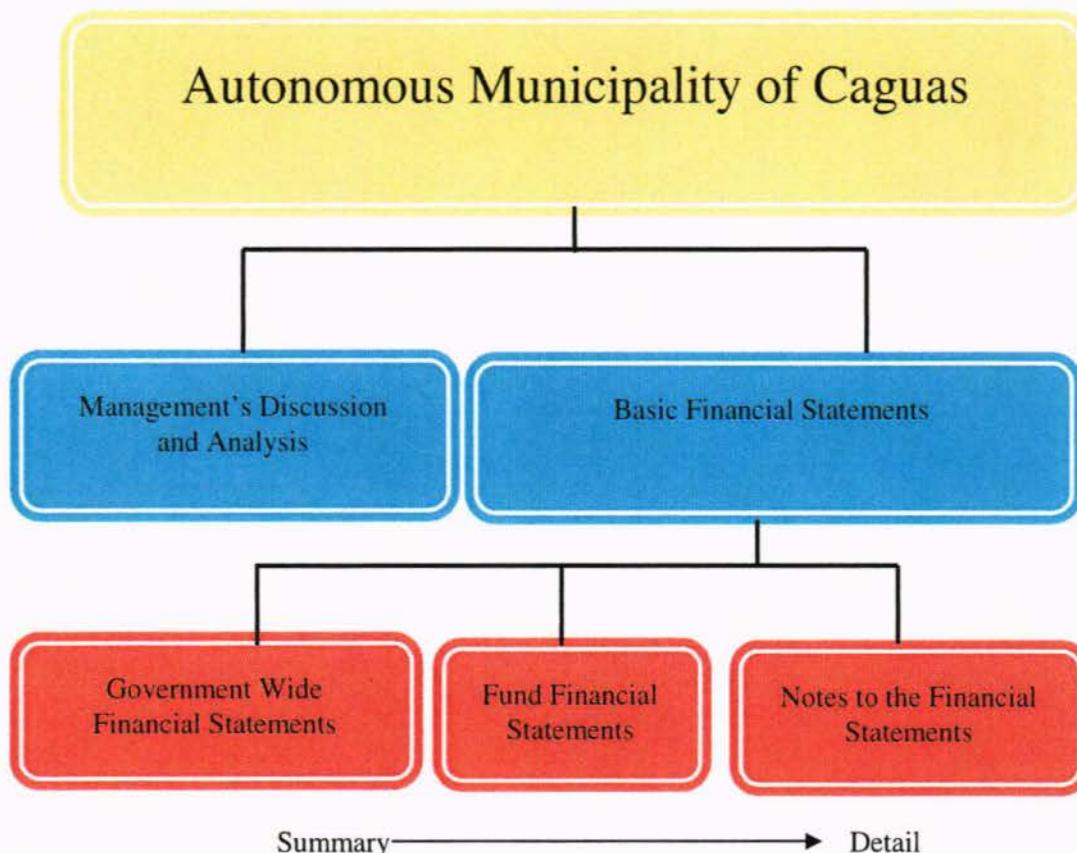


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Caguas, Puerto Rico  
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***Autonomous Municipality of Caguas***

*Financial Statements for the Fiscal Year Ended  
June 30, 2012 and Independent Auditors' Report  
Thereon with reports required under OMB  
Circular A-133*

**Required Components of Annual Financial Report**  
**Figure 1**



**Basic Financial Statements**

The first two statements 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 are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more details than the government-wide financial 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.

# ***Autonomous Municipality of Caguas***

*Management's Discussion and Analysis*

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## **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the Municipality's finances. The government-wide statements provide short and long-term information about the Municipality's financial status as a whole.

The *Statement of Net Assets* presents information on all of the Municipality'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 the 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 building.

The government-wide financial statements are included from pages 18 through 20 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 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 inflows and outflows, and what monies are left at year-end that will be available for spending in the next fiscal 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 readers a detailed short-term view that helps them 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.

# ***Autonomous Municipality of Caguas***

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The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The Municipality's annual 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 legislature; 3) the actual resources, charges to appropriations, and the final relationship between revenues and appropriations; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – The Municipality has one kind of proprietary fund known as the *Enterprise Funds*. These 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 Community 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.

**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.

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The total assets of the Municipality exceeded its liabilities by \$353,416,777 as of June 30, 2012. The Municipality's net assets decreased by \$17,622,440 (net decrease in net assets of \$16,466,971 plus prior period adjustment of \$1,155,469) for the fiscal year ended June 30, 2012.

One of the largest portions of the net assets (\$372,930,209) 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 or contract those assets. 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 (\$27,418,338) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

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# Autonomous Municipality of Caguas

Management's Discussion and Analysis

June 30, 2012

**The Municipality's Net Assets**  
**Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 148,349,276	137,784,138	1,211,846	1,555,516	149,561,122	139,339,654
Capital assets	518,664,823	526,257,009	23,147,188	23,604,950	541,812,011	549,861,959
Loan receivable, net	828,542	—	800,060	1,125,492	1,628,602	1,125,492
Total assets	<u>667,842,641</u>	<u>664,041,147</u>	<u>25,159,094</u>	<u>26,285,958</u>	<u>693,001,735</u>	<u>690,327,105</u>
Current liabilities	65,068,957	63,755,610	30,550	40,877	65,099,507	63,796,487
Other liabilities	274,485,451	255,487,808	—	3,593	274,485,451	255,491,401
Total liabilities	<u>339,554,408</u>	<u>319,243,418</u>	<u>30,550</u>	<u>44,470</u>	<u>339,584,958</u>	<u>319,287,888</u>
Net assets:						
Invested in capital assets, net of related debt	349,783,021	360,577,001	23,147,188	23,604,950	372,930,209	384,181,951
Restricted	27,418,338	40,101,047	—	—	27,418,338	40,101,047
Unrestricted	(48,913,126)	(55,880,319)	1,981,356	2,636,538	(46,931,770)	(53,243,781)
Total net assets	<u>\$ 328,288,233</u>	<u>344,797,729</u>	<u>25,128,544</u>	<u>26,241,488</u>	<u>353,416,777</u>	<u>371,039,217</u>

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**Autonomous Municipality of Caguas**  
*Management's Discussion and Analysis*  
 June 30, 2012

**The Municipality's Changes in Net Assets**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,641,886	1,531,778	56,170	111,098	2,698,056	1,642,876
Operating grants and contributions	31,463,254	35,241,185	—	—	31,463,254	35,241,185
Capital grants and contributions	2,524,865	4,979,585	—	—	2,524,865	4,979,585
<b>General revenues:</b>						
Property taxes	56,891,271	54,082,666	—	—	56,891,271	54,082,666
Volume of business taxes	24,084,347	26,227,325	—	—	24,084,347	26,227,325
Sales taxes	20,187,076	18,845,077	—	—	20,187,076	18,845,077
Intergovernmental	14,333,905	11,766,517	—	—	14,333,905	11,766,517
Licenses and permits	5,453,189	2,428,661	—	—	5,453,189	2,428,661
Interest and investment income	834,404	755,974	1,703	2,341	836,107	758,315
Gain on disposal of capital assets	95,807	—	—	—	95,807	—
Other	852,095	1,493,917	35,978	9,543	888,073	1,503,460
<b>Total revenues</b>	<b>159,362,099</b>	<b>157,352,685</b>	<b>93,851</b>	<b>122,982</b>	<b>159,455,950</b>	<b>157,475,667</b>
<b>Expenses:</b>						
General government	46,853,541	39,743,963	—	—	46,853,541	39,743,963
Public safety	11,060,805	10,410,999	—	—	11,060,805	10,410,999
Public works	30,008,248	29,591,596	—	—	28,057,169	29,591,596
Cultural and recreation	6,584,416	4,577,429	—	—	6,584,416	4,577,429
Health and welfare	17,995,172	19,084,763	—	—	17,995,172	19,084,763
Economic development	6,765,876	14,063,387	—	—	8,716,955	14,063,387
Housing	11,907,765	11,045,789	—	—	11,907,765	11,045,789
Sanitation and environmental	16,298,783	15,637,305	—	—	16,298,783	15,637,305
Education	16,931,864	15,887,413	—	—	16,931,864	15,887,413
Interest	10,676,171	9,258,116	—	—	10,676,171	9,258,116
Community Development Bank	—	—	90,145	69,481	90,145	69,481
Multitenant	—	—	750,135	246,092	750,135	246,092
<b>Total expenses</b>	<b>175,082,641</b>	<b>169,300,760</b>	<b>840,280</b>	<b>315,573</b>	<b>175,922,921</b>	<b>169,616,333</b>
Increase (decrease) in net assets before transfer	(15,720,542)	(11,948,075)	(746,429)	(192,591)	(16,466,971)	(12,140,666)
Transfer	263,993	—	(263,993)	—	—	—
Special item	—	—	—	(2,124,671)	—	(2,124,671)
<b>Net increase (decrease) in net assets</b>	<b>(15,456,549)</b>	<b>(11,948,075)</b>	<b>(1,010,422)</b>	<b>(2,317,262)</b>	<b>(16,466,971)</b>	<b>(14,265,337)</b>
Net assets, beginning as previously reported	344,797,729	358,218,122	26,241,488	29,302,270	371,039,217	387,520,392
Prior period adjustments	(1,052,947)	(1,472,318)	(102,522)	(743,520)	(1,155,469)	(2,215,838)
<b>Net assets, beginning as restated</b>	<b>343,744,782</b>	<b>356,745,804</b>	<b>26,138,966</b>	<b>28,558,750</b>	<b>369,883,748</b>	<b>385,304,554</b>
<b>Net assets, ending</b>	<b>\$ 328,288,233</b>	<b>344,797,729</b>	<b>25,128,544</b>	<b>26,241,488</b>	<b>353,416,777</b>	<b>371,039,217</b>

**Governmental Activities** – Governmental activities decreased the Municipality's net assets by \$16,509,496, (net decrease in net assets of \$15,456,549 plus prior period adjustment \$1,052,947), thereby accounting for almost the total reduction in the net assets of the Municipality. Key elements of this decrease are as follows:

**Revenues**

- Total overall revenues had a net increase by 1.28% over prior year. The following categories had an increase from prior year:
  - Property taxes 5.20% – mostly as a result of real estate taxes revenue increase and a general property tax amnesty program.
  - Sales taxes increase 7.12% – mostly by an increase in retail sales, \$1,341,999.

# ***Autonomous Municipality of Caguas***

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- Intergovernmental 21.8% – legislative appropriations and other intergovernmental grants increases by \$2,567,388.
- License and permits 12.5% – this category includes an extraordinary income for the construction permits of the new courthouse, Las Catalinas Mall pipeline, CVS Pharmacy and others \$3,024,528.

The following categories had a decrease from prior year:

- Operating grants and contributions, 10.7% – mainly by the aggregated grants reductions of \$3,777,931 in non-recurring American Recovery and Reinvestment Act (ARRA) fund, and the Community Development Block Grants (CDBG) and Ryan White.
- Capital grants and contributions, 49.3% – \$2,454,720.
- Volume of business, 8.2% – reflects a reduction in revenues of \$2,142,978, mainly from a large pharmaceutical enterprise that started a phase out period down to the closure of its operations.
- Other revenues, 42.9% or \$615,387.

## Expenditures

Total overall expenditures had a net increase by 3.42% over prior year.

Following are the most significant change during the year:

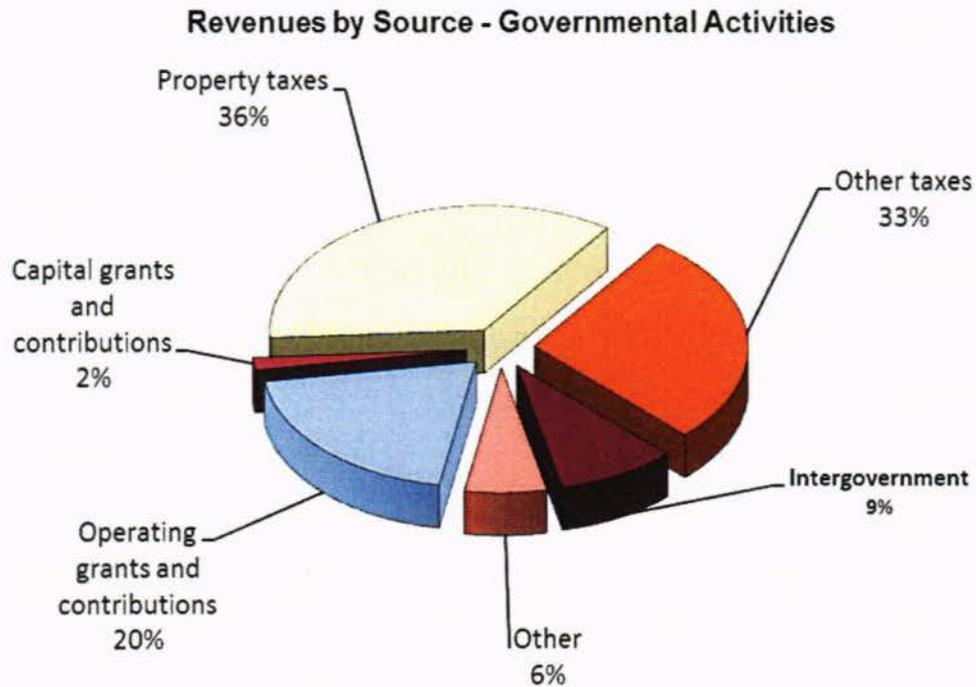
- The increase in general government expenses of 17.88% or \$ 7,109,578 is mainly the result of a positive adjustment reducing the reserves for legal cases by \$ 4 million during 2011 and an increase in other various expenses such as electricity and depreciation, among others for 2012.
- The decrease economic development expense, 38% or \$5,346,432 is mainly the result results of last year nonrecurring transactions such as a transfer made for the design and planning phases of the urban train (\$4.9 millions) and the contribution made to complete the construction of Caguas Courtyard (\$600,000) a multi familiar housing development.

