,000 to \$1,785,000 with interest rate fluctuating from 5% to 7.71% until year 2013, secured by the Municipality.	6,380,000
\$705,000 payable in annual installments from \$10,000 to \$60,000 with interest rate fluctuating from 6% to 7.5% until year 2034, secured by the Municipality.	705,000
\$2,255,000 payable in annual installments from \$55,000 to \$215,000 with interest rate fluctuating from 6% to 7.5% until year 2028, secured by the Municipality.	2,255,000
\$320,000 payable in annual installments from \$5,000 to \$30,000 with interest rate fluctuating from 6% to 7.5% until year 2034, secured by the Municipality.	320,000
\$725,000 payable in annual installments from \$10,000 to \$65,000 with interest rate fluctuating from 6% to 7.5% until year 2034, secured by the Municipality.	725,000
\$1,040,000 payable in annual installments from \$15,000 to \$90,000 with interest rate fluctuating from 6% to 7.5% until year 2034, secured by the Municipality.	1,040,000
\$2,065,000 payable in annual installments from \$35,000 to \$165,000 with interest rate fluctuating from 3.66% to 6.41% until year 2027, secured by the Municipality.	1,715,000
\$5,185,000 payable in annual installments from \$90,00 to \$400,000 with interest rate fluctuating from 3.66% to 6.41% until year 2027, secured by the Municipality.	4,295,000
\$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.	12,755,000
\$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.	305,000

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

<u>Description</u>	<u>Balance</u>
<u>Issuance for capital project activities:</u>	
\$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.	8,710,000
\$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.	7,700,000
\$10,075,000 payable in annual installments from \$255,000 to \$855,000 with interest rate fluctuating from 5.48% to 6.07% until year 2026, secured by the Municipality.	9,240,000
\$3,185,000 payable in annual installments from \$60,000 to \$230,000 with interest rate fluctuating from 3.89 % to 5.82% until year 2032, secured by the Municipality.	3,060,000
\$500,000 payable in annual installments from \$19,000 to \$52,000 with interest rate fluctuating from 1.53 % to 7.50% until year 2022, secured by the Municipality.	461,000
\$7,750,000 payable in annual installments from \$290,000 to \$675,000 with interest rate fluctuating from 4.16% to 5.72% until year 2024 secured by the Municipality	7,150,000
\$6,802,000 payable in annual installments from \$102,000 to \$567,000 with interest rate fluctuating from 1.53% to 7.50% until year 2033 secured by the Municipality	6,700,000
\$4,710,000 payable in annual installments from \$65,000 to \$395,000 with interest rate fluctuating from 4.75 % to 7.5% until year 2034, secured by the Municipality.	4,710,000
Total issuance for capital project activities	\$ 173,983,677
<u>Issuance for operational activities:</u>	
\$9,740,000 payable in annual installments from \$145,000 to \$815,000 with interest rate fluctuating from 4.75% to 7.5% until year 2034, secured by the Municipality.	9,740,000
\$8,030,000 payable in annual installments of \$8,030,000.00 with interest rate at 4.75% until year 2010, secured by the Municipality.	8,030,000
\$20,030,000 payable in annual installments from \$295,000 to \$1,675,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	20,030,000
Total issuance for operational activities	\$ 37,800,000
Total general obligation bonds issuance	\$ 211,783,677

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The following table presents the outstanding balance as of June 30, 2010 of the federal loans and notes which were issued for capital project activities within the Municipality. None of these liabilities were issued for operational activities:

Sec. 108 loans:

<u>Description</u>	<u>Balance</u>
\$8 million payable in annual installments fluctuating from \$200,000 to \$600,000 at 7.50% interest reate until year 2019, secured by building and adjacent parking facility owned by the Municipality and appraised at an aggregatd fair market value of approximately \$11.8 million.	\$ 5,000,000
\$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.	470,000
Total federal loans and notes	\$ <u>5,470,000</u>

This Space Is Intentionally Left In Blank

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The following table presents the outstanding balance as of June 30, 2010 of loans which were issued for capital project activities within the Municipality separate from those issued for operational activities:

