

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Financial Statements and Supplementary Information for
the Fiscal Year Ended June 30, 2013, with the additional
Reports and Information Required by the Government
Auditing Standards and OMB Circular A-133*



CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

AICPA Governmental
Audit Quality Center

Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants
Enrolled in the AICPA Peer Review Program Since 1988

2010-03-14
DIVISION RECLAMACION
E INTERVENCION

14 MAR 10 PM 4:17

This page intentionally left blank.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2013,
with the additional Reports and Information Required by the Government Auditing Standards
and OMB Circular A-133*

Table of Contents

	Pages
PART I – Financial:	
Independent Auditor's Report.....	2- 4
Required Supplementary Information – Management's Discussion and Analysis (Unaudited) .	5- 18
Basic Financial Statements:	
Governmental-Wide Statements:	
Statement of Net Position	19- 20
Statement of Activities	21
Governmental Funds Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of Balance Sheet Governmental Funds to Statement of Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	24- 25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds to the Statement of Activities	26
Notes to Financial Statements	27- 90
Required Supplementary Information:	
Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis (Unaudited).....	92
Notes to Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis (Unaudited).....	93

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2013,
with the additional Reports and Information Required by the Government Auditing Standards
and OMB Circular A-133*

	Pages
Supplementary Information Required by U.S. Department of Housing and Urban Development:	
Section 8 Housing Choice Vouchers:	
Financial Data Schedule (RQ07) – Entity Wide Balance Sheet Summary	95
Financial Data Schedule (RQ07) – Program Revenues and Expense Summary	96
Financial Data Schedule (RQ07) – Notes to Financial Data Schedules	97
PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards.....	99-102
Notes to Schedule of Expenditures of Federal Awards	103-104
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	105-106
Independent Auditor's Report on Compliance Requirements for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	107-109
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs.....	111-120
Summary Schedule of Prior Audits Findings	121

PART I
FINANCIAL

This page intentionally left blank.



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas
of the Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Municipality's** basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **Municipality's** preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas
of the Commonwealth of Puerto Rico
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico**, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 21 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* effective July 1, 2012. Our opinions is not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 20 to the financial statements, the 2012 financial statements have been restated to correct misstatements. Our opinions is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 18, and budgetary comparison information on pages 92 and 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas
of the Commonwealth of Puerto Rico
Page 3

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers, as required by U.S. Department of Housing and Urban Development, on pages 95 through 97, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, on pages 99 through 104, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule – Section 8 Housing Choice Vouchers and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014 on our consideration of the **Municipality's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered **Municipality's** internal control over financial reporting and compliance.



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
February 20, 2014

Stamp No. E63618 was affixed to
the original report.



This page intentionally left blank.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*



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

As management of the Autonomous Municipality of Caguas (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with the basic financial statements.

Financial Highlights

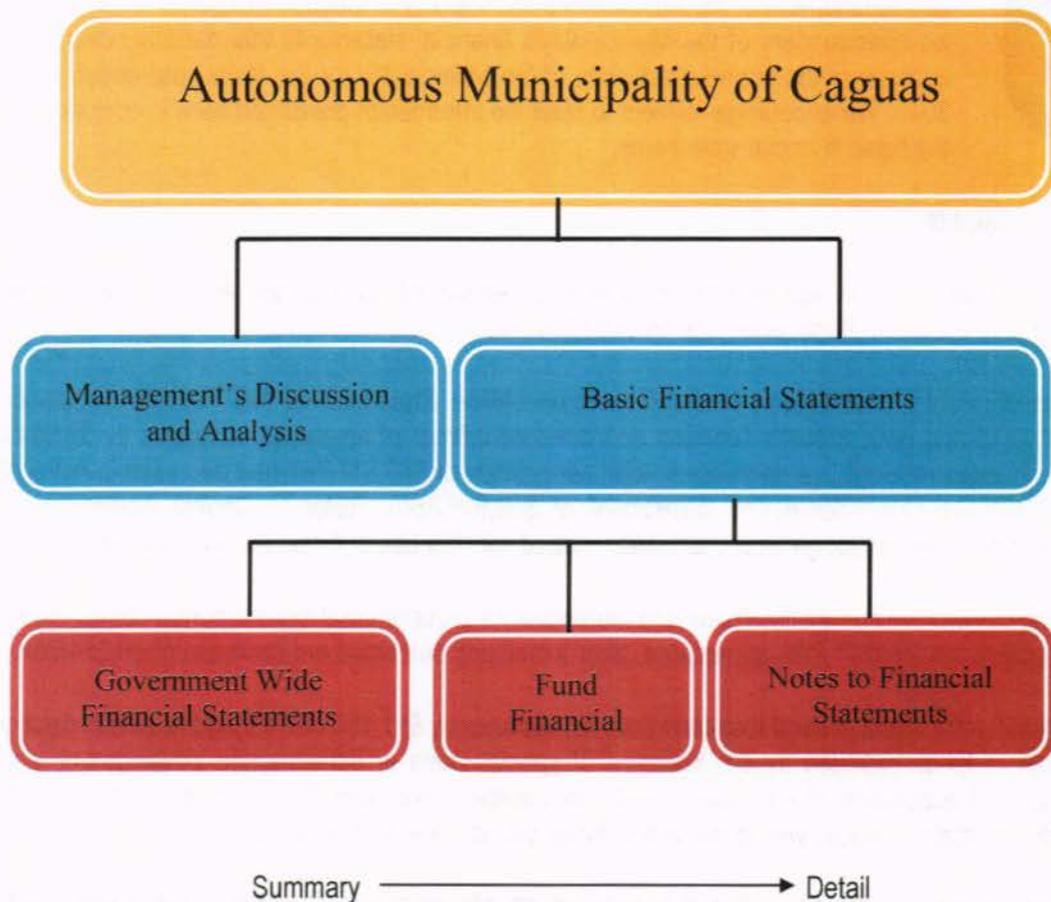
- The net position of the Municipality, governmental exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$251,670,442.
- The government's total assets, in the Government-Wide Statement of Net Position decreased by \$84,561,818 and government's liabilities and deferred inflows of resources increased by \$7,944,027. These changes resulted in a decrease in total net position of \$76,617,791 (net decrease in net position of \$19,791,441 plus prior period adjustment of \$56,826,350). Refer to Capital Assets and Debt Administration Section for general information related with the use of funds provided by debt issuance.
- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$64,071,706, as restated, after a total and combined net decrease of \$6,554,254.
- The Municipality's total general long-term debt net increase by \$11,159,687 during the current fiscal year. The use of funds provided by the issuance of special loans or infrastructure development, parking facilities and acquisition of equipment. Refer to Capital Assets and Debt Administration Section for general information related with to the use of funds provided by debt issuance.

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

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

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 **Governmental 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.