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# Autonomous Municipality of Caguas

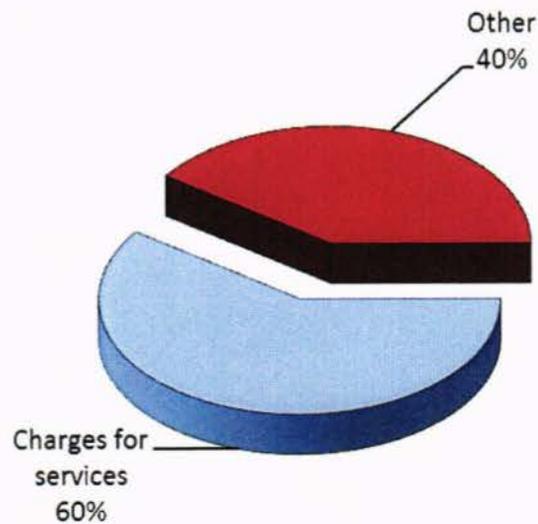
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**Business-type Activities:** Business-type activities decreased the Municipality's net assets by \$1,112,944, (net decrease in net assets of \$1,010,422 plus prior period adjustment of \$102,522)

### Revenues by Source - Business Type Activities



# ***Autonomous Municipality of Caguas***

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- Total revenues decreased by 23.7% over prior year.
  - Charge for services decreased by 49.4%, while other income increased by 277% - On July 1st, 2010, the Municipality of Caguas successfully completed the transfer of assets of the Community Development Bank to establish the first regional community bank of Puerto Rico named Banco de Desarrollo Centro Oriental (BADECO). The Municipality's transfer includes the former bank's unrestricted loans and capital assets. Therefore, charges on loans originations and interest income decreased by \$168,297 vs. \$ 54,928.
  - A sale of two rental spaces from the Multitenant Building resulted in a capital gain of \$1,528,317. That non-recurring revenue resulted in a material difference for the current year.
- Total expenses increased by 166.3 % over prior year.
  - According to the above explained transactions, the Community Development Bank expenses as well as the Multitenant building expenses increased by 29.74% and 204.82%, respectively. Such increased expenses were salaries and professional services are assumed by BADECO and allowances for loan losses. With respect to the Multi-tenant building, some construction projects were finished and capitalized, therefore the depreciation expense increased. Also energy, insurance and other operational costs increased.

## **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, unassigned 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, 2012, the governmental funds of the Municipality reported a combined fund balance of \$67,731,091, as restated. This amount represents an increase of \$10,323,694 or 17.9% over last year. Following is a summary of the most relevant funds' change when compared to prior year:

**General Fund** – The general fund revenues increased by \$6.3 million and the expenditures increased \$2.2 million. Proceeds from debt service cash surplus, debt refinancing and capital project fund, produced additional net cash flows of \$8.2 million and an increase of 83% in the Fund.

**Housing and Rental Program** – Housing revenues increased by \$455,168 basically from Federal Funds appropriations. The fund expenditures increased by \$148,390. The program's fund balance decreased 20% from prior year.

**Head Start and Food and Children Program** – Revenue from Head Start Program decreased by \$1.0 million while expenditure decreased by \$636,135.

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Capital Project Fund – Revenues from capital project fund decreased by \$8 million, while expenditures decreased by \$13 million, as long as most of the constructions in process were completed during the year. The fund balance increased \$11.2 million as a result of issue proceeds of \$18.5 million.

Debt Service Fund – Revenue from debt service fund increased by \$3.7 million, as a result of prior year collections from the property tax amnesty act of 2011. While the fund expenditures increased \$4.7 million, the fund balance decreased \$7,269,074, as a result of the transfer of excess cash of \$14.6 million to the general fund.

Legislative and Other Governmental Funds – Revenues from these funds decreased \$902,524, while expenditures increased by \$11.6 million which include the acquisition of the Lincoln Plaza Building and a new municipal parking facility.

**General Fund Budgetary Highlights:** During the fiscal year 2012, the Municipality's budget was changed, according to the latest results and ordinances and resolutions approved by the Mayor and the Municipal Legislature. 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.

	Original	Transfers	Final
<b>Resources:</b>			
Property taxes	\$ 33,275,786	—	33,275,786
Volume of business taxes	24,800,000	—	24,800,000
Sales taxes	17,120,000	—	17,120,000
Fines and penalties	450,000	—	450,000
Interest and investment income	700,000	—	700,000
Intergovernmental	14,329,320	—	14,329,320
Licenses and permits	2,210,000	—	2,210,000
Parking lot fees	183,090	—	183,090
Rent and other resources	15,814,134	—	15,814,134
Amounts available for appropriation	<u>108,882,330</u>	<u>—</u>	<u>108,882,330</u>
<b>Expenditures charged to appropriations:</b>			
Culture and recreation	6,095,734	(254,251)	5,841,483
Economic and social development	5,247,738	(46,332)	5,201,406
Education	2,441,537	(106,403)	2,335,134
General government	44,764,714	1,880,718	46,645,432
Health and welfare	10,521,358	(39,955)	10,481,403
Housing	979,168	(46,131)	933,037
Sanitation and environmental	16,115,336	(11,861)	16,103,475
Public safety	10,977,158	(1,321,846)	9,655,312
Public works	11,739,587	(53,939)	11,685,648
Total charges to appropriations	<u>108,882,330</u>	<u>—</u>	<u>108,882,330</u>
Excess of resources over appropriations	<u>\$ —</u>	<u>—</u>	<u>—</u>

# ***Autonomous Municipality of Caguas***

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The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2012 was \$108,882,330 which is higher than the prior year appropriations by \$3,179,249.
- Actual budgetary transactions generated an excess of resources over appropriations of \$5,609,254 due to the following:
  - Actual revenues were more than budgeted amounts by \$4,931,578. This result was a combination of an increase in licenses and permits (\$3,221,744), property taxes (\$1,087,066) and rent and other resources (\$1,136,409) and a minor decrease in volume of business taxes (\$356,760) and sales taxes (\$239,432).
  - Actual appropriations resulted in an economy of \$677,676 which is mostly related with minor decrease in all programmatic functions.

**Proprietary Funds** – The Municipality's proprietary funds provide the same type of information found in the business-type column within 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 \$830,931, and those of the Multitenant Building equaled \$1,150,425. Multitenant Building has net assets invested in capital assets by the amount of \$23,147,188. The total decrease in net assets was \$29,351 for the Community Development Bank and \$981,071 for Multitenant Building. 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, 2012, total \$541,812,011 (net of accumulated depreciation). The depreciation expense for the fiscal year was \$27.8 million and additions to infrastructure and other capital assets were \$21.1 million. Retirements of capital assets during year were \$1.3 million. These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles.

Major capital asset transactions during the year include:

- Infrastructure improvements and construction of public works in general throughout the city, \$18.3 million.
- Minor collectors and rural roads' repairs and betterments at various communities, \$2 million.
- Acquisition of Building at the entrance of the city which main purpose is to provide parking facilities to the surrounding medical and commercial facilities, \$9.7 million.
- Land acquisitions for future developments, \$245,000.
- Maintenance of Municipality's buildings, \$815,000.

# Autonomous Municipality of Caguas

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- Acquisitions of equipment for various municipal departments and legal and other professional fees, \$1 million.

**The Municipality's Capital Assets  
(Net of depreciation)  
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Capital assets not being depreciated</u>						
Land and improvements	\$ 49,598,556	49,770,830	3,937,554	3,937,554	53,536,110	53,708,384
Construction in progress	10,835,621	39,601,894	—	—	10,835,621	39,601,894
Works of art and historical treasures	3,504,311	3,504,311	—	—	3,504,311	3,504,311
Total not being depreciated	<u>63,938,488</u>	<u>92,877,035</u>	<u>3,937,554</u>	<u>3,937,554</u>	<u>67,876,042</u>	<u>96,814,589</u>
<u>Capital assets net of depreciation</u>						
Facilities and improvements	32,738,178	26,887,123	—	—	32,738,178	26,887,123
Buildings and improvements	138,057,862	115,487,108	19,209,634	19,667,396	157,267,496	135,154,504
Roads and streets	271,618,544	278,065,130	—	—	271,618,544	278,065,130
Equipment and vehicles	12,311,751	12,940,613	—	—	12,311,751	12,940,613
Total net of depreciation	<u>454,726,335</u>	<u>433,379,974</u>	<u>19,209,634</u>	<u>19,667,396</u>	<u>473,935,969</u>	<u>453,047,370</u>
Total capital assets net of depreciation	<u>\$ 518,664,823</u>	<u>526,257,009</u>	<u>23,147,188</u>	<u>23,604,950</u>	<u>541,812,011</u>	<u>549,861,959</u>

Additional information on the Municipality's capital assets can be found on Note 5 of the Basic Financial Statements.

Major additions to constructions in progress (disbursements of more than \$200,000) as of June 30, 2012 are as follows:

Project	Amount
Infrastructure remodeling	\$ 207,740
New Government Building Improvement	550,000
Hector Sola Bezares Court Improvement	407,142
Caguas Court Yard Community Housing	209,221
Maintenance of Infrastructure	566,129
	<u>\$ 1,940,232</u>

# Autonomous Municipality of Caguas

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**Long-term Debt** – As of June 30, 2012, The Municipality had total bonded debt outstanding of \$295,453,170 all of which is debt backed by the full faith and credit of the Municipality.

**The Municipality's Outstanding Debt  
General Obligation Bonds  
Figure 6**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 226,568,577	207,397,577	3,593	39,571	226,572,170	207,472,417
Federal loans and notes	4,200,000	4,870,000	—	—	4,200,000	4,870,000
Special loans	38,591,000	37,855,000	—	—	38,591,000	37,855,000
Total	\$ 269,359,577	250,122,577	3,593	39,571	269,363,170	250,197,417

The Municipality's total debt increased by \$19,201,022 (7.66%) during the fiscal year 2012, primarily due to \$32,120,000 issued in special loans and Bonds for infrastructure development.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a municipal government can issue to 10 percent of the total assessed value of taxable property located within the municipality's jurisdiction. On March 2009, the Government of Puerto Rico 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 sales tax redemption fund, composed of .2% of the .5% of the municipal sales tax rate portion 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 capacity, along with the property tax redemption fund, within a specific timeframe. The Municipality's borrowing margin for the audited year was approximately \$15,905,000 with a contribution to the fund (in the audited year) of approximately \$2,844,899.

## Summary of Local Economy

The Municipality of Caguas was founded in 1775. Caguas has the fifth largest population of Puerto Rico with boundaries that encompass an area of approximately 59.07 square miles, and according to the 2010 Puerto Rico Community Survey the population of Caguas was 142,893. It was estimated by the US Census that the population of Puerto Rico had an overall decrease of over 19,000 citizens during the last 15 months ended on July 2012. Notwithstanding, it was also estimated that from the largest municipalities, Caguas had the lowest decrease of 1.7%. The City's jurisdiction 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 and the Municipal governments, Avon Enterprises, Wal-Mart, Sam's Club and Amigo Supermarket retail chains, K-mart Corp., Costco, AT&T, Walgreens, and HIMA-San Pablo Hospital.

# ***Autonomous Municipality of Caguas***

*Management's Discussion and Analysis*

*June 30, 2012*

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The City's economy has an industry composition somewhat similar to the rest of the island's largest Municipalities. In the 1960's textile 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 quantity of employment. The Municipal government sector remains stable in relation to the past year. Government sector includes a diversity of employment 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 the privately owned hospitals, HIMA-San Pablo and Hospital Menonita, formerly San Juan Bautista. 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 and early detection and diagnosis of health problems. They promote adequate health treatment and rehabilitation services as well.

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of 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 municipality of Caguas pays \$7.8 million to the Puerto Rico's Health Administration, as required 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 2011, 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.

**Education:** The Interamerican University of Puerto Rico (IU), established a new facility in Caguas during 2012. It is expected that the IU will start its operations in January 2013 for the upcoming semester that begins in August 2013. Other technical-university colleges eagerly compete to attract more students to their classrooms. The tendency of students coming to Caguas represents a new governmental challenges and socio-economic opportunities.