<u>Description</u>	<u>Balance</u>
<u>Issuance for capital project activities:</u>	
\$975,000 payable in annual installments from \$105,000 to \$170,000 with interest rate fluctuating from 5% to 7.5% until year 2016, secured by the Municipality.	975,000
\$255,000 payable in annual installments from \$30,000 to \$45,000 with interest rate fluctuating from 5% to 7.5% until year 2016, secured by the Municipality.	255,000
\$1,010,000 payable in annual installments from \$110,000 to \$175,000 with interest rate fluctuating from 6% to 7.5% until year 2016, secured by the Municipality.	1,010,000
\$640,000 payable in annual installments from \$80,000 to \$105,000 with interest rate fluctuating from 2.43 to 7.5% until year 2011, secured by the Municipality.	205,000
\$542,000 payable in annual installments from \$8,000 to \$47,000 with interest rate fluctuating from 1.53 % to 7.5% until year 2033, secured by the Municipality.	534,000
\$8,770,000 payable in annual installments from \$140,000 to \$735,000 with interest rate fluctuating from 1.53 % to 7.5% until year 2033, secured by the Municipality.	8,630,000
Total issuance for capital project activities	\$ <u>11,609,000</u>
Issuance for operational activities	
\$7,135,000 payable in annual installments from \$805,000 to \$1,255,000 with interest rate fluctuating from 1.53 % to 7.50% until year 2015, secured by the Municipality.	6,330,000
Total issuance for operational activities	\$ <u>6,330,000</u>
Total loans issuance	\$ <u>17,939,000</u>

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Long-term debt for business-type activities at June 30, 2010 is summarized as follows:

<u>Description</u>	<u>Balance</u>	<u>Due within one year</u>
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, 2013, secured by the Municipality.	\$ 74,840	35,269

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 35,269	1,320	36,589
2012	35,978	611	36,589
2013	3,593	36	3,629
	<u>\$ 74,840</u>	<u>1,967</u>	<u>76,807</u>

8. DUE TO OTHER GOVERNMENTAL ENTITIES

The Municipality has a long term debt balance with Municipal Revenue Collection Center as summarized below:

<u>Description</u>	<u>Balance</u>	<u>Due within one year</u>
Land Information Management System (LIMS), original issued in the amount of \$3,220,461 at 20 years with a semi-annual interest rate of 2.9750%.	\$ 611,176	401,450
Law No. 42 repayment plan, issued for \$1,875,566 at 30 years with a semi-annual rate of 3.0938%.	<u>1,667,480</u>	<u>35,641</u>
	<u>\$ 2,278,656</u>	<u>437,091</u>

The Land Information Management System is a digitalized system that maintains a register containing the geographical (location, boundaries, etc) and descriptive (proprietorship, area, assessed values, etc) inventory of all properties in Puerto Rico.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The Law No. 42 dated January 2000, allows the Municipal Revenue Collection Center (CRIM) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation. The municipalities engaged in an installment plan with the CRIM to repay such amounts received in excess prior to the fiscal year 2000.

The debt service requirement for the long-term debt with the Municipal Revenue Collection Center is scheduled as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 437,091	133,113	570,204
2012	247,606	106,632	354,238
2013	40,261	98,013	138,274
2014	42,790	95,484	138,274
2015	45,479	92,795	138,274
2016-2020	274,021	417,346	691,367
2021-2025	371,628	319,741	691,369
2026-2030	504,000	187,366	691,366
2031-2032	315,780	29,903	345,683
	<u>\$ 2,278,656</u>	<u>1,480,393</u>	<u>3,759,049</u>

9. OTHER NON CURRENT LIABILITIES

At June 30, 2010, the Municipality had the following accrued liabilities:

	<u>Balance</u>			<u>Balance</u>	<u>Due within</u>
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>	<u>one year</u>
Accrued compensated absences	\$ 11,306,880	4,987,440	(1,550,000)	14,744,320	1,457,314
Accrued legal claims	2,322,517	673,384	—	2,995,901	—
	<u>\$ 13,629,397</u>	<u>5,660,824</u>	<u>(1,550,000)</u>	<u>17,740,221</u>	<u>1,457,314</u>

10. RETIREMENT PLANS

Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

The Municipality participates in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the System), 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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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. On September 24, 1999, Law No. 305 an amendment to Act No. 447 of May 15, 1991, which created the System, was enacted with the purpose of establishing a defined contribution plan (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.

For the year ended June 30, 2010, total covered payroll was approximately \$28.8 million. Covered payroll refers to all compensation paid by the Municipality to employees covered by the System 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.

Funding Policy

Contribution requirements are established by law and are as follows:

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

Total employee contributions to the above-mentioned plans during the year ended June 30, 2010 amounted to \$2,382,610. The Municipality's contributions during the years ended June 30, 2010, 2009 and 2008 amounted to approximately \$2,673,000, \$2,696,000 and \$2,873,000 respectively.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

These amounts represented 100% of the required contribution for the corresponding years. The Municipality complied with this required contribution percentage for the current and past two years.

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

Retirement Plan of Head Start Food and Children Program

Effective January 1, 2002, the Municipality created a retirement plan (the Plan) for all employees of those whose salaries were funded with the Head Start Food and Children Program 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. The Municipality complied with this required contribution percentage for the current and past two years. 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 percent</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.