See Notes to Financial Statements

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

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

Government-Wide Financial Statements

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

The *Statement of Net Position* presents information on all of the Municipality's assets, plus deferred outflows of resources less liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 governmental activities include most of the Municipality's basic services such as public safety, culture and recreation and general administration. Property taxes and state and federal grant funds finance most of these activities.

The government-wide financial statements are included from pages 19 through 21 of this report.

Governmental Fund Financial Statements

The governmental 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.

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.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 schedule 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 schedule 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.

The governmental funds financial statements are included from pages 22 through 26 of this report.

Notes to 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 position may serve over time as one useful indicator of a government's financial condition. The total assets of the Municipality exceeded its liabilities and deferred inflows by \$251,670,442 as of June 30, 2013. The Municipality's net position decreased by \$76,617,791 (net decrease in net position of \$19,791,441 plus prior period adjustment of \$56,826,350) for the fiscal year ended June 30, 2013.

One of the largest portions of the net position, \$270,985,585, 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 position (\$48,053,931) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

During the year ended June 30, 2013 the Municipality evaluated the amount reported as capital assets, net of accumulated depreciation, and determined that such amount overstated was by \$77,327,585. Accordingly net position at July 1, 2012 was restated to correct this overstatement.

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Municipality restated the ending net position at June 30, 2012, in connection with unamortized bond issuance costs amounting to \$2,131,385 at June 30, 2012 According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

Other adjustments by \$ 2,495,924 net, were made, refer to note 20 on the notes to financial statements.

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

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 127,947,853	\$ 136,620,753
Capital assets	453,849,156	466,465,782
Loan receivable, net	1,483,814	828,542
Total assets	<u>583,280,823</u>	<u>603,915,077</u>
Current liabilities	\$ 53,146,606	\$ 57,798,591
Other liabilities	278,463,775	274,654,603
Total liabilities	<u>331,610,381</u>	<u>332,453,194</u>
Net position:		
Net invested of capital assets	270,985,585	297,583,980
Restricted	48,053,931	33,293,852
Unrestricted	(67,369,074)	(59,415,949)
Total net position	<u>\$ 251,670,442</u>	<u>\$ 271,461,883</u>

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

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

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 1,250,591	\$ 2,641,886
Operating grants and contributions	29,639,476	31,463,254
Capital grants and contributions	3,037,004	2,524,865
General revenues:		
Property taxes	53,565,168	56,622,861
Volume of business taxes	25,805,434	24,084,347
Sales and usage taxes	20,604,386	20,187,076
Intergovernmental	16,649,898	14,333,905
Construction Excise Taxes	3,107,824	5,453,189
Interest and investment income	816,993	834,404
Gain on disposal of capital assets	-	95,807
Other	2,058,660	852,095
Total revenues	<u>156,535,434</u>	<u>159,093,689</u>
Expenses:		
General government	42,596,455	41,075,359
Public safety	11,094,742	10,564,143
Public works	28,739,562	32,950,095
Cultural and recreation	11,963,260	13,520,945
Health and welfare	12,994,565	12,874,439
Economic development	9,482,715	5,794,833
Housing	11,799,459	12,304,870
Sanitation and environmental	16,019,816	16,232,792
Education	18,542,112	19,088,995
Loss on disposal of capital assets	1,412,427	-
Interest	11,681,762	10,676,171
Total expenses	<u>176,326,875</u>	<u>175,082,642</u>
Change in net position before transfer	(19,791,441)	(15,988,953)
Transfer	-	263,993
Net change in net position	<u>(19,791,441)</u>	<u>(15,724,960)</u>
Net position, beginning as previously reported	271,461,883	344,797,729
Prior period adjustments	-	(57,610,886)
Net position, beginning as restated	<u>271,461,883</u>	<u>287,186,843</u>
Net position, ending	<u>\$ 251,670,442</u>	<u>\$ 271,461,883</u>

See Notes to Financial Statements

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Governmental Activities – Governmental activities decreased the Municipality's net position by \$76,617,791 (net decrease in net position of \$19,791,441 plus prior period adjustment \$56,826,350 thereby accounting for almost the total reduction in the net position of the Municipality. Key elements of this decrease are as follows:

Revenues:

- Total overall revenues had a net decreased by 1.61% over prior year. The following categories had the mayor changes from prior year:
 - Operating grants and contributions, 5.8% – mainly by the aggregated grants reductions of \$1,823,778 in the housing and urban development and Head Start grants.
 - Construction Excise Taxes, 43 % or \$2,345,365 was due to last year big constructions projects constructed.
 - Property taxes 5.40% – mostly as a result of real estate taxes revenue decrease \$3,057,693.
 - Volume of the business taxes increase by 7.15% or \$1,721,087.
 - Intergovernmental 16.2% – increased by \$2,002,516, mainly on the contribution in lieu of tax from the Puerto Rico's Power Authority.

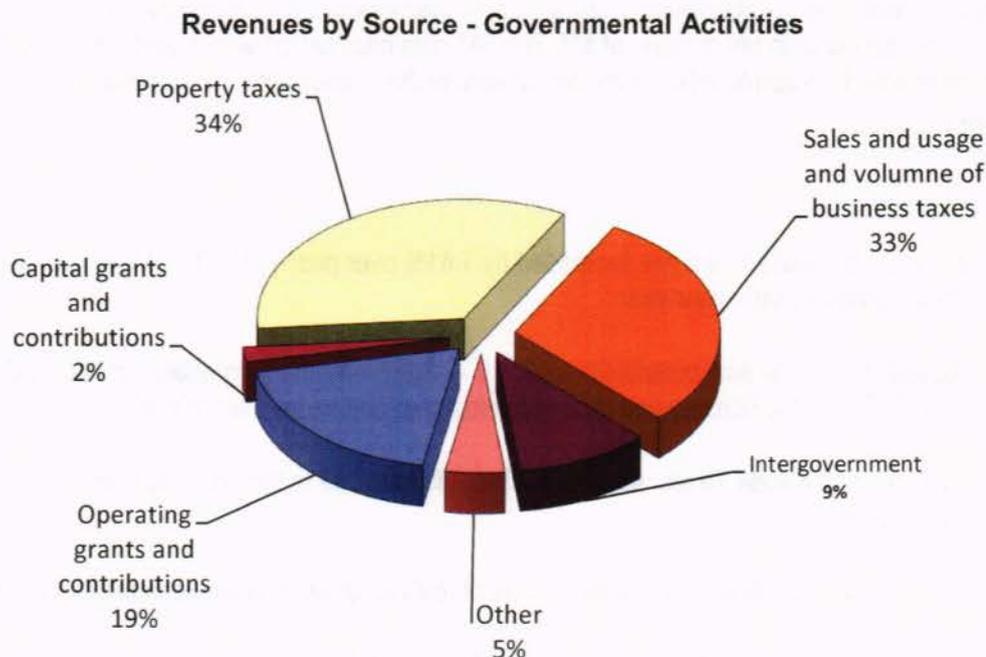
Expenses:

Total overall expenses had a net decrease by .7% over prior year.