**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 constructions in the private sector, an important source for the economic growth, stabilized during 2012. Employment and gross receipts in construction had a minor increase as a result of the construction of a Superior Court Building and Facilities. The inventories of new homes were reduced during the year as a result of a state tax incentive law to stimulate the sale of residential properties.

# ***Autonomous Municipality of Caguas***

*Management's Discussion and Analysis*

*June 30, 2012*

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The most recent developments such as “Nuevo Centro de Gobierno”, “Centro Interactivo de Ciencias, Matemática y Tecnología” (C3Tec), and other developments mentioned above, play an important role in education and the local economy.

## **Budget Highlights for the Fiscal Year Ending June 30, 2013**

**Governmental Activities:** A budget decrease of \$3 million, approximately, is expected during the fiscal year 2012-2013. Property taxes (benefiting from residential and industrial developments), city tax, and revenues from permits and fees are expected to remain the same as prior year projections (without considering any inter-fund transfer). However intergovernmental funds would experiment a reduction due to a decrease in contribution in lieu of taxes from the Electric Power Authority. The Municipality will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to decrease by 3% as per prior year results. Conservation and environmental are the lead departments that have the reductions.

## **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>.

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# Autonomous Municipality of Caguas

## Statement of Net Assets

June 30, 2012

Assets	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 26,590,269	1,549,158	28,139,427
Investments	4,464,156	—	4,464,156
Cash with fiscal agent	67,708,496	—	67,708,496
Accounts receivable:			—
Property tax	2,919,997	—	2,919,997
Volume of business tax, net	10,653,800	—	10,653,800
Sales taxes, net	3,107,757	—	3,107,757
Intergovernmental	1,357,119	—	1,357,119
Federal grants	15,243,885	—	15,243,885
License and permits	20,043	—	20,043
Rent, net	190,342	—	190,342
Other accounts	221,837	—	221,837
Internal balances	337,312	(337,312)	—
Deferred debt issue costs	128,037	—	128,037
Total current assets	<u>132,943,050</u>	<u>1,211,846</u>	<u>134,154,896</u>
Non-current assets:			
Restricted cash and investments	13,274,841	—	13,274,841
Loans receivable, net	828,542	800,060	1,628,602
Deferred debt issue costs	2,131,385	—	2,131,385
Capital assets not being depreciated	63,938,488	—	63,938,488
Capital assets, net of accumulated depreciation	454,726,335	23,147,188	477,873,523
Total non-current assets	<u>534,899,591</u>	<u>23,947,248</u>	<u>558,846,839</u>
Total assets	<u>\$ 667,842,641</u>	<u>25,159,094</u>	<u>693,001,735</u>

(Continued)

See notes to financial statements.

# Autonomous Municipality of Caguas

## Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 7,170,885	26,957	7,197,842
Accrued liabilities	1,158,823	—	1,158,823
Accounts payable from restricted assets	4,628,080	—	4,628,080
Volume of business tax deferred revenue	24,055,978	—	24,055,978
Deferred federal grant revenue	6,143,924	—	6,143,924
Accrued interest payable	5,264,392	—	5,264,392
Bonds, notes payable and special loans	14,396,314	3,593	14,399,907
Accrued compensated absences	1,305,966	—	1,305,966
Due to other governments	40,261	—	40,261
Advance deposits	904,334	—	904,334
Total current liabilities	<u>65,068,957</u>	<u>30,550</u>	<u>65,099,507</u>
Non current liabilities net of current portions:			
Bonds, notes payable and special loans	254,963,263	—	254,963,263
Accrued compensated absences	12,994,812	—	12,994,812
Accrued legal claims	1,853,680	—	1,853,680
Due to other governments	4,673,696	—	4,673,696
Total non-current liabilities	<u>274,485,451</u>	<u>—</u>	<u>274,485,451</u>
Total liabilities	<u>339,554,408</u>	<u>30,550</u>	<u>339,584,958</u>
Net assets:			
Invested in capital assets, net of related debt	349,783,021	23,147,188	372,930,209
Restricted for:			
Housing programs	3,575,086	—	3,575,086
Food and children programs	159,078	—	159,078
Capital projects	286,498	—	286,498
Debt service	19,813,194	—	19,813,194
Other special purposes, mainly for health, education and construction projects	3,584,482	—	3,584,482
Unrestricted	<u>(48,913,126)</u>	<u>1,981,356</u>	<u>(46,931,770)</u>
Total net assets	<u>328,288,233</u>	<u>25,128,544</u>	<u>353,416,777</u>
Total liabilities and net assets	<u>\$ 667,842,641</u>	<u>25,159,094</u>	<u>693,001,735</u>

(Concluded)

See notes to financial statements.

# Autonomous Municipality of Caguas

## Statement of Activities

For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 46,853,541	105,238	—	—	(46,748,303)	—	(46,748,303)
Public safety	11,060,805	588,401	903,621	—	(9,568,783)	—	(9,568,783)
Public works	30,008,248	—	—	2,524,865	(27,483,383)	—	(27,483,383)
Culture and recreation	6,584,416	122,987	—	—	(6,461,429)	—	(6,461,429)
Health and welfare	17,995,172	—	947,491	—	(17,047,681)	—	(17,047,681)
Economic and social development	6,765,876	1,787,815	3,419,077	—	(1,558,984)	—	(1,558,984)
Housing	11,907,765	—	10,889,573	—	(1,018,192)	—	(1,018,192)
Sanitation and environmental	16,298,783	37,445	266,687	—	(15,994,651)	—	(15,994,651)
Education	16,931,864	—	15,036,805	—	(1,895,059)	—	(1,895,059)
Unallocated interest	10,676,171	—	—	—	(10,676,171)	—	(10,676,171)
Total governmental activities:	\$ 175,082,641	2,641,886	31,463,254	2,524,865	(138,452,636)	—	(138,452,636)
<b>Business-type activities:</b>							
Community Development Bank	\$ 90,145	24,816	—	—	—	(65,329)	(65,329)
Multitenant	750,135	31,354	—	—	—	(718,781)	(718,781)
Total business-type activities:	\$ 840,280	56,170	—	—	—	(784,110)	(784,110)
<b>General revenue:</b>							
Property taxes					\$ 56,891,271	—	56,891,271
Volume of business taxes					24,084,347	—	24,084,347
Sales taxes					20,187,076	—	20,187,076
Intergovernmental					14,333,905	—	14,333,905
Licenses and permits					5,453,189	—	5,453,189
Interest and investment income					834,404	1,703	836,107
Gain on sale of capital assets					95,807	—	95,807
Other					852,095	35,978	888,073
Total general revenues					122,732,094	37,681	122,769,775
Transfers in (out)					263,993	(263,993)	—
Changes in net assets					(15,456,549)	(1,010,422)	(16,466,971)
Net assets - beginning (as previously reported)					344,797,729	26,241,488	371,039,217
Prior period adjustments					(1,052,947)	(102,522)	(1,155,469)
Net assets - beginning (as restated)					343,744,782	26,138,966	369,883,748
Net assets - ending					\$ 328,288,233	25,128,544	353,416,777

See notes to financial statements.

# Autonomous Municipality of Caguas

## Governmental Funds Balance Sheet

June 30, 2012

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	\$ 26,590,269	2,149,439	699,513	489,199	2,361,059	—	1,477,555	6,098,076	39,865,110
Cash with fiscal agent	—	—	—	—	30,153,970	35,052,972	—	2,501,554	67,708,496
Investments	—	—	—	—	4,464,156	—	—	—	4,464,156
Property tax receivable	—	—	—	—	—	2,919,997	—	—	2,919,997
Volume of business tax receivable, net	10,653,800	—	—	—	—	—	—	—	10,653,800
Sales taxes receivable, net	3,107,757	—	—	—	—	—	—	—	3,107,757
Intergovernmental receivables	591,661	—	—	—	80,318	—	—	685,140	1,357,119
Federal grants receivable	—	2,384,556	98,400	7,041,208	5,077,488	—	—	642,233	15,243,885
Due from other funds	16,541,303	—	—	—	—	—	—	—	16,541,303
License and permits receivable	20,043	—	—	—	—	—	—	—	20,043
Rent receivable, net	167,512	—	—	—	—	—	—	22,830	190,342
Other accounts receivable	—	57,185	—	2,881	—	—	—	161,771	221,837
Total assets	\$ 57,672,345	4,591,180	797,913	7,533,288	42,136,991	37,972,969	1,477,555	10,111,604	162,293,845

(Continued)

See notes to financial statements.

# Autonomous Municipality of Caguas

## Governmental Funds Balance Sheet

June 30, 2012

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
<b>Liabilities:</b>									
Accounts payable and accrued liabilities	\$ 7,170,885	480,442	171,636	357,694	2,380,655	—	47,606	1,190,047	11,798,965
Bonds and notes payable	—	—	—	—	—	12,895,383	—	—	12,895,383
Interest payable	—	—	—	—	—	5,114,581	—	—	5,114,581
Due to other funds	—	535,652	626,277	872,592	9,804,798	—	1,388,396	2,976,276	16,203,991
Deferred volume of business tax	30,275,232	—	—	—	—	—	—	—	30,275,232
Deferred sales taxes revenue	1,669,414	—	—	—	—	—	—	—	1,669,414
Deferred federal grant revenues	—	2,341,675	—	6,143,924	5,077,488	—	—	642,233	14,205,320
Other deferred revenues	713,812	55,194	—	—	41,528	—	—	685,000	1,495,534
Advance deposits	904,334	—	—	—	—	—	—	—	904,334
<b>Total liabilities</b>	<b>40,733,677</b>	<b>3,412,963</b>	<b>797,913</b>	<b>7,374,210</b>	<b>17,304,469</b>	<b>18,009,964</b>	<b>1,436,002</b>	<b>5,493,556</b>	<b>94,562,754</b>
<b>Fund balances:</b>									
Restricted for housing programs	—	1,178,217	—	—	—	—	—	—	1,178,217
Restricted for youth and children programs	—	—	—	159,078	—	—	—	—	159,078
Restricted for debt service	—	—	—	—	—	19,963,005	—	—	19,963,005
Restricted for capital projects	—	—	—	—	24,832,522	—	—	—	24,832,522
Restricted for special projects	—	—	—	—	—	—	41,553	4,618,048	4,659,601
Committed	3,993,401	—	—	—	—	—	—	—	3,993,401
Assigned	2,453,824	—	—	—	—	—	—	—	2,453,824
Unassigned	10,491,443	—	—	—	—	—	—	—	10,491,443
<b>Total fund balances</b>	<b>16,938,668</b>	<b>1,178,217</b>	<b>—</b>	<b>159,078</b>	<b>24,832,522</b>	<b>19,963,005</b>	<b>41,553</b>	<b>4,618,048</b>	<b>67,731,091</b>
<b>Total liabilities and fund balances</b>	<b>\$ 57,672,345</b>	<b>4,591,180</b>	<b>797,913</b>	<b>7,533,288</b>	<b>42,136,991</b>	<b>37,972,969</b>	<b>1,477,555</b>	<b>10,111,604</b>	<b>162,293,845</b>

(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, 2012*

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Fund balance per governmental funds	\$ 67,731,091
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 not reported in funds.	518,664,823
Other long-term liabilities, such as accrued compensated absences, litigations and other contingencies are not available to pay for current year expenditures and therefore are not reported in the funds:	
Compensated absences	(14,300,778)
Legal claims	(1,853,680)
Christmas bonus	(1,158,823)
Long term receivable	828,542
Due to other governmental agencies	(4,713,957)
Accrued interest	(149,811)
Deferred debt issuance cost amortized during the life of debt, are not financial resources.	2,259,422
Other economic resources not available to pay current year expenditures, but collectible after the period of availability, are not reported in the funds.	17,445,598
General obligation bonds, special and federal loans are not due and payable in the current period and therefore not reported in the funds.	<u>(256,464,194)</u>
Net assets of governmental activities	<u>\$ 328,288,233</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, 2012