During the year ended June 30, 2010, the Municipality contributions to this plan amounted to approximately \$217,000, and for the years ended June 30, 2009 and 2008 contributed approximately \$179,000 for each year.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

11. 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, 2010 amounted to approximately \$282,584. Future operating lease commitments are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 132,375
2012	90,315
2013	<u>32,362</u>
	<u>\$ 255,052</u>

Solid Waste Disposal Contract

In January 1, 2010, the Municipality renewed the contract with E.C. Waste for the following five years to provide the service for the recollection, management and disposal of solid waste. In the contract it was established that the Municipality is committed to pay E.C. Waste Inc. \$11.50 per unit served applied to a starting minimum of 45,500 units with annual increase of one percent (1%) up to fiscal year to be ended at January 1, 2014. Expenditure for the year ended June 30, 2010 for this service amounts to \$7.1 million, approximately.

In addition, the Municipality is committed to pay an additional \$25.00 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 income increase of one percent (1%).

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 No. 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) Corporación de Bellas Artes de Caguas (COBAC); (2) Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS); (3) Corporación de Conservación Etnoecológica Criolla, Inc. (CCECI); (4)

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

Iniciativa Tecnológica 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, 2010 was \$174,800. Subsequently, 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 for 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 Community Development Block Grant (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.

On April 18, 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 \$1,000 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. On July 1st, 2010, the Municipality of Caguas successfully completed the

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

transformation of the Community Development Bank into the first Regional Community Bank of Puerto Rico by creating the Banco de Desarrollo Centro Oriental (BADECO). This new entity will not only serve the residents and business located in Caguas but also the residents of the thirteen (13) municipalities that encompass the region.

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) is 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 years ended June 30, 2010 and 2009, the Municipality has incurred in HAP's for \$6.8 million, in average. No significant changes are expected during subsequent fiscal year.

12. 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 \$2,995,901 in the government-wide financial 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.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

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.

13. RISK MANAGEMENT

The Risk Management Division of the Municipality is responsible for assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information regarding all the property owned by the Municipality, this division submits the data to the Public Insurance Division of the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims has not exceeded the commercial coverage during the past three years.

14. 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, 2010.

15. RESTATEMENTS

The Municipality has restated the beginning fund balances of funds financial statements at July 1, 2009 to correct inter-fund amounts previously presented for which there were no detailed subsidiaries to support such balances. Since these transactions receive the same accounting treatment in fund financial statements as in government-wide, the effect is the same in both financial statements.

This Space Is Intentionally Left In Blank

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The following tables summarize the effects of the situations mention above per column of the financial statement:

<u>Correction of interfund transactions not supported by subsidiaries</u>	<u>Amount</u>
General fund	\$ 3,433,572
Housing and rental program	202,232
Public residential administration	(227,359)
Head Start and Food and children program	556,028
Capital project fund	(4,114,335)
Legislative fund	1,605,144
Other governmental fund	<u>1,764,235</u>
Total	<u>\$ 3,219,517</u>

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

- Inter-fund amounts previously presented for which there were no detailed subsidiaries to support such balances.
- Correction of capital assets based on subsidiaries.

<u>Enterprise Funds</u>	<u>Amount</u>
<u>Community Development Bank</u>	
Correction of liability balance	\$ 149,325
<u>Multitenant Buildings</u>	
Correction of interfund transactions not supported by subsidiaries	<u>370,781</u>
Total	<u>\$ 520,106</u>

16. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 31, 2010, the date the financial statements were issued. Based on such analysis management decided to disclose the following:

- On July 1st, 2010, the Municipality of Caguas successfully completed the transformation of the Community Development Bank into the first Regional Community Bank of Puerto Rico by creating the Banco de Desarrollo Centro Oriental (BADECO). This new entity will not only serve the residents and business located in Caguas but also the residents of the thirteen (13) municipalities that encompass the region.
- On July 16, 2010 the Municipality entered into a refinancing process with the Housing and Development Act of 1974, under section 108, Title I, as amended for the development of economic and urban infrastructure projects. The refinance was for the amount of \$4,600,000 of a guarantee loan. The new terms and conditions will permit to reduce the annual payments that the Municipal Administration made.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