- Public works decrease by 11.32% or \$3,668,194, mainly on depreciation expense.
- Culture and recreation decrease by 16% or \$2,277,902, mainly on depreciation expense.
- Interest expense- increase by 9.4% or \$1,005,591 on interest on long term bonds and notes.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013



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, 2013, the governmental funds of the Municipality reported a combined fund balance of \$64,071,706, as restated. This amount represents a decreased of \$3,659,385 or 9.5% 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 \$2 million and the expenditures increased \$3 million. Debt issuance produced additional net increase in financial resources of \$20.7 and decrease in debt service expenditures of \$1.3 million for a net change of \$3 million.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Capital Project Fund – Revenues from capital project fund increased by \$266,851, while expenditures increased by \$2.2 million, as long as most of the constructions in process were completed during the year. The fund balance increased \$380,996 as a result of issue proceeds of \$3.9 million, net change of expenditures over revenues of \$4.8 million and fund balance restatement and reclassifications of \$4.5 million.

Debt Service Fund – Revenue from debt service fund decreased by \$6.8 million, as a result of prior year collections from the property tax amnesty act of 2011 and increase in deferred revenue of \$4.6 million for a net decrease in revenues of \$2.2 million, while the fund's expenditures increased \$1.7 and decrease in transfer from General Fund of \$1.3 million for net change of the fund balance decreased \$2.5 million.

Other Governmental Funds – Revenues increase by \$20 million and expenditures by \$ 6.3 million, as a result of a change in funds presentation of last year fund major funds Head Start, Housing Rental and Public Residential. Fund balance decreased by \$ 780,925, an a result of net change of (\$2,514,438) and fund balance restatement of \$354,996 and reclassifications of \$ 1,378,848 from funds coming from last year Head Start , Rental and Housing funds major funds.

General Fund Budgetary Highlights: During the fiscal year 2013, 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 from appropriation from prior year fund balance; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

	Original	Transfers	Final
Resources:			
Property taxes	\$ 33,255,226	\$ -	\$ 33,255,226
Volume of business taxes	26,320,000	-	26,320,000
Sales and usage taxes	17,500,000	-	17,500,000
Fines and penalties	600,000	-	600,000
Interest and investment income	697,800	-	697,800
Intergovernmental	14,452,684	1,019,573	15,472,257
Construction Excise Taxes	3,500,000	-	3,500,000
Rent and other resources	12,454,443	2,049,000	14,503,443
Amounts available for appropriation	<u>108,780,153</u>	<u>3,068,573</u>	<u>111,848,726</u>
Expenditures charged to appropriations:			
General government	41,901,802	2,549,185	44,450,987
Public safety	11,229,641	(727,159)	10,502,482
Public works	10,629,243	1,940,708	12,569,951
Culture and recreation	6,173,722	(84,045)	6,089,677
Health and welfare	12,320,024	(18,062)	12,301,962
Economic and social development	5,657,806	306,020	5,963,826
Housing	1,035,524	(27,688)	1,007,836
Sanitation and environmental	17,061,552	(547,153)	16,514,399
Education	2,770,839	(323,233)	2,447,606
Total charges to appropriations	<u>108,780,153</u>	<u>3,068,573</u>	<u>111,848,726</u>
Excess of resources over appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2013 was \$108,780,153 which is less than the prior year appropriations by \$102,177.
- Actual budgetary transactions generated an excess of resources over appropriations of \$764,464 due to the following:
 - Actual revenues were less than budgeted amounts by (\$1,448,332). This result was, mainly, as a combination of a decrease in licenses and permits (\$408,455), volume of business taxes (\$742,970) and sales taxes (\$680,244); and an increase in rent and other revenues for \$308,739.
 - Actual appropriations resulted in an economy of \$2,252,796 which is mostly related with a decrease in all programmatic functions.

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Capital Asset and Debt Administration

Capital assets – The Municipality's capital assets for its governmental activities as of June 30, 2013, total \$453,849,156 (net of accumulated depreciation). The depreciation expense for the fiscal year was \$22.4 million and additions to infrastructure and other capital assets were \$13.2 million. Retirements of capital assets, mainly computer software, during year were \$2,798,707. These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles.

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

	Total	
	2013	2012 as restated
<u>Capital assets not being depreciated</u>		
Land and improvements	89,261,640	63,722,247
Construction in progress	5,857,656	8,317,973
Works of art and historical treasures	2,217,567	2,183,572
Total not being depreciated	97,336,863	74,223,792
<u>Capital assets net of depreciation</u>		
Facilities and improvements	69,424,972	94,133,331
Buildings and improvements	67,419,327	70,923,034
Roads and streets	212,223,395	216,472,856
Equipment and vehicles	7,444,599	10,712,769
Total net of depreciation	356,512,293	392,241,990
Total capital assets net of depreciation	\$ 453,849,156	\$ 466,465,782

Additional information on the Municipality's capital assets can be found on Note 12 of the Basic Financial Statements.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Major additions to constructions in progress (disbursements of more than \$200,000) as of June 30, 2013 are as follows:

Project	Amount
Southeast Sport Recreational Facility Construction	\$ 1,498,974
José Gautierre Benitez Housing Project Improvements	1,206,582
Portal Sur Gautier Benitez Street Construction	1,139,150
Cancha Hector Sola Bezares Court Enhancement, Caguas	429,149
C3Tech Fiber Wires Relocation and Wiring	386,875
C3Tech, Exhibition Facilities Additions	277,864
Quebrada Los Muertos Inmrovements	264,141
Barriada Morales Rehabilitation, Mej C/F Y LI	247,189
Constrution of three Houses in Alturas de Barrio Beatriz	231,494
	<u>\$ 5,681,419</u>

Long-term Debt – As of June 30, 2013, The Municipality had total bonded debt outstanding of \$280,519,263 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	
	2013	2012
General obligation bonds	\$ 183,991,263	\$ 193,774,956
Federal loans and notes	3,800,000	4,200,000
Special loans	92,728,000	74,283,000
Total	<u>\$ 280,519,263</u>	<u>\$ 272,257,956</u>

The Municipality's total debt net increase by \$8,261,307 (3.0%) during the fiscal year 2013, primarily due to \$24.6 million issued in special loans and bonds for operational purposes, and payments of \$16.3 million.

Additional information on the Municipality's long-term debt can be found on Note 14 of the Basic Financial Statements.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

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 Act introduced a new way to view the Real Property valuation (see note 13 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. On February 1, 2014 was enacted Act Nos. 18 and 19 that change the composition of the sales and usage taxes (see Notes 3 and 22).