	General	Housing and Rental Program	Public Residential Administration	Head Start Food and Children Program	Capital Project	Debt Service	Legislative	Other Governmental Funds	Totals
<b>Revenues:</b>									
Property taxes	\$ 33,805,696	—	—	—	—	23,085,575	—	—	56,891,271
Volume of business taxes	24,446,587	—	—	—	—	—	—	—	24,446,587
Sales tax	17,190,954	—	—	—	—	2,844,899	—	—	20,035,853
Licenses and permits	5,453,189	—	—	—	—	—	—	—	5,453,189
Federal grants	1,069,249	9,043,960	1,181,222	13,533,177	3,611,766	—	—	3,083,634	31,523,008
Fines and penalties	588,401	—	—	—	—	—	—	—	588,401
Interest and investment income	667,310	5,362	345	647	116,650	38,483	1,906	3,701	834,404
Intergovernmental	14,333,905	—	—	—	1,234,331	—	200,000	1,675,057	17,443,293
Parking lot fees	105,238	—	—	—	—	—	—	—	105,238
Rent and other services	1,558,200	—	—	—	102,247	—	—	127,368	1,787,815
Solid waste disposal	37,445	—	—	—	—	—	—	—	37,445
Other	531,324	2,112	—	12,507	121,927	—	—	448,670	1,116,540
<b>Total revenues</b>	<b>99,787,498</b>	<b>9,051,434</b>	<b>1,181,567</b>	<b>13,546,331</b>	<b>5,186,921</b>	<b>25,968,957</b>	<b>201,906</b>	<b>5,338,430</b>	<b>160,263,044</b>
<b>Expenditures:</b>									
General government	37,172,806	—	—	—	—	—	—	1,238,408	38,411,214
Public safety	9,588,248	—	—	—	—	—	—	362,033	9,950,281
Public works	12,334,447	—	—	—	4,843,901	—	244,625	2,093,882	19,516,855
Culture and recreation	5,972,996	—	—	—	9,873	—	—	125,810	6,108,679
Health and welfare	12,103,366	—	—	—	—	—	—	633,787	12,737,153
Economic and social development	2,444,411	—	—	—	1,306,288	—	27,944	77,083	3,855,726
Housing	1,011,189	9,260,791	1,153,260	—	292,014	—	—	286,483	12,003,737
Sanitation and environmental	15,790,403	—	—	—	—	—	—	141,079	15,931,482
Education	2,256,092	—	—	13,201,610	113,915	—	—	985,289	16,556,906
Capital outlays	1,911,270	100,064	28,307	329,187	4,738,754	—	151,833	13,786,523	21,045,938
Debt service payments:									
Principal	247,606	—	—	—	670,000	14,623,735	—	—	15,541,341
Interest	106,632	—	—	—	108,254	10,449,145	—	—	10,664,031
<b>Total expenditures</b>	<b>100,939,466</b>	<b>9,360,855</b>	<b>1,181,567</b>	<b>13,530,797</b>	<b>12,082,999</b>	<b>25,072,880</b>	<b>424,402</b>	<b>19,730,377</b>	<b>182,323,343</b>
Excess (deficiency) of revenue over (under) expenditures	\$ (1,151,968)	(309,421)	—	15,534	(6,896,078)	896,077	(222,496)	(14,391,947)	(22,060,299)

(Continued)

**Autonomous Municipality of Caguas**  
**Statements of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**

	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 revenues over expenditures	\$ (1,151,968)	(309,421)	—	15,534	(6,896,078)	896,077	(222,496)	(14,391,947)	(22,060,299)
Other financings sources (uses)									
Debt issuances	—	—	—	—	18,530,000	—	—	13,590,000	32,120,000
Debt refundings	13,325,000	—	—	—	—	—	—	—	13,325,000
Debt refundings	(13,325,000)	—	—	—	—	—	—	—	(13,325,000)
Property taxes transferred from debt service fund	—	—	—	—	—	—	—	—	—
Interest transferred from debt service fund	—	—	—	—	—	—	—	—	—
Transfer in	14,629,108	—	—	—	—	6,463,957	—	267,493	21,360,558
Transfer out	(6,467,457)	—	—	—	—	(14,629,108)	—	—	(21,096,565)
Other financings sources, net	8,161,651	—	—	—	18,530,000	(8,165,151)	—	13,857,493	32,383,993
Net change	7,009,683	(309,421)	—	15,534	11,633,922	(7,269,074)	(222,496)	(534,454)	10,323,694
Fund balances at beginning of year (as previously reported)	9,574,514	1,487,638	—	143,544	13,600,623	27,232,079	781,464	5,360,582	58,180,444
Restatement	354,471	—	—	—	(402,023)	—	(517,415)	(208,080)	(773,047)
Fund balances at beginning of year (as restated)	9,928,985	1,487,638	—	143,544	13,198,600	27,232,079	264,049	5,152,502	57,407,397
Fund balances at end of year	\$ 16,938,668	1,178,217	—	159,078	24,832,522	19,963,005	41,553	4,618,048	67,731,091

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(Concluded)

See notes to financial statements.

## ***Autonomous Municipality of Caguas***

*Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances*

*Governmental Funds to the Statements of Activities*

*For the Fiscal Year Ended June 30, 2012*

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Net change in fund balance - total governmental funds \$ 10,323,694

Amounts reported for governmental activities in the statement 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 expense (\$27,763,930) exceeded capital outlays \$21,045,938 in the current period. (6,717,992)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. (855,295)

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 (\$32,120,000) exceeded principal expenditures \$15,541,341. (16,578,659)

Collections on long term receivables are revenues in the governmental funds, but reduced receivable balance in the statement of net assets. (141,458)

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. (15,774)

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 net gain on disposition of capital assets \$95,807 and accrued interest \$3,634 were exceeded by the net increase in compensated absences \$1,297,608, legal claims \$115,377, and debt to other governmental agencies of \$157,521. (1,471,065)

Change in net assets of governmental activities \$ (15,456,549)

See notes to financial statements.

# Autonomous Municipality of Caguas

Statement of Net Assets – Proprietary Funds

June 30, 2012

Assets	<u>Community Development Bank</u>	<u>Multitenant Buildings</u>	<u>Totals</u>
Current assets:			
Cash and cash equivalents	\$ 359,088	1,190,070	1,549,158
Total current assets	<u>359,088</u>	<u>1,190,070</u>	<u>1,549,158</u>
Non current assets:			
Loans receivable, net	<u>800,060</u>	<u>—</u>	<u>800,060</u>
Capital assets:			
Land and improvements	<u>—</u>	<u>3,937,554</u>	<u>3,937,554</u>
Buildings and improvements	<u>—</u>	<u>19,968,600</u>	<u>19,968,600</u>
Total assets subject to depreciation	<u>—</u>	<u>19,968,600</u>	<u>19,968,600</u>
Less: Accumulated depreciation	<u>—</u>	<u>(758,966)</u>	<u>(758,966)</u>
Capital assets, net	<u>—</u>	<u>23,147,188</u>	<u>23,147,188</u>
Total non current assets	<u>800,060</u>	<u>23,147,188</u>	<u>23,947,248</u>
Total assets	<u>\$ 1,159,148</u>	<u>24,337,258</u>	<u>25,496,406</u>

(Continued)

See notes to financial statements.

# Autonomous Municipality of Caguas

Statement of Net Assets – Proprietary Funds

June 30, 2012

	<u>Community Development Bank</u>	<u>Multitenant Buildings</u>	<u>Totals</u>
Liabilities and Net Assets			
Liabilities:			
Current liabilities:			
Notes payable	\$ 3,593	—	3,593
Due to other fund	324,624	12,688	337,312
Accounts payable and accrued liabilities	—	26,957	26,957
Total liabilities	<u>328,217</u>	<u>39,645</u>	<u>367,862</u>
Net assets:			
Investments in capital assets, net	—	23,147,188	23,147,188
Unrestricted	830,931	1,150,425	1,981,356
Total net assets	<u>830,931</u>	<u>24,297,613</u>	<u>25,128,544</u>
Total liabilities and net assets	<u>\$ 1,159,148</u>	<u>24,337,258</u>	<u>25,496,406</u>

(Concluded)

See notes to financial statements.

**Autonomous Municipality of Caguas**  
*Statement of Revenues, Expenses and Changes in Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2012*

	<b>Community Development Bank</b>	<b>Multitenant Buildings</b>	<b>Totals</b>
Operating revenue:			
Rent interests and loan origination fees	\$ 24,816	31,354	56,170
Total operating revenue	<u>24,816</u>	<u>31,354</u>	<u>56,170</u>
Operating expenses:			
Depreciation	—	457,762	457,762
Bad debt expense	83,272	—	83,272
Other	6,873	—	6,873
Total operating expenses	<u>90,145</u>	<u>457,762</u>	<u>547,907</u>
Operating loss	<u>(65,329)</u>	<u>(426,408)</u>	<u>(491,737)</u>
Non-operating revenue (expense):			
Interest income	—	1,703	1,703
Other	35,978	(292,373)	(256,395)
Total non-operating revenue (expense)	<u>35,978</u>	<u>(290,670)</u>	<u>(254,692)</u>
Transfer out	<u>—</u>	<u>(263,993)</u>	<u>(263,993)</u>
Changes in net assets	<u>(29,351)</u>	<u>(981,071)</u>	<u>(1,010,422)</u>
Net assets at beginning of fiscal year (as previously reported)	962,804	25,278,684	26,241,488
Prior period adjustments	(102,522)	—	(102,522)
Net assets at beginning of fiscal year (as restated)	<u>860,282</u>	<u>25,278,684</u>	<u>26,138,966</u>
Net assets at end of fiscal year	<u>\$ 830,931</u>	<u>24,297,613</u>	<u>25,128,544</u>

See notes to financial statements.

# Autonomous Municipality of Caguas

## Statements of Cash Flows

For the Year Ended June 30, 2012

	Community Development Bank	Multitenant Buildings	Totals
Cash flows from operating activities:			
Collection of loans	\$ 82,083	—	82,083
Cash collected from interest	24,816	—	24,816
Cash collected from customers	—	31,354	31,354
Payments to suppliers and professional services	(6,873)	—	(6,873)
Net cash provided by operating activities	<u>100,026</u>	<u>31,354</u>	<u>131,380</u>
Cash flows from non-capital financing activities:			
Principal payments on notes payable	—	(533,712)	(533,712)
Decrease in loan due to general fund	—	1,301,735	1,301,735
Net cash provided by non-capital financing activities	<u>—</u>	<u>768,023</u>	<u>768,023</u>
Cash flows from investing activities:			
Interest income and net cash provided by investing activities	<u>—</u>	<u>1,703</u>	<u>1,703</u>
Net increase in cash and cash equivalents	100,026	801,080	901,106
Cash and cash equivalents at beginning of fiscal year	259,062	388,990	648,052
Cash and cash equivalents at end of fiscal year	<u>\$ 359,088</u>	<u>1,190,070</u>	<u>1,549,158</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Operating loss	\$ (65,329)	(426,408)	(491,737)
Depreciation	—	457,762	457,762
Bad debt expense	83,272	—	83,272
Decrease in loans receivable	82,083	—	82,083
Net cash provided by operating activities	<u>\$ 100,026</u>	<u>31,354</u>	<u>131,380</u>

See notes to financial statements.

### Supplementary Cash Flow Information

The Municipality restated the Community Development Bank cash and loan receivables balance at July 1, 2011 for \$102,522.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Autonomous 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 "Autonomous 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 criteria 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 criteria 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 for 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 Statements*

*For the Year Ended June 30, 2012*

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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, 2012, 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.

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 for the focus for presentation is on major funds rather than on 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.

## **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 present the following:

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

The flow of economic resources measurement and accrual accounting are the basis upon which government-wide financial statements are prepared. Under the flow of economic resources measurement focus and accrual basis of accounting, revenues are recognized when earned and expenses are 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 financial statements include the Statement of Net Assets and the Statement of Activities:

### **Statement of Net Assets:**

Presentation of assets and liabilities – Assets and liabilities are presented in the statement of net assets using a classified approach which distinguishes between all current and long term assets and liabilities.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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 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 and contributions.

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.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## **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 Program

Accounts for current financial resources restricted mainly for housing rental programs to low and very low income family. 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 (the 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 in Caguas, Puerto Rico.

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.

### Head Start Food and Children Program

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 centers.

### Capital Project

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.

# *Autonomous Municipality of Caguas*

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## Debt Service

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

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, 2012 about the current financial resources (assets, liabilities and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2012.

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

## Enterprise Funds

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

The Municipality includes as operating transactions in the enterprise funds any activity undertaken in the course of ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from, these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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 and apply all Financial Accounting Standard Board (FASB) pronouncements issued after November 30, 1989, unless this conflict with a GASB pronouncement. The enterprise fund within the Municipality has elected to apply FASB pronouncements issued after November 30, 1989. The Municipality's enterprise funds follows:

Community Development Bank – This enterprise fund, accounts for the economic resources designated mainly for the approval of loans for economic development in the benefit of the Caguas citizenship.

Multitenant Buildings – Accounts 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 – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities.

Statement of Revenues, Expenses 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) the Municipality's ability to generate future net cash flows; (b) ability to meet its obligation as they come due; (c) its needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

## **Basis of Accounting**

The basis of accounting determines when the Municipality recognizes revenues and expenditures/expenses and related assets and liabilities. Governmental fund types follow the modified accrual basis of accounting. Under this basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Available is defined as economic resources which are collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The Municipality has defined this period to be no later than sixty days for municipal taxes, and up to ninety days for other financing resources including bond issuance and loan proceeds.

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.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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The Municipality reports deferred revenue on its 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 balance sheet and revenue is recognized.

Licenses, permits, service charges, fines and forfeits and miscellaneous revenues are recorded as revenues on the cash basis. Investment income is recorded as revenue when earned. 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, respectively. 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.

## **Budgetary Accounting**

The Municipality's annual budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipality's City Council prior to the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the City Council. Non-capital encumbrances lapse at the end of the next fiscal year.

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenues and other resources for the fiscal year.

For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchases orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations within GAAP fund balance and do not constituted expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year.