- On July 16, 2010 the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the Bank) for the refinancing of the operational loan. The Agreement provides for borrowing in the amount of \$8,105,000, including finance charges, through July 1, 2035 (the Maturity Date) and shall be known as *2010 Municipal General Obligation Bonds*, will be issued as registered notes without coupons in denomination of \$5,000 with maturities of July 1 of each year through 2035. Borrowings will bear interest at an annual rate which will not exceed the maximum interest rate authorized by law. Due interests shall be paid semi-annual in January 1st and July 1st each year. The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability and will begin on January 2010. The Municipality will also pay legal, accounting, and other fees and expenses in connection with the Loan Agreement.
- On August 20, 2010 the Municipality authorized to transfer 100% of the Municipality Development Fund to the Municipality Redemption Fund. Law No. 64 states that the municipalities contribute to the Redemption Municipal Fund an equivalent amount of 50% of the Municipality participation in the Municipal Development Fund. On June 21, 2010, it was approved that some of the existing limitations for the sales and tax use (IVU) were eliminated under the Intern Rent Code to the Municipal imposition. New dispositions under the Law authorized the municipalities to contribute to the Redemption Municipal Fund an amount equivalent to the 100% of the Municipality participation in the Municipal Development Fund.
- Effective on August 23, 2010, there was a new mayor in charge of the operations of the Municipality. Former Mayor William Miranda Marín died on June 4, 2010. Following Miranda Marín's death, his eldest son, William Miranda Torres quickly emerged as a candidate to complete the current action plan. He maintained basically the same organizational structure and management staff that was previously in force being the fifth Caguas Mayor over the past five decades.
- On September 16, 2010, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the Bank) for the acquisition of equipment. The Agreement provides for borrowing in the amount of \$1,240,000, including finance charges, through July 1, 2017 (the Maturity Date) and shall be known as *2010 Municipal General Obligation Notes*, will be issued as registered notes without coupons in denomination of \$5,000 with maturities of July 1 of each year through 2017. Borrowings will bear interest at an annual rate which will not exceed the maximum interest rate authorized by law. Due interests shall be paid semi-annual in January 1st and July 1st each year. The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability and will begin on January 2010. The Municipality will also pay legal, accounting, and other fees and expenses in connection with the Loan Agreement.
- On October 22, 2010, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the Bank) for the construction and improvements of various municipal works. The Agreement provides for borrowing in the amount of \$2,440,000, including finance charges, through July 1, 2035 (the Maturity Date) and shall be known as *2010 Municipal General Obligation Bonds*, will be issued as registered notes without coupons in denomination of \$5,000 with maturities of July 1 of each year through 2035. Borrowings will bear interest at an annual rate which will not exceed the maximum interest rate authorized by law. Due interests shall be paid semi-annual in January 1st and July 1st each year.

Autonomous Municipality of Caguas

Notes to Financial Statement

For the Year Ended June 30, 2010

The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability and will begin on January 2010. The Municipality will also pay legal, accounting, and other fees and expenses in connection with the Loan Agreement.

- On December 17, 2010, the Municipality entered into a Note Purchase Agreement (the Agreement) with Santander Bank (the Bank) for the purposes of providing funds (i) to pay or any part of the cost of any public improvement or facility of the Municipality and (ii) to pay, on or before their respective dates of maturity, the principal of any outstanding bonds or notes of the Municipality, any premium for early redemption, and interest accrued or to be accrued on said bonds or notes to the date of redemption; and the payment of the principal of, the premium, if any. The Agreement provides for borrowing in the amount of \$3,525,000 on General Obligation Notes, and \$26,365,000 on General Refinancing Obligation with maturities dates of July 1 of each year through 2017. The unpaid principal balance of each Note shall bear interest from the date of issuance until paid in full at an annual fluctuating rate of interest equal at all times to the Applicable Rate in effect from time to time. Accrued interest on the unpaid principal balance of each Note shall be payable on January 1st and July 1st, 2011. The Notes are issuable as fully registered notes without coupons, in denominations of not less than \$5,000 principal amount and any integral multiple of \$1,000 in excess thereof. The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability will begin on January 2011.
- On December 22, 2010, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the Bank) for the payment of land expropriation. The Agreement provides for borrowing in the amount of \$1,545,000, including finance charges, through July 1, 2035 (the Maturity Date) and shall be known as *2010 Municipal General Obligation Bonds*, will be issued as registered notes without coupons in denomination of \$5,000 with maturities of July 1 of each year through 2035. Borrowings will bear interest at an annual rate which will not exceed the maximum interest rated authorized by law. Due interests shall be paid semi-annual in January 1st and July 1st each year. The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability and will begin on January 2011. The Municipality will also pay legal, accounting, and other fees and expenses in connection with the Loan Agreement.
- On December 22, 2010 the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the Bank) for the payment of a civil case. The Agreement provides for borrowing in the amount of \$380,000, including finance charges, through July 1, 2017 (the Maturity Date) and shall be known as *2010 Municipal General Obligation Notes*, will be issued as registered notes without coupons in denomination of \$5,000 with maturities of July 1 of each year through 2017. Borrowings will bear interest at an annual rate which will not exceed the maximum interest rated authorized by law. Due interests shall be paid semi-annual in January 1st and July 1st each year. The Municipality's good faith, credit and its power to impose contributions will be compromised for the repayment of this liability and will begin on January 2011. The Municipality will also pay legal, accounting, and other fees and expenses in connection with the Loan Agreement.

* * * * *