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 Municipality'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, Home Depot, and Mylan Pharmaceuticals.

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.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

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 \$7.9 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.

Education: The Interamerican University of Puerto Rico (IU) established a new facility in Caguas that started its operations in January 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, Home Depot, and Office Depot have expanded into the area, helping maintain relatively stable levels of consumer spending.

Economic and 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 2013-2014. 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). 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.

Refer to Note 22 for a description of subsequent events that might affect results of changes in net position.

Requests for Information

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

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Statement of Net Position

June 30, 2013

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Current Assets:	
Cash and Investments	\$ 28,041,935
Cash with Fiscal Agent	57,560,550
Amount to be Received	20,645,000
Receivables (Net):	
Federal Grants	14,177,589
Due from Government Units	6,164,907
Sales and Usage Taxes	<u>1,357,872</u>
Total Current Assets	<u>127,947,853</u>
Non-Current Assets:	
Loans Receivables	715,897
Sale of Land Receivable	767,917
Land, Improvement and Construction in Progress	97,336,863
Other Capital Assets [Net of Accumulated Depreciation]	<u>356,512,293</u>
Total Non-Current Assets	<u>455,332,970</u>
TOTAL ASSETS	<u>583,280,823</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	9,748,897
Accrued Expense	1,099,978
Accrued Interest	4,066,619
Bonds Payable	16,054,414
Advance Deposits	936,216
Unearned Revenues - Volume of Business Taxes	17,376,689
Accrued Compensated Absences	2,813,000
Due to Governmental Entities	<u>1,050,793</u>
Total Current Liabilities	<u>53,146,606</u>
Non-Current Liabilities:	
Bonds Payable	264,464,849
Accrued Compensated Absences	11,992,018
Legal Claims	496,000
Due to Governmental Entities	<u>1,510,908</u>
Total Non-Current Liabilities	<u>278,463,775</u>
TOTAL LIABILITIES	<u>331,610,381</u>

continue

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Statement of Net Position
June 30, 2013

	<u>GOVERNMENTAL ACTIVITIES</u>
NET POSITION:	
Net Investment in Capital Assets	270,985,585
Restricted for:	
Capital Projects	6,085,578
Debt Service	34,184,758
Other Purposes	7,783,595
Unrestricted (Deficit)	<u>(67,369,074)</u>
TOTAL NET POSITION	<u>\$ 251,670,442</u>

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Statement of Activities

For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues (See Next Page)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 42,596,455	\$ -	\$ -	\$ -	\$ (42,596,455)
Public Safety	11,094,742	606,619	486,531	-	(10,001,592)
Public Works	28,739,562	-	-	3,037,004	(25,702,558)
Culture and Recreation	11,963,260	-	205,000	-	(11,758,260)
Health and Welfare	12,994,565	-	983,194	-	(12,011,371)
Economic and Social Development	9,482,715	581,564	3,358,024	-	(5,543,127)
Housing	11,799,459	-	10,408,424	-	(1,391,035)
Sanitation and Environmental	16,019,816	62,408	104,072	-	(15,853,336)
Education	18,542,112	-	14,094,231	-	(4,447,881)
Loss on Disposition of Asset	1,412,427	-	-	-	(1,412,427)
Unallocated Interest	11,681,762	-	-	-	(11,681,762)
Total Governmental Activities	\$ 176,326,875	\$ 1,250,591	\$ 29,639,476	\$ 3,037,004	(142,399,804)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	33,475,421
Property Taxes, levied for Debt Service	20,089,747
Volume of Business Taxes	25,805,434
Sales and Usage Taxes	20,604,386
Construction Excise Taxes	3,107,824
Intergovernmental	16,649,898
Interest	816,993
Other General Revenues	2,058,660

Total General Revenues

122,608,363

CHANGES IN NET POSITION

(19,791,441)

Net Position – Beginning of Year, As Restated

271,461,883

NET POSITION – ENDING OF YEAR

\$ 251,670,442

See Notes to Financial Statements

This page intentionally left blank.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Balance Sheet Governmental Fund

For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	\$ 12,566,414	\$ 10,216,801	\$ -	\$ 5,258,720	\$ 28,041,935
Cash with Fiscal Agent	20,789	22,779,855	33,325,645	1,434,261	57,560,550
Amount to be received	20,645,000	-	-	-	20,645,000
Receivables:					
Sales and Usage Taxes	1,357,872	-	-	-	1,357,872
Intergovernmental receivables	1,224,508	-	4,925,732	14,667	6,164,907
Federal Grants	-	4,475,193	-	9,702,396	14,177,589
Due from Other Funds	11,506,011	-	-	-	11,506,011
Others	-	-	-	715,897	715,897
Total Assets	\$ 47,320,594	\$ 37,471,849	\$ 38,251,377	\$ 17,125,941	\$ 140,169,761
LIABILITIES:					
Account Payable	\$ 9,876,936	\$ 1,853,472	\$ -	\$ 893,947	\$ 12,624,355
Bond Payable	-	-	12,124,414	-	12,124,414
Interest on bonds payable	-	-	4,066,619	-	4,066,619
Due to Other Funds	-	6,917,611	-	4,588,400	11,506,011
Advance deposits	936,216	-	-	-	936,216
Unearned Revenues - Other	-	-	-	29,467	29,467
Unearned Revenues - Volume of Business Taxes	17,347,222	-	-	-	17,347,222
Total Liabilities	28,160,374	8,771,083	16,191,033	5,511,814	58,634,304
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues - Commonwealth of Puerto Rico	822,059	-	4,615,448	-	5,437,507
Unavailable Revenues - Federal Grants	-	4,249,240	-	7,777,004	12,026,244
Total Deferred Inflows of Resources	822,059	4,249,240	4,615,448	7,777,004	17,463,751
FUND BALANCES:					
Restricted	3,649,683	24,451,526	17,444,896	3,318,288	48,864,393
Committed	6,887,214	-	-	942,538	7,829,752
Assigned	2,171,778	-	-	-	2,171,778
Unassigned (Deficit)	5,629,486	-	-	(423,703)	5,205,783
Total Fund Balances	18,338,161	24,451,526	17,444,896	3,837,123	64,071,706
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 47,320,594	\$ 37,471,849	\$ 38,251,377	\$ 17,125,941	\$ 140,169,761

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Reconciliation of Balance Sheet Governmental Funds
to Statement Net Position
June 30, 2013*