Please refer to the Schedule of Revenues and Expenditures Budget and Actual – General Fund Non GAAP Budgetary Basis in page 74.

## **Cash and Investments**

Substantially all cash balances are commingled in a deposit and checking accounts, certificates of deposits and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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, which also applies for the enterprise funds. Investments are carried at fair value. Investments are composed of highly liquid U.S. Treasury Securities. Changes in the market value of its investments are recorded 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.

## **Receivables**

The receivable in the general fund include predominantly amounts owed by tax payers 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, 2012, 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 in the amount of \$4,385,668 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:

Transfers – Transfers that are reported when incurred as “Transfers in” by the recipient fund and as “Transfers out” by the disbursing fund.

Receivables and Payables – Transactions among 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 transfers, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

## **Capital Assets**

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

Capital assets, include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of \$40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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 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. The Municipality has made such capital assets evaluation and has determined that there is no impairment of capital assets as of June 30, 2012 to be recorded in accordance with GASB Statement No. 42.

## **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 criterion 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.

## **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, 2012 amounts to \$14,300,778.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## **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 is 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.

## **Restrictions of Fund Balance**

Restrictions 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 implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Also this Statement provides for a non-spendable fund balance classification which includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. These reservations of fund balance may include, but not limited to, the following purposes:

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 include fund balances available to finance projects approved by the Legislature of the Commonwealth of Puerto Rico for housing, culture and recreation, public works, economic development and other activities requested by the Municipality's citizenship.

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

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

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

The Municipal Legislature is the highest level of decision-making authority within the Municipality to commit any amount within the fund balance for a specific purpose. Such commitment requires the issuance of either an ordinance or resolution. Those committed amounts cannot be used for any other purpose unless the Municipality removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. If a modification or a cancellation needs to be made to

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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any amount previously committed, an explanatory memorandum needs to be prepared accompanying the amended ordinance or resolution. There are instances in which public hearings might also need to be performed.

Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. The intended use of such funds is expressed by the Municipality's management through their departmental budgets which are submitted to the Municipality's Budget Office. The nature of the actions necessary to remove or modify an assignment only requires the approval of the Director of each department.

The Municipality has the policy to consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts as well as restricted amounts would be reduced first followed by unrestricted amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

## **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, 2012, that are determined to be significant and material that should be considered for financial statement purposes. Within this process, management consults with its legal counsel and performs monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures. In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through October 31, 2012, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

## **Future Adoption of Accounting Pronouncements**

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

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic*

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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*Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criteria, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criteria, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interest in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is permitted.

- GASB Statement No. 62, *The Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:
  1. Financial Accounting Standards Board (FASB) Statements and Interpretations
  2. Accounting Principles Board Opinions
  3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided for enterprise funds and business-type activities to apply

# *Autonomous Municipality of Caguas*

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is permitted. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This statement is effective for fiscal years beginning after June 15, 2014. Earlier implication is encouraged.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

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 determined based on the market value existing as of 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<sup>1</sup> of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount of the exonerated tax base as of January 1, 1992, 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 effective tax rate for the fiscal year ended June 30, 2012 is 1.003%<sup>2</sup> for real property and 8.03% for personal property of which 1.03% of each class of property belongs to the Commonwealth of Puerto Rico (.103 in the case of real property). The remaining percentage is distributed as follows:

(a) .6%<sup>3</sup> and 4.00% for real and personal property, 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.

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 tax rates imposed to the taxpayer for real and personal property are .983% and 7.83%.

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<sup>1</sup> Law 7 increased the real property tax exoneration to \$150,000.

<sup>2</sup> Note that Law 7 reduced the real property's tax rate to one tenth (1/10).

<sup>3</sup> Please referred to footnote (b) next page

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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(b) 3% of each represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Since the collection of property taxes, for all of the Municipalities in Puerto Rico, is a responsibility of the CRIM, it shall report to the Municipality the estimated and actual property taxes collections, as well as the operational expense allocation to each local government. During the fiscal year ended June 30, 2012 the allocated expenses to the Municipality amounted to \$1,407,991.

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 engaged into an initiative, in order to increase the tax base of assessed properties over which the tax rate is applied and to expedite the collection of the 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 determine those new properties that would to 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, and 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 support to the Municipality by attending the taxpayers' request for services and by providing follow up on the CRIM taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

## **Volume of Business Taxes**

The Municipality imposes a volume of business tax pursuant to Act No. 113 of July 10, 1974, 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.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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

## **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 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 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 \$15,905,000 with a contribution to the fund (in the audited year) of \$2,844,889.
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.

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

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### 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

#### Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of the bank failure, the Municipality's deposits may not be recovered. 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, 2012, the Municipality deposited its funds in bank accounts bearing interest.

In addition, as of June 30, 2012, the Municipality's custodial credit risk was approximately \$46 million, which, is the bank balance of cash deposited at the Government Development Bank of Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth, these are uninsured and uncollateralized.

#### Investments

The following schedule shows the fair value of the investments in fixed income securities held by the Municipality as of June 30, 2012:

Guaranteed investment contracts (GIC) and total investments      \$ 4,464,156

The Municipality's investments are exposed to custodial credit risk, credit risk, concentration of credit risk and interest rate risk. Following is a description of these risks as of June 30, 2012.

#### Custodial Credit Risk Related to Investments

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Municipality may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012 the investments were registered in the name of the Municipality and were held in the possession of the Municipality's custodian banks.

#### Credit Risk

All fixed income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The following schedule presents the Moody's ratings as of June 30, 2012:

<u>Moody's Rating</u>	<u>Investment Type</u>	<u>Fair Value</u>
Baa1	Guaranteed investment contracts (GIC)	\$ <u>4,464,156</u>

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2012, the Municipality maintains investments in fixed income securities with a fair value of approximately \$4.4 million. Market values of such investments are very sensitive to the changes in the interest rates. At June 30, 2012, the Municipality had a risk of not recovering the market value of such investments if such investments are sold. The Municipality does not have a formal policy for managing the interest rate risk besides investing its funds in barely non-risky instruments as required by the Municipal Affairs Commissioner Office (OCAM) ruling.

The following schedule summarizes the investments in fixed income securities of the Municipality at June 30, 2012:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
			<u>Less than 1</u>	<u>1-5</u>	<u>More than 5-10</u>	<u>More than 10</u>
Guaranteed insurance contracts	(2012)	\$ 4,464,156	4,464,156	—	—	—

As of June 30, 2012, investments maturities are as follows:

<u>Maturity</u>	<u>Maximum Maturity</u>
Less than one year	100%
One to five years	0%
More than five to ten years	0%
More than ten years	0%

## Concentration of Credit Risk

No investment in fixed income 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 2011-2012 was \$11,018,992.

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 Statements

For the Year Ended June 30, 2012

## 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, 2012:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Capital Projects	\$ 9,804,798
	Other Governmental Funds	2,976,276
	Legislative	1,388,396
	Head Start, Food and Children Program	872,592
	Public Housing Residential Administration	626,277
	Housing and Rental Program	535,652
	Community Development Bank	324,624
	Multitenant	12,688
General		<u>\$ 16,541,303</u>

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

Payables to the general fund:

Capital Projects 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.

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

Head Start, Food and Children Program, Public Residential Administration and Rental Housing – includes operating expenditures and other related projects sponsored by the Municipality, which are initially disbursed through the general fund.

Housing and Rental Program – 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.

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

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## **Transfers in/out**

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2012:

<u>Transferred in</u>	<u>Transferred out</u>	<u>Amount</u>
Debt Service	General	\$ <u>6,463,957</u>
General	Debt Service	\$ <u>14,629,108</u>
Other Governmental		\$ (267,493)
	General	(3,500)
	Multitenant	\$ <u>(263,993)</u>

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

Transfers-out from the General Fund – Current financial resources transferred mainly for the operational loans debt service payments and other municipal activities.

Transfers-out from the Debt Service Fund – Current financial resources transferred mainly for the operational activities of the General Fund.

Transfers-out from the Other Governmental Fund – Current financial resources transferred mainly for the operational activities of the General Fund.

Transfers-out from the Multitenant Fund – Current financial resources transferred to governmental funds for acquisition of equipment and improvements to property related to the Municipality's social and economic development activities.

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# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

## 6. CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated					
Land and improvements	\$ 49,770,830	692,958	(865,232)	—	49,598,556
Construction in progress	39,601,894	7,282,714	—	(36,048,987)	10,835,621
Works of art and historical treasures	3,504,311	—	—	—	3,504,311
Total capital assets not being depreciated	<u>92,877,035</u>	<u>7,975,672</u>	<u>(865,232)</u>	<u>(36,048,987)</u>	<u>63,938,488</u>
Other capital assets					
Facilities and improvements	39,512,815	—	—	7,178,841	46,691,656
Buildings and improvements	205,414,547	9,773,000	—	17,611,302	232,798,849
Computer software	1,112,084	—	—	—	1,112,084
Infrastructure	440,177,951	—	—	11,258,844	451,436,795
Equipment and vehicles	42,664,875	3,297,266	(440,325)	—	45,521,816
Total other capital assets	<u>728,882,272</u>	<u>13,070,266</u>	<u>(440,325)</u>	<u>36,048,987</u>	<u>777,561,200</u>
	<u>Balance</u> <u>June 30, 2011</u>	<u>Depreciation</u> <u>Expense</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Accumulated depreciation					
Facilities and improvements	12,625,693	1,327,785	—	—	13,953,478
Building and improvements	89,927,440	4,813,547	—	—	94,740,987
Computer software	503,014	185,347	—	—	688,361
Infrastructure	162,112,820	17,705,431	—	—	179,818,251
Equipment and vehicles	30,333,332	3,731,820	(431,364)	—	33,633,788
	<u>295,502,299</u>	<u>27,763,930</u>	<u>(431,364)</u>	<u>—</u>	<u>322,834,865</u>
Capital assets, net	<u>\$ 526,257,008</u>	<u>(6,717,992)</u>	<u>(874,193)</u>	<u>—</u>	<u>518,664,823</u>

The Municipality's policy is to transfer construction in progress properly concluded to other classification of capital assets if such capital project is being used. During the fiscal year, land was sold for \$970,000, sale price, for a gain on sale of \$104,768.

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 decrease by the capital outlays balance – the amount of financial resources expended, whereas net assets decreases by the amount of depreciation expense charged for the year.

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# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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The amount by which depreciation expense exceeded capital outlays for the current year is as follows:

<u>Description</u>	<u>Amount</u>
Depreciation expense	\$ 27,763,930
Capital outlays	<u>(21,045,938)</u>
Excess of depreciation expense over capital outlays	<u>\$ 6,717,992</u>

Also the detail of these amounts is presented in the previous table including the activity of the capital assets.

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

Public works	\$ 10,107,334
Economic development	3,047,914
General government	8,129,516
Health and welfare	5,258,018
Public safety	732,487
Culture and recreation	299,351
Sanitation and environmental	177,630
Education	11,193
Housing	487
	<u>\$ 27,763,930</u>

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# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

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

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated					
Land and improvements	\$ 3,937,554	—	—	—	3,937,554
Total not being depreciated	<u>3,937,554</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,937,554</u>
Other capital assets					
Buildings and improvements	19,968,600	—	—	—	19,968,600
Total other capital assets	<u>19,968,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,968,600</u>
Accumulated depreciation					
Building and improvements	301,204	457,762	—	—	758,966
	<u>301,204</u>	<u>457,762</u>	<u>—</u>	<u>—</u>	<u>758,966</u>
Capital assets, net	\$ 23,604,950	<u>(457,762)</u>	<u>—</u>	<u>—</u>	<u>23,147,188</u>

## 7. GENERAL LONG - TERM DEBT

The legal debt margin of the Municipality is equal to 10% of the total property assessment located within the municipality's jurisdiction. Following are the assessed values of the real and personal property as of June 30, 2012:

	Real Property	Personal Property	Total
Taxable	\$ 7,189,854,910	576,386,120	7,766,241,030
Exempt	(491,301,280)	(234,189,018)	(725,490,298)
Exonerated	<u>(3,278,494,240)</u>	<u>(4,196,437)</u>	<u>(3,282,690,677)</u>
Net value	<u>\$ 3,420,059,390</u>	<u>338,000,665</u>	<u>3,758,060,055</u>

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

The residential property owners are entitled to a real property tax exoneration for an amount up to \$15,000 on the assessed value of the property. However, for fiscal years beginning after June 30, 2009, Law 7 increased the real property exoneration amount the tax payer is entitled by multiplying the exonerated valuation by ten times (up to \$150,000). These tax provisions apply for fiscal years 2009-2010 thru 2012-2013.

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

In September 2, 2010, the Government of Puerto Rico approved the Law No. 132 to provide for various tax incentives to stimulate the real estate market.

The tax incentives relates to: new and existing real estate property sales (capital gain incentives), leased real estate properties (rented property income tax incentive), real property tax (real property tax incentives) and payments of internal revenue stamps and other government charges and miscellaneous taxes related to the sale or purchase of a real estate property.