Total Fund Balances – Government Funds (Page 22)		\$ 64,071,706
Amount reported for Governmental Activities in the Statement of Net Position (Page 20) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	\$ 97,336,863	
Depreciable Capital Assets	682,937,714	
Accumulated Depreciation	<u>(326,425,421)</u>	
Total Capital Assets		453,849,156
Some of the Municipality's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
Federal Grants	12,026,244	
Amount to be Received from Sale of Land	767,917	
CRIM - Property Taxes Liquidation	4,887,507	
Christmas Bonus	<u>550,000</u>	
Total Unavailable Revenues		18,231,668
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(268,394,849)	
Compensated Absences	(12,937,563)	
Claims and Judgments	(496,000)	
Christmas Bonus	(1,099,978)	
Law No. 42	<u>(1,553,698)</u>	
Total Long-Term Liabilities		<u>(284,482,088)</u>
Total Net Position of Governmental Activities (Page 20)		<u>\$ 251,670,442</u>

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	\$ 33,475,421	\$ -	\$ 15,474,299	\$ -	\$ 48,949,720
Volume of Business Taxes	25,805,434	-	-	-	25,805,434
Sales and Usage Taxes	16,904,440	-	3,699,946	-	20,604,386
Construction Excise Taxes	3,107,824	-	-	-	3,107,824
Federal Grants	385,049	4,084,311	-	24,711,784	29,181,144
Fines and Penalties	606,619	-	-	-	606,619
Intergovernmental	18,339,680	1,352,655	-	47,652	19,739,987
Interest	783,890	4,195	8,055	20,853	816,993
Rent and Other Services	642,189	-	-	-	642,189
Indirect Costs	-	-	-	23,228	23,228
Solid Waste Disposal	62,408	-	-	-	62,408
Other General Revenues	1,728,155	12,611	-	294,666	2,035,432
Total Revenues	101,841,109	5,453,772	19,182,300	25,098,183	151,575,364
EXPENDITURES:					
Current:					
General Government	42,000,723	324,458	-	151,238	42,476,419
Public Safety	10,189,813	-	-	208,807	10,398,620
Public Works	12,858,708	3,126,109	-	2,141,373	18,126,190
Culture and Recreation	6,115,253	94,129	-	-	6,209,382
Health and Welfare	12,164,575	153,120	-	565,745	12,883,440
Education	2,962,767	174,134	-	13,857,430	16,994,331
Sanitation and Environmental	15,942,867	2,002	-	91,040	16,035,909
Economic and Social Development	7,126,068	304,450	-	171,997	7,602,515
Housing	969,214	522,812	-	9,864,567	11,356,593
Capital Outlay	3,720,561	8,986,382	-	543,247	13,250,190
Debt Service:					
Bond Issuance Costs	82,278	16,035	-	-	98,313
Principal	40,261	400,000	15,177,314	-	15,617,575
Interest and Other Charges	98,013	99,420	11,484,329	-	11,681,762
Total Expenditures	114,271,101	14,203,051	26,661,643	27,595,444	182,731,239
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(12,429,992)	(8,749,279)	(7,479,343)	(2,497,261)	(31,155,875)

continue

See Notes to Financial Statements

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):					
Debt issuances	\$ 20,700,000	\$ 3,901,621	\$ -	\$ -	\$ 24,601,621
Transfers – In	17,508	-	5,229,644	-	5,247,152
Transfers – Out	(5,229,644)	-	-	(17,508)	(5,247,152)
Total Other Financing Sources (Uses)	15,487,864	3,901,621	5,229,644	(17,508)	24,601,621
Net Change in Fund Balances	3,057,872	(4,847,658)	(2,249,699)	(2,514,769)	(6,554,254)
Fund Balances – Beginning, As Previously Reported	16,938,668	24,832,522	19,963,005	5,996,896	67,731,091
Restatement	(1,658,379)	4,466,662	(268,410)	354,996	2,894,869
Fund Balances – Beginning, As Restated	15,280,289	29,299,184	19,694,595	6,351,892	70,625,960
FUND BALANCES – ENDING	\$ 18,338,161	\$ 24,451,526	\$ 17,444,896	\$ 3,837,123	\$ 64,071,706

Handwritten signature and date: 11/02/13

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

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, 2013

Net Change in Fund Balances – Government Funds (Page 25)		\$ (6,554,254)
Amount reported for Governmental Activities in the Statement of Activities (Page 21) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	\$ 13,250,190	
Depreciation Expense	<u>(22,473,034)</u>	
Excess of Capital Outlays over Depreciation Expense		(9,222,844)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	162,599	
CRIM - Property Taxes Liquidation	4,887,507	
Sales of Land	(60,625)	
Christmas Bonus	<u>(29,412)</u>	
Total Revenues		4,960,069
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset.		(1,412,427)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(24,601,621)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		15,577,314
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 governmental funds. These activities consist of:		
Decrease in CRIM Debt	40,261	
Decrease in Christmas Bonus	58,845	
Decrease in Compensated Absences	<u>1,363,216</u>	
Total Additional Expenses		<u>1,462,322</u>
Change in Net Position of Governmental Activities (Page 21)		\$ <u>(19,791,441)</u>

This page intentionally left blank.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Caguas, Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

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". The governmental system of the Municipality is composed of the executive and legislative bodies. 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. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, require the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

1. FINANCIAL REPORTING ENTITY – continuation

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

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.

The Governmental Accounting Standards Board (GASB) has issued Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The Municipality adopted this statement effective July 1, 2012.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units. The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-Wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of these charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Municipality's governmental activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS provide information about the Municipality's funds. Separate statements for each fund category-governmental are presented. The emphasis on fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

The Municipality reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Municipality. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Debt Service Fund – 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.

Capital Project Fund – 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 is awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

Other Governmental Funds – The other governmental funds are comprised mainly of special revenue funds which account for revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2013 about the current financial resources (assets, liabilities, deferred inflows of resources 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, 2013.

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

B. Measurement Focus and Basis of Accounting

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2013, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet*. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2013, which are recorded as governmental fund liabilities of June 30, 2013 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The **Municipality** follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Schedule of Revenues and Expenditures Budget and Actual – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the Budgetary Comparison Schedule – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.
2. Interfund transactions of the General Fund are not included in the budgetary basis.
3. Certain accrued liabilities and other debts are not included in the budgetary basis.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

D. Assets, Liabilities, and Net Position

1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The Municipality's cash are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as "interfund balances".

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

Receivables consist of all revenues earned but not collected at June 30, 2013. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2013. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The Municipality used the purchase method to account for the purchases of office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) Capital Assets

Capital assets acquired or constructed, whether owned by governmental 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.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Capital assets, include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of \$40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the estimated fair 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.

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 position decreases by the amount of depreciation expense charged for the year.

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

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization

of infrastructure is not allocated to various function/programs but reported as direct expense of the public works function.

CAPITAL ASSETS	YEARS
Facilities and Improvements	10-50
Buildings and Improvements	5-50
Infrastructure	50
Equipment and Vehicles	3-15
Work of Art (Inexhaustible)	N/A

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2013, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

5) Deferred Outflows/Inflows of Resources

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. There are no amounts classified as deferred outflows of resources at June 30, 2013.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in **deferred inflows of resources**. Accordingly, the items, *unavailable revenue*, is reported only in the governmental funds Balance Sheet. The governmental funds report *unavailable revenues* from three sources: Christmas Bonus Reimbursement and Liquidation from CRIM, both from the Commonwealth and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

6) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts, if any, as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2013. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Noncurrent Liabilities includes 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.

10) Accounting for Pension Costs

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing defined benefit pension plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 16).

Also, the Municipality participates in a contributory defined contribution plan named Retirement Plan of Head Start Food and Children Program.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

11) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, plus deferred outflows of resources less liabilities, and deferred inflows of resources is "Net Position" on the government-wide financial statements.

- *Net Investment in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

Net investment in capital assets is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	\$453,849,156
Outstanding Balance on Related Debt	(206,119,263)
Unspent Capital Debt Proceeds	<u>23,255,692</u>
Net Investment in Capital Assets.....	<u>\$270,985,585</u>

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – These consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

The nonspendable classification contains amounts not in spendable form or legally or contractually required to be maintained intact. Restricted amounts contain restraints on their use externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation. Committed amounts can only be used for specific purposes imposed by formal action of the Municipality's highest level of decision-making authority. The highest level of decision-making authority is the Municipal Legislature and it takes a resolution to establish a fund balance commitment. Amounts intended to be used for specific purposes are assigned. Assignments should not cause deficits in the Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the General Fund.

Fund Balance Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted and unrestricted resources (the total committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the GFFS a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted fund balance to have been depleted before using any of the components or unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2013.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted For:					
General Government	3,649,683	-	-	-	3,649,683
Public Safety	-	-	-	129,411	129,411
Health and Welfare	-	-	-	97,207	97,207
Housing and Commercial Loans	-	-	-	1,057,019	1,057,019
Economic and Social Development	-	-	-	657,974	657,974
TransCriollo Transportation System	-	-	-	888,511	888,511
Housing	-	-	-	978,924	978,924
Sanitation and Environmental	-	-	-	241,584	241,584
Education	-	-	-	159,471	159,471
Sureste Sport Facility Construction	-	-	10,910,720	-	10,910,720
Infrastructure Improvements	-	-	13,540,806	-	13,540,806
Debt Repayments	-	17,444,896	-	-	17,444,896
Total Restricted	3,649,683	17,444,896	24,451,526	4,210,101	49,756,206
Committed To:					
General Government	6,887,214	-	-	50,725	6,937,939
Total Committed	6,887,214	-	-	50,725	6,937,939
Assigned					
General Government	2,171,778	-	-	-	2,171,778
Total Committed	2,171,778	-	-	-	2,171,778
Unassigned	5,629,486	-	-	(423,703)	5,205,783
Total Fund Balances (Deficit)	\$ 18,338,161	\$ 17,444,896	\$ 24,451,526	\$ 3,837,123	\$ 64,071,706

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.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

E. Inter-Fund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

Intra-Entity Transactions – Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payables are considered internal balances and activities that have been eliminated in the government-wide financial statements.

F. Risk Financing

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2013 amounted to approximately \$2.0 million. The current insurance policies have not been cancelled or terminated. In addition, CRIM deducted approximately \$1.2 million for workers compensation insurance covering all municipal employees for the same period. There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks.

G. 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.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2013, 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.

J. Accounting Standards Issued But Not Yet Adopted

GASB Statement No. 66 ("GASB 66"), *Technical Corrections—2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued in March 2012. 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, Statement 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. 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.

The requirements of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. The Municipality is currently evaluating the impact of GASB 66 on its financial statements.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* was issued in June 2012. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined pension plans, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employer service. Note disclosure and required supplementary information requirements about pensions are also addressed.

The provisions of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The Municipality is currently evaluating the impact of GASB 68 on its financial statements.

GASB Statement No. 69 ("GASB 69"), *Government Combinations and Disposals of Government Operations*, was issued in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. GASB 69 requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. GASB 69 requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The requirements of GASB 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The Municipality is currently evaluating the impact of GASB 69 on its financial statements.

GASB Statement No. 70 ("GASB 70"), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange. The requirements of this Statement are effective for reporting periods beginning after June 15, 2013. Early application of the standard is encouraged.

GASB Statement No. 71 ("GASB 71"), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014 (FY 2013-2014).

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES

A. Property Taxes

The Municipal Revenue Collection Center (CRIM by acronyms in Spanish) is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. 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. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from CRIM is recorded at June 30. For fiscal year 2012-2013, this difference was recorded as a receivable and deferred inflow of \$272,059.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount 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. The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the CRIM and based on current values as of December 31 of previous year. 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, 2013 is 10.03% 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. The remaining percentage is distributed as follows:

- 1) 6.00% 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.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES – continuation

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 9.83% and 7.83%, respectively.

- 2) 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, 2013 the allocated expenses to the Municipality amounted to \$1,404,928.

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 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.

Ordinance Number 12A-48 was approved for the purpose of reviewing the tax incentives to the jurisdiction of the Municipality and the special development zone and other traditional urban center, and authorizes the creation of a new code of socio-economic development incentives.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES – continuation

Personal Property

Incentive Municipal on Personal Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years.
- The down town and development designated areas, would enjoy 100% exemption on municipal taxes on personal property for a period of two years, followed by a 90% exemption on municipal taxes on personal property for a period eight years.

Incentive Municipal on Personal Property Taxes – Established Business

- The exemption only applies to the personal property tax in excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as personal property tax base period.
- The down town and development designated areas, the personal property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

Real Property

Incentive Municipal on Real Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.
- The down town and development designated areas, would enjoy a 90% exemption on real property for a period of 10 years.

Incentive Municipal on Real Property Taxes – Established Business

- The exemption only applies to the real property tax in the excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as real property tax base period.
- The down town and development designated areas, the real property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES – continuation

B. 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. Entities with sales volume of \$3.0 million or more must include audited financial statements together with the tax return. 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.

The following incentives related to Volume of Business Taxes were implemented with Ordinance 12A-48:

Volume of Business Tax Incentive - New Business

- A 75% exemption for a period of five years or a 40% exemption for a period of 10 years.

Volume of Business Tax Incentive - Business Established

- The exemption only applies to the business volume in excess of the average volume during the three years prior to the date of the application, which is referred to as base volume business. The volume of business tax attributable to the base volume business will be subject to regular tax rates.
- In the down town and development designated areas, the volume of business tax basis will be adjusted, reducing such amount by (20%) annually until it is reduced to zero for the fifth taxable year.