The Law No. 132 allows a 100% exemption of the real property tax payments required by Law 83 of August 30, 1991, as amended, to those tax payers that acquire a real property within the period of September 1, 2010 until June 30, 2011. During the fiscal year this incentive was extended until June 30, 2012. The exemption is valid during a five years period beginning on January 1, 2011.

The above mentioned incentives will be phased out in the following manner:

For real property purchases made during the period of July 1, 2012 to December 31, 2012:

A 50% property tax exemption from CRIM will be granted during a period of five years.

After December 31, 2012:

All the incentives will be eliminated.

According to the property tax roll provided by the CRIM, for the fiscal year 2011-2012, the valuation of the net taxable property (real and personal) have change from prior year in the following amounts:

Description	Net Property Valuation Increase (Decrease)	Estimated Tax Effect Increase (Decrease)
Real property	\$ 92,055,511	904,906
Personal property	(27,393,636)	(2,144,921)

The fiscal impact for the future years has not been determined by the Municipality's management.

Changes in general long-term debts of governmental activities for the fiscal year ended June 30, 2012 are summarized as follows:

	Balance at June 30, 2011 (as restated )	Payments	Debt Refinancing	New Debt Issued	Balance at June 30, 2012	Due within one year
Bonds	\$ 207,397,577	(9,934,000)	—	29,105,000	226,568,577	11,800,600
Federal loans and notes	4,870,000	(670,000)	—	—	4,200,000	400,000
Loans	37,855,000	(15,604,000)	13,325,000	3,015,000	38,591,000	2,195,714
Total	\$ 250,122,577	(26,208,000)	13,325,000	32,120,000	269,359,577	14,396,314

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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As of June 30, 2012, 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>
2013	\$ 14,396,314	13,209,533	27,605,847
2014	15,274,414	20,514,504	35,788,918
2015	14,269,414	19,593,709	33,863,123
2016	15,296,414	15,012,925	30,309,339
2017	13,229,414	13,851,610	27,081,024
2018-2022	69,991,955	56,117,564	126,109,519
2023-2027	64,415,000	34,642,778	99,057,778
2028-2032	34,638,652	18,135,642	52,774,294
2033-2037	<u>27,848,000</u>	<u>4,928,756</u>	<u>32,776,756</u>
Total	\$ <u>269,359,577</u>	<u>196,007,021</u>	<u>465,366,598</u>

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# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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The following table presents the outstanding balance as of June 30, 2012 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>
<b><u>Issuance for capital project activities:</u></b>	
\$85,000 payable in annual installments from \$2,000 to \$7,000 with interest rate at 5% until year 2014, secured by the Municipality.	\$ 13,000
\$125,000 payable in annual installments of \$5,000 with interest rate fluctuating from 2.7% to 5.6% until year 2026, secured by the Municipality.	75,000
\$1,545,000 payable in annual installments from \$20,000 to \$130,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	1,525,000
\$745,000 payable in annual installments from \$10,000 to \$60,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	735,000
\$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.	310,000
\$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.	385,000
\$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.	413,000
\$580,000 payable in annual installments from \$13,000 to \$41,000 with interest rate at 5% until year 2015, secured by the Municipality.	117,000
\$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.	1,050,000
\$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.	1,290,000
\$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.	1,215,000

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

Description	Balance
<b><u>Issuance for capital project activities:</u></b>	
\$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.	\$ 1,345,000
\$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.	927,000
\$2,695,650 payable in annual installments from \$58,000 to \$178,650 with interest rate at 4.75% until year 2031, secured by the Municipality.	2,301,650
\$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.	2,330,000
\$7,575,000 payable in annual installments from \$215,000 to \$605,000 with interest rate fluctuating from 0.48% to 5.63% until year 2026, secured by the Municipality.	6,365,000
\$8,060,000 payable in annual installments from \$170,000 to \$545,000 with interest rate fluctuating from 0.45% to 6.32% until year 2031, secured by the Municipality.	7,130,000
\$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.	7,790,000
\$9,900,000 payable in annual installments from \$205,000 to \$670,000 with interest rate fluctuating from 1.61% to 5.31% until year 2028, secured by the Municipality.	7,920,000
\$9,910,000 payable in annual installments from \$400,000 to \$905,000 with interest rate fluctuating from 1.53% to 6.62% until year 2021, secured by the Municipality.	7,140,000
\$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.	7,495,000
\$11,015,000 payable in annual installments from \$315,000 to \$875,000 with interest rate fluctuating from 0.52% to 5% until year 2025, secured by the Municipality.	8,850,000
\$11,020,000 payable in annual installments from \$315,000 to \$875,000 with interest rate fluctuating from 0.32% to 5% until year 2025, secured by the Municipality.	8,835,000
\$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.	5,665,000

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

<u>Description</u>	<u>Balance</u>
<b><u>Issuance for capital project activities:</u></b>	
\$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.	5,385,000
\$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.	352,027
\$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.	548,000
\$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.	3,440,000
\$500,000 payable in annual installments from \$5,000 to \$40,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	495,000
\$1,020,000 payable in annual installments from \$10,000 to \$85,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	1,010,000
\$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.	705,000
\$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.	1,010,000
\$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.	1,595,000
\$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.	3,995,000
\$15,385,000 payable in annual installments from \$260,000 to \$1,185,000 with interest rate fluctuating from 3.66% to 6.41% until year 2027, secured by the Municipality.	11,860,000
\$3,525,000 payable in annual installments from \$50,000 to \$355,000 with interest rate fluctuating from 3.74% to 7.5% until year 2035, secured by the Municipality.	3,475,000

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

<u>Description</u>	<u>Balance</u>
<b><u>Issuance for capital project activities:</u></b>	
\$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.	7,955,000
\$8,575,000 payable in annual installments from \$275,000 to \$705,000 with interest rate fluctuating from 1.53% to 6.73% until year 2024, secured by the Municipality.	7,000,000
\$10,075,000 payable in annual installments from \$255,000 to \$855,000 with interest rate fluctuating from 5.84% to 6.07% until year 2026, secured by the Municipality.	8,590,000
\$18,285,000 payable in annual installments of \$731,400 with interest rate fluctuating from 3.71% to 7.5% until year 2036, secured by the Municipality.	18,285,000
\$815,000 payable in annual installments of \$81,500 with interest rate fluctuating from 3.57% to 7.5% until year 2021, secured by the Municipality.	815,000
\$245,000 payable in annual installments of \$9,800 with interest rate fluctuating from 0.37% to 7.5% until year 2036, secured by the Municipality.	245,000
\$9,760,000 payable in annual installments from \$145,000 to \$8,720,000 with interest rate fluctuating from 3.77% to 7.5% until year 2018, secured by the Municipality.	9,760,000
\$279,900 payable in annual installments from \$4,900 to \$25,000 with interest rate of 4.5% until year 2037, secured by the Municipality.	279,900
\$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.	2,915,000
\$500,000 payable in annual installments from \$19,000 to \$52,000 with interest rate fluctuating from 1.53 % to 7.5% until year 2022, secured by the Municipality.	416,000
\$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.	6,495,000

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

<u>Description</u>	<u>Balance</u>
<b><u>Issuance for capital project activities:</u></b>	
\$6,802,000 payable in annual installments from \$102,000 to \$567,000 with interest rate fluctuating from 1.53% to 7.5% until year 2033 secured by the Municipality.	6,476,000
\$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.	<u>4,570,000</u>
<b>Total issuance for capital project activities</b>	<b>\$ <u>188,893,577</u></b>
<b><u>Issuance for operational activities:</u></b>	
\$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.	\$ 9,440,000
\$8,105,000 payable in annual installments from \$115,000 to \$675,000 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	7,990,000
\$20,540,000 payable in annual installments from \$295,000 to \$1,715,000 with interest rate fluctuating from 3.69% to 7.5% until year 2035, secured by the Municipality.	<u>20,245,000</u>
<b>Total issuance for operational activities</b>	<b>\$ <u>37,675,000</u></b>
<b>Total general obligation bonds issuance</b>	<b>\$ <u>226,568,577</u></b>

The following table presents the outstanding balance as of June 30, 2012 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 Federal Loans:**

<u>Description</u>	<u>Balance</u>
\$8 million payable in annual installments fluctuating from \$200,000 to \$600,000 at 7.5% interest reate until year 2019, secured by building and adjacent parking facility owned by the Municipality and appraised at an aggregated fair market value of approximately \$11.8 million.	\$ <u>4,200,000</u>
<b>Total federal loans and notes</b>	<b>\$ <u>4,200,000</u></b>

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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The following table presents the outstanding balance as of June 30, 2012 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>
<b>Issuance for capital project activities:</b>	
\$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.	\$ 750,000
\$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.	195,000
\$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.	775,000
\$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.	516,000
\$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.	8,315,000
\$380,000 payable in annual installments from \$45,000 to \$65,000 with interest rate fluctuating from 6% to 7.5% until year 2017, secured by the Municipality.	335,000
\$2,480,000 payable in annual installments from \$35,000 to \$210,000 with interest rate fluctuating from 3.8% to 7.5% until year 2035, secured by the Municipality.	2,445,000
\$385,000 payable in annual installments from \$40,000 to \$70,000 with interest rate fluctuating from 6% to 7.5% until year 2018, secured by the Municipality.	385,000
\$2,015,000 payable in annual installments of \$287,857 with interest rate fluctuating from 3.62% to 7.5% until year 2018, secured by the Municipality.	2,015,000
\$615,000 payable in annual installments of \$87,857 with interest rate fluctuating from 3.62% to 7.5% until year 2018, secured by the Municipality.	615,000
\$1,240,000 payable in annual installments from \$135,000 to \$220,000 with interest rate fluctuating from 6% to 7.5% until year 2017, secured by the Municipality.	1,105,000

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

Description	Balance
<b>Issuance for capital project activities:</b>	
\$730,000 payable in annual installments from \$10,000 to \$65,000 with interest rate fluctuating from 3.08% to 7.5% until year 2035, secured by the Municipality.	\$ 720,000
\$2,285,000 payable in annual installments from \$30,000 to \$190,000 with interest rate fluctuating from 3.77% to 7.5% until year 2035, secured by the Municipality.	2,255,000
\$330,000 payable in annual installments from \$5,000 to \$35,000 with interest rate fluctuating from 3.77% to 7.5% until year 2035, secured by the Municipality.	325,000
<b>Total issuance for capital project activities</b>	<b>\$ 20,751,000</b>

Description	Balance
<b>Issuance for operational activities</b>	
\$13,325,000 payable in annual installments from \$195,000 to \$1,115,000 with interest rate fluctuating from 6.0% to 7.5% until year 2036, secured by the Municipality.	\$ 13,325,000
\$7,135,000 payable in annual installments from \$805,000 to \$1,255,000 with interest rate fluctuating from 1.53% to 7.5% until year 2015, secured by the Municipality.	4,515,000
<b>Total issuance for operational activities</b>	<b>\$ 17,840,000</b>
<b>Total loans issuance</b>	<b>\$ 38,591,000</b>

## Current Refinancing

During current year the Municipality issued an aggregated balance of approximately \$13.3 million in new loans for a current refinancing of previous outstanding loans amounting to \$13.1 million with the Government Development Bank (GDB). The costs associated with this transaction, amounting approximately to \$170,000, were financed within the new debt issued. This transaction did not contemplate any interest expense savings. The refinanced debt was originally issued to cover operational expenses.

Long-term debt for business-type activities at June 30, 2012 is summarized as follows:

Description	Balance	Due within one year
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.	\$ 3,593	3,593

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

The debt service requirement for the long-term debt of Enterprise fund is schedule as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>3,593</u>	<u>36</u>	<u>3,629</u>

## 8. DUE TO OTHER GOVERNMENTAL ACTIVITIES

The Municipality has a liability with the CRIM as summarized below:

<u>Description</u>	<u>Balance</u>	<u>Due within one year</u>
Law No. 42 repayment plan, issued for \$1,875,566 at 30 years with a semi-annual rate of 3.0938%.	\$ <u>1,593,957</u>	<u>40,261</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.

The Law No. 42 dated January 2000, allows the 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>
2013	\$ 40,261	98,013	138,274
2014	42,790	95,483	138,273
2015	45,479	92,795	138,274
2016	48,336	89,937	138,273
2017	48,336	89,937	138,273
2018-2022	242,901	310,192	553,093
2023-2027	394,977	296,390	691,367
2028-2032	535,668	155,699	691,367
2033-2034	<u>195,209</u>	<u>12,201</u>	<u>207,410</u>
	\$ <u>1,593,957</u>	<u>1,240,647</u>	<u>2,834,604</u>

Also the following debts were included within the amount due to other governments:

USDA Rural Development Loan	
Outstanding balance as of June 30, 2012	\$ <u>3,120,000</u>

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

## 9. ACCRUED LIABILITIES

At June 30, 2012, the Municipality had the following accrued liabilities:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012	Due within one year
Accrued compensated absences	\$ 13,003,170	7,622,627	(6,325,019)	14,300,778	1,305,966
Accrued legal claims	1,738,303	115,377	—	1,853,680	—
Total	\$ 14,741,473	7,738,004	(6,325,019)	16,154,458	1,305,966

Liabilities for compensated absences have been typically liquidated in prior years through the General Fund.