Collections of volume of business tax revenues received mainly in April 15, are accounted as unearned 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 unearned revenue is recognized as revenue, net of any credit or refunds payable to taxpayers.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES – continuation

C. Sales and Usage 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 did not have borrowing margin for the audited year, a contribution to the fund (in the audited year) was of \$3,669,946.
- 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.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

3. ANNUAL REVENUES – continuation

On February 1, 2014 was enacted the Act Numbers 18 to create the "Law of Municipal Administration Fund (MAF)" and 19 that creates the Municipal Financing Corporation (COFIM by Spanish acronyms). These Acts amend the composition of the SUT effective February 1, 2014 and thereafter. See Note 22 for the changes contemplated by these Acts.

D. Construction Excise Taxes

Ordinance 11-A-54 provides for a procedure for the administration and collection of construction excise tax, within the Municipality jurisdiction.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project. The tax is paid by the taxpayer before the beginning of the construction project, if a permit is required to begin the construction, the taxpayer should file the tax return 30 days after the submission of the permit; otherwise, the file should be made at least 15 days before the construction activity. The activities covers by this tax and the exemption granted are as follows:

- 1) All construction will pay 6% of construction excise taxes.
- 2) Construction projects of detached properties (not part of a housing development), with a cost of \$90,000 or less will pay 3% of construction excise taxes. If the cost exceeds the \$90,000, the applicable rate will be 6% over the \$90,000 cost.
- 3) All construction projects carried out whose owner is a bona-fide farmer, certified by the Department of Agriculture, have full exemption to the construction excise taxes.
- 4) Major repairs and improvements of detached properties occupied by their owner, for which cost don't exceed \$15,000, have full exemption to the construction excise taxes. If related costs exceed \$15,000, the excess over this amount will be subject to a 3% of construction excise tax.
- 5) All improvements made to commercial or private property in the down town, as well of major improvements to buildings, parks, prayer centers or studies of philosophic or human nature have full exemption to the construction excise taxes.
- 6) All construction projects carried out by not-for-profit organization or educational institutions have full exemption to the construction excise taxes.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

4. CASH, CASH EQUIVALENTS

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). 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 risks:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the Municipality has invested only in cash equivalents of \$21.3 million consisting of certificate of deposit and interest bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt or equity securities were made during the Fiscal Year ended June 30, 2013. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

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, 2013, the Municipality deposited its funds in bank accounts bearing interest.

In addition, as of June 30, 2013, the Municipality's custodial credit risk was approximately \$43 million, which, is the cash 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.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

4. CASH, CASH EQUIVALENTS – continuation

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less, and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2013, the interest risk associated with the Municipality's cash and cash equivalent is considered low.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

Amount to be Received from Loans

The amount of \$ 20.6 million, approximately, represents funds to be received in the next fiscal year for loans applied an approved before June 30, 2013 by the Municipality's Legislature and the Government Development Bank.

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned revenues* for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

Governmental Funds:	
Volume of Business Taxes	\$ 17,347,222
Other	<u>29,467</u>
Total Unearned Revenues	<u>\$ 17,376,689</u>

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

6. DEFERRED INFLOWS OF RESOURCES

Governmental funds balance sheet report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Unavailable Funds:	
Commonwealth of Puerto Rico	\$ 5,437,507
Federal Grants:	
Capital Project Fund	4,249,240
Other Governmental Funds	<u>7,777,004</u>
Total Deferred Inflows of Resources	<u>\$ 17,463,751</u>

7. LOANS AND OTHER RECEIVABLES

Loans receivable recorded in non-major governmental funds consists various loans issued to qualified participants for home buying and commercial loans provided with federal funds. This amount is presented net of estimated allowances for uncollectible amounts of \$263,158, which were determined based upon past collection experience.

And other receivables consists of a sale of land sold in fiscal year 2011-2012 for \$970,000 at June 30, 2013 the receivable has a balance of \$ 767,917.

8. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority (PREPA), and federal financial assistance received from federal and state governments. The amount of contribution in lieu of tax for the year 2012-2013 was \$12,830,380.

Grants and subsidies received from the Commonwealth and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenues and the Capital Project Funds. Federal Financial Awards is recorded in the Special Revenue Fund.

9. INTER-FUND TRANSACTIONS

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, 2013:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 6,917,611
	Other Governmental Funds	<u>4,588,400</u>
		<u>\$ 11,506,011</u>

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

9. INTER-FUND TRANSACTIONS – continuation

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

Payables to the general fund:

Capital Projects Fund – includes expenditures mainly of the Capital Loans Funds, Community Development Block grants and other related projects sponsored by the Municipality, which are initially disbursed through the general fund.

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

Transfers In/Out

<u>Transferred In</u>	<u>Transferred Out</u>	<u>Amount</u>
Debt Service	General Fund	\$ 5,229,644
General Fund	Other Governmental Funds	<u>17,508</u>
		<u>\$ 5,247,152</u>

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, 2013:

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 Other Governmental Funds – Current financial resources transferred mainly for the municipal activities in the general fund.

10. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2013, for the General Fund, corresponds to \$550,000 from Puerto Rico Treasury Department for the Christmas Bonus, \$674,508 from MRCC for the final liquidation from advances and retentions (see Note 3). For the Debt Service fund corresponds from final liquidation of property taxes. For the Other Governmental Funds, the \$14,667 corresponds to a receivable from another governmental unit.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

11. FEDERAL GRANTS RECEIVABLE

The due from federal grants of the Capital Projects Fund for the fiscal year ended June 30, 2013 corresponds the Community Development Block Grant/ Entitlements Grant (CDBG), from US Department of Housing and Urban Development (HUD). The amount reported on Other Governmental Funds correspond to various programs from HUD, amounting \$2,887,309, from the US Health and Human Services, the amount of \$6,271,614, from US Department of Agriculture, the amount of \$212,965, from US Department of Transportation (Pass-through Puerto Rico Highway and Transportation Authority) the amount of \$330,508.