## 10. RETIREMENT PLANS

### Employees 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 cost-sharing multiple-employer defined benefit plan, which covers only eligible full-time employees. The System provides retirement, death, and disability benefits and annuities.

Employees 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 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, 1951, which created the System, was enacted with the purpose of establishing a defined contributions 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, 2012, total covered payroll was approximately \$30.2 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.

# **Autonomous Municipality of Caguas**

Notes to Financial Statements

For the Year Ended June 30, 2012

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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, 2012 amounted to \$2,484,301. The Municipality's contributions during the years ended June 30, 2012, 2011 and 2010 amounted to approximately \$2,796,800, \$2,640,518, and \$2,673,000 respectively. 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.

On July 6, 2011 was issued the Act No. 116, an amendment to Act No. 447 of May 15, 1951. This act brought the following amendments to the employer contribution requirements effective July 1, 2011:

Contribution by the Municipality	10.275% of gross salary Increasing by 1% each July 1 from the year 2012 to 2015 and then, Increasing by 1.25% each July 1 from the year 2016 to 2020
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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).

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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, 2012, the Municipality contributions to this plan amounted to approximately \$247,000, and for the years ended June 30, 2011 and 2010 contributed approximately \$233,000 and \$217,000, respectively.

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# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

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## 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 lesser. Expenditures for the year ended June 30, 2012 amounted to approximately \$1,917,662. Future operating lease commitments are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 1,897,452
2014	755,827
2015	445,818
2016	289,977
2017	50,442
Total	<u>\$ 3,439,516</u>

### Solid Waste Disposal Contract

The Municipality has a solid waste disposal contract with E.C. Waste, Inc. until December 31, 2014, 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, 2012 for this service amounts to \$7.8 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%). Future commitments are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 8,433,087
2014	8,433,087
2015	4,216,543
Total	<u>\$ 21,082,717</u>

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# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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## **Other Commitments**

The Municipality has entered into various agreements to provide professional and consulting services, health services, repairs and maintenance of facilities, marketing and other miscellaneous services to its constituents. Future commitment payments are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 17,223,822
2014	424,145
2015	103,882
2016	103,743
2017	103,743
Total	<u>\$ 17,959,335</u>

## **Contributions to 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) 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. 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 the utilities until June 30, 2009. More recently, on August 26, 2011, the Municipality contributed \$310,000 to SANOS for education and drug prevention services.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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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; \$350,000 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. During the fiscal year 2011-2012, the Municipality made contributions to CCECI for a total of \$440,000 to cover operating expenses.

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. More recently, during the year, the Municipality contributed \$860,000 to INTECO to cover operating expenses.

## **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, 2012 and 2011, the Municipality has incurred in HAP's for \$7.2 million, in average. No significant changes are expected during the 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 \$1,853,680 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

# ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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

## **Federal Financial Assistance**

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

## **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 have 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, 2012.

## **15. RESTATEMENTS**

The Municipality has restated the beginning fund balances of funds financial statements at July 1, 2011 to correct inter-fund amounts, accounts payable to be in conformity with their respective subsidiaries. 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.

# Autonomous Municipality of Caguas

Notes to Financial Statements

For the Year Ended June 30, 2012

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

<u>Fund description:</u>	<u>Amount</u>
General fund	\$ 354,471
Capital project fund	(402,023)
Legislative fund	(517,415)
Other governmental fund	(208,080)
Total	<u>\$ (773,047)</u>

The Municipality has restated the beginning fund balances of governmental activities at July 1, 2011 to correct the following situations:

<u>Funds Financial Statements</u>	<u>Amount</u>
Net effect in funds financial statements	\$ (773,047)
<u>Other Corrections Having Effect In Government-Wide Only</u>	
Correction of USDA Rural Development not previously recorded	(279,900)
Total Government-wide Activities	<u>\$ (1,052,947)</u>

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

<u>Enterprise Funds</u>	<u>Amount</u>
<u>Community Development Bank</u>	
Correction of cash account and loan receivables not previously recorded	<u>\$ (102,522)</u>

## 16. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through October 29, 2012, the date the financial statements were issued. Based on such analysis management decided to disclose the following:

- On July 20, 2012, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the GDB). The Agreement provides for borrowing in the amount of \$1,505,000.00, including finance charges, through July 1, 2037 (the Maturity Date) and shall be known as *2012 Municipal General Obligation Bonds*. The *Bonds* will be issued as registered notes without coupons in denominations of \$5,000 with maturities of July 1 of each year through 2037. 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 1 and July 1 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 1, 2013. The Municipality will also pay legal, accounting, and other fees and expenses in accordance with the Loan Agreement.

## ***Autonomous Municipality of Caguas***

*Notes to Financial Statements*

*For the Year Ended June 30, 2012*

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- On September 30, 2012, the Municipality entered into a Loan Agreement with the Governmental Development Bank of Puerto Rico (the GDB). The Agreement provides for borrowing in the amount of \$135,000, including finance charges, through July 1, 2019 (the Maturity Date) and shall be known as *2012 Municipal General Obligation Loan*. The *Loan* will consist of registered notes without coupons in denominations of \$5,000 with maturities of July 1 of each year through 2019. 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 1 and July 1 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 1, 2013.
- On September 30, 2012, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the GDB) for the paving of roads in various neighborhoods. The Agreement provides for borrowing in the amount of \$2,040,000, including finance charges, through July 1, 2019 (the Maturity Date) and shall be known as *2012 Special Obligation Loan*. The *Loan* will be dated the day it is issued as a single denomination with maturities of July 1 of each year through 2019. Borrowings will bear interest at an annual variable prime rate plus 1.5%, with an annual minimum of 6%. Due interests shall be paid semi-annual in January 1 and July 1 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 1, 2013. The Municipality will also pay legal, accounting, and other fees and expenses in accordance with the Loan Agreement.

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## ***Autonomous Municipality of Caguas***

*Schedule of Revenues and Expenditures Budget and Actual – General Fund*

*Non GAAP Budgetary Basis*

*For the Fiscal Year Ended June 30, 2012*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
Revenue and other Resources:				
Property taxes	\$ 33,275,786	33,275,786	34,362,852	1,087,066
Volume of business taxes	24,800,000	24,800,000	24,443,240	(356,760)
Sales taxes	17,120,000	17,120,000	16,880,568	(239,432)
Fines and penalties	450,000	450,000	588,507	138,507
Interest and investment income	700,000	700,000	717,310	17,310
Intergovernmental	14,329,320	14,329,320	14,333,906	4,586
Licenses and permits	2,210,000	2,210,000	5,431,744	3,221,744
Parking lot fees	183,090	183,090	105,238	(77,852)
Rent and other resources	15,814,134	15,814,134	16,950,543	1,136,409
Amounts available for appropriation	<u>108,882,330</u>	<u>108,882,330</u>	<u>113,813,908</u>	<u>4,931,578</u>
Expenditures charged to appropriations:				
Culture and recreation	6,095,734	5,841,483	5,749,035	92,448
Economic and social development	5,247,738	5,201,406	5,131,313	70,093
Education	2,441,537	2,335,134	2,300,304	34,830
General government	44,764,714	46,645,432	46,535,984	109,448
Health and welfare	10,521,358	10,481,403	10,359,171	122,232
Housing	979,168	933,037	922,283	10,754
Sanitation and environmental	16,115,336	16,103,475	16,026,412	77,063
Public safety	10,977,158	9,655,312	9,594,596	60,716
Public works	11,739,587	11,685,648	11,585,556	100,092
Total charges to appropriations	<u>108,882,330</u>	<u>108,882,330</u>	<u>108,204,654</u>	<u>677,676</u>
Excess of resources over appropriations	<u>\$ —</u>	<u>—</u>	<u>5,609,254</u>	<u>5,609,254</u>

See notes to schedule.

## ***Autonomous Municipality of Caguas***

*Note to Schedule of Revenues and Expenditures Budget and Actual – General Fund*

*Non GAAP Budgetary Basis*

*For the Fiscal Year Ended June 30, 2012*

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### **1. RECONCILIATION OF BUDGET/ GAAP**

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2012 is presented below for the general fund.

Excess of resources over appropriations - Non GAAP Budgetary Basis	\$ 5,609,254
Perspective difference :	
Net change in fund balances in non budgeted funds	(441,642)
Timing difference:	
Prior year expenditures	(1,633,431)
Encumbrances that are budgetary expenditures but not used as current financial resources	2,453,824
Basis of accounting differences:	
Revenue available for budgetary purposes not available for GAAP basis	<u>1,021,678</u>
Net change in fund balance (GAAP Basis)	<u>\$ 7,009,683</u>

**Reports required under OMB Circular A-133**



**PARISSI P.S.C.**  
Certified Public Accountants, Tax & Business Advisors

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

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

We have audited the 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, Puerto Rico, (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated October 29, 2012.

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

October 29, 2012  
San Juan, Puerto Rico

Stamp No. E49897 was affixed  
to the original of this report.  
License No. 88 Exp. December 1, 2014

*Pauss PSC*





**PARISSI P.S.C.**

Certified Public Accountants, Tax & Business Advisors

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVERCOMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

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

Compliance

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

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

In our opinion, the Municipality, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-III-1.

## Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-III-1 and 2012-III-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

December 28, 2012  
San Juan, Puerto Rico

Stamp No. E49898 was affixed  
to the original of this report.  
License No. 88 Exp. December 1, 2014



# ***Autonomous Municipality of Caguas***

*Schedule of Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2012*

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## **Section 1 – Summary of Auditors’ Results**

### **Financial Statements:**

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

1. Material weakness identified? No

2. Significant deficiencies that are not considered to be material weakness? No

Noncompliance material to financial statements noted? No

### **Federal awards:**

Internal control over major programs:

1. Material weaknesses identified? No

2. Significant deficiencies that are not considered to be material weaknesses? Yes

Type of auditors’ report issued on compliance for major program? Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) Yes

# ***Autonomous Municipality of Caguas***

*Schedule of Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2012*

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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218 14.253	Community Development Block Grant/Cluster
14.239 14.850	Home Investment Partnership Program Public and Indian Housing (pass-through the PR Department of Housing for the Administration of Public Housing of the Commonwealth of Puerto Rico)
14.871	Section 8 Housing Choice Vouchers
93.600 93.708 93.709	Head Start Cluster
93.575	Child Care

Dollar threshold used to distinguish between Type A and Type B programs: \$917,166

Auditee qualified as a low-risk auditee? No

# ***Autonomous Municipality of Caguas***

*Schedule of Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2012*

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## **Section 2 – Financial Statements Findings**

No findings found.

## **Section 3 – Findings as Required by OMB Circular A-133**

### **Finding No. 2012-III-1**

#### **CDBG (Community Development Block Grants)CFDA 14.218) Period of Availability Compliance**

- **Condition** – During the examination of CDBG timely expenditure regulatory requirements of 24 CFR section 570.902 we noted that the programs grant balance as of June 30, 2012 exceeded the maximum allowed. Grant amount for fiscal year 2012 was \$3,053,942 with a program balance on June 30, 2012 of \$5,077,488 surpassing the limit by \$496,575.
- **Criteria** – As per 24 CFR 570.902, HUD will consider an entitlement recipient to be falling to carry out its CDBG activities in a timely manner if sixty days prior to the end of the grantee's current program year, the amount of the entitlement funds available to the recipient under grant agreements but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year.
- **Cause** – Two elements responsible:
  - Contracts are not being completed in a timely manner.
  - Contractors and suppliers do not send invoices in a timely manner.
  - From the time invoices are process to the time that the program submit the drawdown takes a long period of time to comply with the period of availability requirement.
- **Effect** – Program resources are not used for its purposes in a timely manner and program may be subject to lose funds.
- **Recommendation** – Include a clause in the contract with suppliers which limits how much time they have to submit an invoice after the service has been provided and certified or the delivery of goods has been certified.
- **Management Response** – The mayor factor that causes this situation was due to a significant CDBG-R allocation for the construction of infrastructure. There was a surplus of CDBG funds which we had difficulty in assigning since the eligible activities are limited. Several projects were submitted to HUD which was denied. Finally the funds were allocated and the remained was to use the funds for CDBG activity but was not enough time able to be used. On September 30, 2012 was returned the excess to the U.S. Department of Treasure.

## ***Autonomous Municipality of Caguas***

*Schedule of Findings and Questioned Costs*

*For the Fiscal Year Ended June 30, 2012*

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We will reinforce the reconciliation accounts in the financial and IDIS systems with accounting staff of the Planning Office, Finance Office and Public Work Department to complete and reprogram the funds to eligibly activities.

We will follow the recommendation mentioned in the report.

### **Finding No. 2012-III-2**

#### ***CDBG (Community Development Block Grants) CFDA 14.218 Monitoring Compliance***

- ***Condition*** – During the audit, we observed that program did not monitor commercial loans made by the Central Oriental Development Bank or by its Spanish acronyms (BADECO).
- ***Criteria*** – 24 CFR 85.40. Monitoring and reporting program performance.(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.
- ***Cause*** – Program personnel have not being informed about the monitoring duties over CDBG funds used for loans and being manage by BADECO
- ***Effect*** – Loans manage by BADECO may be in non-compliance with federal regulations.
- ***Recommendation*** – Develop a more efficient monitoring department that employs sufficient resources for inspections be made as contract stipulates. Develop mechanism that would stimulate the compliance of contract requirements.

***Managements Response*** – During the fiscal year 2011-2012 we performed several visits monitoring for the CDBG program which include the CDBG projects and the Public Service Program. The Monitoring Agenda included economic development, housing and community development programs and constructions projects. Annually, BADECO reports the work's done for the CAPER report.

The monitoring of BADECO took place after the year end closing. We will follow the recommendations mentioned in the report to develop a more efficient monitoring. In addition, we will also develop mechanism's that would stimulate the compliance of contract requirements.

# Autonomous Municipality of Caguas

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012

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<i>Finding Number</i>	<i>Finding Description</i>	<i>Specific Fiscal Year Status</i>	<i>Current Year Status (Corrective Action Plan, if Applicable)</i>
2011-III-1	Head Start – Non Compliance with Davis Bacon contract clauses.	<b>Corrective action was taken.</b> To fixed contract software bugs, to include Davis Bacon clauses.	Condition still prevails, since 2011 condition was observed during the fiscal year 2012. However, recently contracts observed contain Davis Bacon clauses.
2011-III-2	Transparency Act reporting.	<b>Corrective action was taken.</b> To inform responsible personnel about required reports under Transparency Act.	Transparency Act does not apply for Head Start and Ryan White under actual conditions. For CDBG reports were observed.

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**Autonomous Municipality of Caguas**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2012*

Federal Grantor	Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture	Child and Adult Care Food Program (Pass-through the Department of Education of the Commonwealth of Puerto Rico)	10.558	\$ 969,231
U.S. Department of Health and Human Services	Head Start Cluster:		
	Head Start Program	93.600	10,611,731
	ARRA- Head Start	93.708	195,215
	ARRA- Early Head Start	93.709	1,383,807
	HIV Emergency Relief Project Grant	93.914	52,404
	Child Care Program (Pass-through the Department of the Family of the Commonwealth of Puerto Rico)	93.575	364,661
	Family Violence Prevention (Pass-through the Department of the Family of the Commonwealth of Puerto Rico)	93.591	51,633
	Geriatric Elderly Care Program (Pass through the Department of the Family of the Commonwealth of Puerto Rico)	93.044	261,086
U.S. Department of Housing and Urban Development	Public and Indian Housing (Pass-through the PR Department of Housing for the Administration of Public Housing of the Commonwealth of Puerto Rico)	14.850	1,181,567
	Public Housing Capital Fund (Pass-through the PR Department of Housing for the Administration of Public Housing of the Commonwealth of Puerto Rico)	14.872	263,578
	Community Development Block Grant Cluster:		
	Community Development Block Grant/Entitlement Grants	14.218	3,467,245
	ARRA Community Development Block Grant/Entitlement Grants	14.253	764,419
	Emergency Shelter Grants Program	14.231	171,861
	Housing Opportunities for Persons with AIDS, HOPWA (Pass-through from the Municipality of San Juan)	14.241	130,000
	HOME Investment Partnerships Program	14.239	1,102,317
	Section 8 Housing Choice Vouchers	14.871	8,045,546
U.S. Department of Justice	ARRA COPS Hiring	16.710	244,536
	Victims of Crime Act ( Pass through State Department of Justice)	16.807	24,000
U.S. Department of Energy	ARRA Energy Efficiency and Conservation Block Grant	81.128	132,058
U.S. Environmental Protection Agency	Brownfield's Petroleum and Hazardous Substance Assessment Program Agreement BF 97243408-0 & BF97243508-0	N/A	18,405
U.S. Department of Education	Twenty First Century Community Learning Centers (Pass-through the Department of Education of the Commonwealth of Puerto Rico)	84.287	444,221
U.S. Department of Homeland Security	Homeland Security Grant Program (Pass through the State Office of Public Security Affairs of the Commonwealth of Puerto Rico)	97.067	371,925
	Citizens Corps ( Pass-through Puerto Rico Disaster and Emergencies State Administration)	97.053	1,232
	Federal Emergency Management Agency ( Pass through the Governor's Authorized Representative Government of Puerto Rico)	97.036	175,074
	Federal Emergency Management Agency ( Pass through the Governor's Authorized Representative Government of Puerto Rico) FEMA-1552-DR-PR-HMGP PR-0031	97.036	71,000
U.S. Department of Transportation	National Highway Traffic Safety Administration ( Pass through the Puerto Rico Safety Transit Commission)	20.614	73,453
<b>Total Expenditures</b>			<b>\$ 30,572,205</b>

See accompanying notes to schedule of expenditures of federal awards.

# ***Autonomous Municipality of Caguas***

*Notes Schedule of Expenditures of Federal Awards*

*For the Fiscal Year Ended June 30, 2012*

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## **1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the expenditures, for the fiscal year ended June 30, 2012, of all the federal assisted programs of the Autonomous Municipality of Caguas.

## **2. ACCOUNTING BASIS**

The schedule of expenditures of federal awards for programs other than Section 8 Housing Choice Voucher was prepared following the modified accrual basis of accounting, which is further explained in Note 1 of the basic financial statements of the Municipality for the fiscal year ended June 30, 2012. The expenditures of the Section 8 Housing Choice Voucher were reported following the statutory basis of accounting required by the U.S. Department of Housing and Urban Development in its definition of expenditures of federal awards.

## **3. SUBRECIPIENTS**

During fiscal year 2011-12, the Municipality disbursed \$302,044 to sub-recipients for the realization of healthcare, public service, and community development projects. The following entities received sub-awards from the Municipality's federal financial assistance programs:

<u>Federal Program</u>	<u>Sub-recipient Entities</u>	<u>2011-12 Disbursements</u>
Emergency Shelter Grant	Proyecto Guarabí	19,686
	Fundación de Desarrollo Comunal de PR (FUNDESCO)	4,987
	Hogar CREA	6,090
	Hogar La Piedad	3,739
	Hogar Resurrección	4,500
	Corporación Milagros de Amor	3,171
<b>Subtotal</b>		<b>42,173</b>
HOME Community Development Block Grant/Entitlement Grant	Lucha Contra el Sida	191,500
	Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS)	68,371
<b>Total</b>		<b>\$ 302,044</b>

## ***Autonomous Municipality of Caguas***

*Notes Schedule of Expenditures of Federal Awards*

*For the Fiscal Year Ended June 30, 2012*

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### **4. RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS (SECTION 8 HOUSING CHOICE VOUCHER)**

A reconciliation of the expenditures reported in the accompanying Statement of Revenues, Expenses and Changes in Fund Balance of the Section 8 Housing Choice Voucher to the related amount in the schedule of expenditures of federal awards is as follows:

<u>Description</u>	<u>Amount</u>
Total Section 8 expenditures per Modified Accrual Basis of Accounting in accordance to the Statement of Revenues, Expenditures and Changes in Fund Balance of the Municipality's Basic Financial Statements	\$ 8,044,520
Less: Excess of revenues over expenditures for the fiscal year ended June 30, 2012	<u>1,026</u>
Total Section 8 expenses as per schedule of expenditures of Federal Awards as required by HUD	<u>\$ 8,045,546</u>

# Autonomous Municipality of Caguas

## Financial Data Schedule

For the Fiscal Year Ended June 30, 2012

Autonomous Municipality of Caguas (RQ007) Caguas, PR Entity Wide Balance Sheet Summary		Fiscal Year End: June 30, 2012
Submission Type: Audited/A-133		14.871 Section 8 Housing Choice Voucher
111	Cash - Unrestricted	\$ 640,191
113	Cash - Other Restricted	297,187
100	Total Cash	<u>937,378</u>
121	Accounts Receivable - PHA Projects	1,991
128	Fraud Recovery	157,232
128.1	Allowance for Doubtful Accounts	(102,038)
120	Total Receivable, Net of Allowance for Doubtful Accounts	<u>57,185</u>
150	Total Current Assets	994,563
164	Furniture, Equipment & Machinery - Administration	597,198
166	Accumulated Depreciation	(300,806)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>296,392</u>
190	<b>Total Assets</b>	<b>\$ <u>1,290,955</u></b>
312	Accounts Payable <=90 days	\$ 30,015
322	Accrued Compensated Absences - Current Portion	16,000
342	Deferred Revenues	55,194
347	Inter program - Due to	153,435
310	Total Current Liabilities	<u>254,644</u>
354	Accrued Compensated Absences - Non Current	<u>117,265</u>
350	Total Non-Current Liabilities	117,265
300	Total Liabilities	371,909
508.1	Invested in Capital Assets, Net of Their Related Debt	296,392
511.1	Restricted Net Assets	282,415
512.1	Unrestricted Net Assets	340,239
513	Total Equity / Net Assets	<u>919,046</u>
600	<b>Total Liabilities and Equity / Net Assets</b>	<b>\$ <u>1,290,955</u></b>

See accompanying notes to financial data schedule.

# Autonomous Municipality of Caguas

## Financial Data Schedule

For the Fiscal Year Ended June 30, 2012

Autonomous Municipality of Caguas (RQ007)  
Caguas, PR  
Program Revenue and Expenses Summary

Submission Type:  
AUDITED/A-133

Fiscal Year End:  
June 30, 2012

		14.871
		Section 8 Housing
		Choice Voucher
70600	HUD PHA Operating Grants	\$ 8,045,546
71100	Investment Income-Unrestricted	2,488
71400	Fraud Recovery	31,144
71500	Other Revenue	189,727
72000	Investment Income-Restricted	1,359
<b>70000</b>	<b>Total Revenue</b>	<b>8,270,264</b>
91100	Administrative Salaries	446,810
91400	Advertising and marketing	3,413
91500	Employee Benefit Contributions - Administrative	93,824
91600	Office Expenses	150,835
91800	Travel	1,435
91900	Other	51,266
<b>91000</b>	<b>Total Operating - Administrative</b>	<b>747,583</b>
96130	Workmens Compensation	15,949
<b>96100</b>	<b>Total Insurance Premium</b>	<b>15,949</b>
96200	Other General Expense	-
96210	Compensated Absences	-
<b>96000</b>	<b>Total Other General Expenses</b>	<b>-</b>
<b>96900</b>	<b>Total Operating Expenses</b>	<b>763,532</b>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	<b>7,506,732</b>
97300	Housing Assistance Payments	7,239,872
97350	HAP-Portability In	167,816
97400	Depreciation expense	69,940
90000	Total Expenses	8,241,160
10000	Deficiency of Total Revenue Over Total Expenses	\$ 29,104
11030	Beginning Equity	\$ 889,942
11170	Administrative Fee Equity	\$ 636,631
11180	Housing Assistance Payments Equity	\$ 282,415
11190	Units Months Available	\$ 15,900
11210	Number of Units Months Leased	\$ 15,734

See accompanying notes to financial data schedule.

# Autonomous Municipality of Caguas

Notes to Financial Data Schedule

For the Fiscal Year Ended June 30, 2012

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## 1. GENERAL

The accompanying financial data schedule presents the expenditures of Housing Choice Vouchers Section 8 federal award program, for the fiscal year ended June 30, 2012, of the Autonomous Municipality of Caguas.

## 2. ACCOUNTING BASIS

The schedule was prepared on accrual basis of accounting except for fraud recoveries plans that are accounted using the Section 8 Housing Choice Voucher following the statutory basis of accounting required by the US Department of Housing and Urban Development.

## 3. RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS (SECTION 8 HOUSING CHOICE VOUCHER FDS)

A reconciliation of the net income / net assets, revenues and expenses reported in the accompanying Statement of Activities of the Municipality's basic financial statements to the related amount in the Financial Data Schedule is as follows:

<u>Description</u>	<u>Net Income</u>	<u>Net assets</u>
Total Section 8 net income/net assets per accrual basis of accounting in accordance to the Statement of Activities of the Municipality's basic financial statements	\$ 84,298	974,240
Subtract: fraud recoveries receivables presented as revenues as per GAAP but deferred as per HUD regulatory accounting basis.	<u>(55,194)</u>	<u>(55,194)</u>
Total Section 8 net income/net assets as per financial data schedule as required by HUD	\$ <u>29,104</u>	<u>919,046</u>

<u>Description</u>	<u>Revenues</u>	<u>Expenses</u>
Total Section 8 Revenues/Expenses as per accrual basis of accounting in accordance to the Statement of Activities of the Municipality's basic financial statements	\$ 8,102,448	8,073,344
Add: Portability-In transactions treated as portability receivable as per GAAP but presented as revenue and expense as per HUD regulatory accounting basis.	<u>167,816</u>	<u>167,816</u>
Total Section 8 revenues/expenses as per financial data schedule as required by HUD	\$ <u>8,270,264</u>	<u>8,241,160</u>

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