12. CAPITAL ASSETS

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

DESCRIPTION	BALANCE JULY 1, 2012	ADJUSTMENT	INCREASE	DECREASE	BALANCE JUNE 30, 2013
Non-Depreciable Capital Assets:					
Land and Improvements	\$ 49,598,556	\$ 36,359,076	\$ 3,304,008	\$ -	\$ 89,261,640
Construction in Progress	10,835,621	(5,587,470)	7,038,366	(6,428,861)	5,857,656
Works of Art	3,504,311	(1,320,739)	35,295	(1,300)	2,217,567
Total Non-Depreciable Capital Assets	<u>63,938,488</u>	<u>29,450,867</u>	<u>10,377,669</u>	<u>(6,430,161)</u>	<u>97,336,863</u>
Depreciable Capital Assets:					
Facilities and Improvements	46,691,656	88,355,130	5,414,552	-	140,461,338
Buildings and Improvements	232,798,849	(131,276,500)	273,720	-	101,796,069
Infrastructure	451,436,795	(38,529,777)	1,268,035	-	414,175,053
Equipment and Vehicles	46,633,900	(19,675,015)	2,345,076	(2,798,707)	26,505,254
Total Depreciable Capital Assets	<u>777,561,200</u>	<u>(101,126,162)</u>	<u>9,301,383</u>	<u>(2,798,707)</u>	<u>682,937,714</u>
Less Accumulated Depreciation:					
Facilities and Improvements	(13,953,478)	(51,697,556)	(5,385,332)	-	(71,036,366)
Buildings and Improvements	(94,740,987)	64,797,557	(4,433,312)	-	(34,376,742)
Infrastructure	(179,818,251)	(11,717,946)	(10,415,461)	-	(201,951,658)
Equipment and Vehicles	(34,322,149)	16,112,843	(2,238,929)	1,387,580	(19,060,655)
Total Accumulated Depreciation	<u>(322,834,865)</u>	<u>17,494,898</u>	<u>(22,473,034)</u>	<u>1,387,580</u>	<u>(326,425,421)</u>
Total Depreciable Capital Assets (Net)	<u>454,726,335</u>	<u>(83,631,264)</u>	<u>(13,171,651)</u>	<u>(1,411,127)</u>	<u>356,512,293</u>
CAPITAL ASSETS, NET	<u>\$ 518,664,823</u>	<u>\$ (54,180,397)</u>	<u>\$ (2,793,982)</u>	<u>\$ (7,841,288)</u>	<u>\$ 453,849,156</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. See Note 20 for information related to adjustments to capital assets.

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

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

12. CAPITAL ASSETS – continuation

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

	AMOUNT
Governmental Activities:	
General Government	\$ 1,900,855
Public Safety	190,888
Public Works (Mainly Streets)	10,562,640
Culture and Recreation	5,857,072
Health and Welfare	111,125
Sanitation and Environmental	90,366
Education	1,757,138
Housing	321,830
Economic Development	<u>1,681,120</u>
Total Depreciation Expenses	<u>\$ 22,473,034</u>

13. DEBT MARGIN

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, 2013:

	Real Property	Personal Property	Total
Taxable	\$ 7,192,693,390	\$ 595,686,235	\$ 7,788,379,625
Exempt	(611,753,350)	(253,852,889)	(865,606,239)
Exonerated	<u>(3,295,580,880)</u>	<u>(3,533,915)</u>	<u>(3,299,114,795)</u>
Net value	<u>\$ 3,285,359,160</u>	<u>\$ 338,299,431</u>	<u>\$ 3,623,658,591</u>

Act No. 7 of March 9, 2009, as amended, known as Act for the Declaration of a State of Fiscal Emergency, amended the Property Tax Act 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 Act 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 Act No. 83, but reduced to one tenth (1/10).

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

13. DEBT MARGIN – continuation

The residential property owners are entitled to 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, Act No. 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.

In September 2, 2010, the Government of Puerto Rico approved the Act 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 Act 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.

14. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2013:

DESCRIPTION	BALANCE JULY 1, 2012	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2013	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	\$ 193,774,956	\$ 1,861,621	\$ (11,645,314)	\$ 183,991,263	\$ 11,010,414	\$ 172,980,849
Special Obligations Bonds	74,283,000	22,740,000	(4,295,000)	92,728,000	4,644,000	88,084,000
Federal Loans	4,200,000	-	(400,000)	3,800,000	400,000	3,400,000
TOTAL	\$ 272,257,956	\$ 24,601,621	\$ (16,340,314)	\$ 280,519,263	\$ 16,054,414	\$ 264,464,849

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

As of June 30, 2013, debt service requirements for the above long-term debt are as follows:

General Obligation Bonds:

Year Ending June 30,	Principal Payment	Interest Payment
2014	\$ 11,010,414	\$ 9,121,319
2015	9,765,414	10,517,834
2016	10,313,414	9,420,294
2017	9,301,414	8,779,453
2018	8,032,414	8,202,497
2019-2023	69,132,743	31,931,880
2024-2028	34,945,000	18,213,575
2029-2033	20,155,650	8,896,822
2034-2038	11,334,800	1,829,936
TOTAL	<u>\$ 183,991,263</u>	<u>\$ 106,913,610</u>

Special Obligation Bonds:

Year Ending June 30,	Principal Payment	Interest Payment
2014	\$ 4,644,000	\$ 5,148,005
2015	4,977,000	5,836,120
2016	5,332,000	5,503,998
2017	4,300,000	5,200,451
2018	4,532,000	4,940,549
2019-2023	25,759,000	20,098,574
2024-2028	21,069,000	11,387,602
2029-2033	13,153,000	6,023,106
2034-2038	8,962,000	1,681,318
TOTAL	<u>\$ 92,728,000</u>	<u>\$ 65,819,723</u>

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Federal Loans:

Year Ending June 30,	Principal Payment	Interest Payment
2014	\$ 400,000	\$ 95,020
2015	400,000	88,740
2016	600,000	78,540
2017	600,000	63,960
2018	600,000	47,250
2019-2023	<u>1,200,000</u>	<u>39,060</u>
TOTAL	<u>\$3,800,000</u>	<u>\$412,570</u>

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2013:

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$85,000 payable in annual installments from \$2,000 to \$7,000 with interest rate at 5% until year 2014, secured by the Municipality.	Capital Activities	\$ 7,000
\$580,000 payable in annual installments from \$13,000 to \$41,000 with interest rate at 5% until year 2015, secured by the Municipality.	Capital Activities	80,000
\$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.	Capital Activities	1,785,000
\$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.	Capital Activities	4,190,000
\$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.	Capital Activities	793,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$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.	Capital Activities	308,027
\$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.	Capital Activities	4,700,000
\$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.	Capital Activities	7,185,000
\$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.	Capital Activities	2,220,000
\$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.	Capital Activities	7,490,000
\$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.	Capital Activities	70,000
\$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.	Capital Activities	1,005,000
\$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.	Capital Activities	7,615,000
\$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.	Capital Activities	1,245,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$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.	Capital Activities	370,000
\$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.	Capital Activities	300,000
\$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.	Capital Activities	1,145,000
\$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.	Capital Activities	6,585,000
\$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.	Capital Activities	1,295,000
\$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.	Capital Activities	398,000
\$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.	Capital Activities	8,400,000
\$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.	Capital Activities	8,415,000
\$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.	Capital Activities	6,915,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$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.	Capital Activities	2,224,650
\$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.	Capital Activities	6,080,000
\$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.	Capital Activities	527,000
\$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.	Operational Activities	9,275,000
\$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.	Operational Activities	620,000
\$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.	Capital Activities	160,000
\$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.	Capital Activities	695,000
\$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.	Capital Activities	990,000
\$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.	Capital Activities	640,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$8,105,000 payable in annual installments of \$115,000 to \$675,000.00 with interest rate fluctuating from 6% to 7.5% until year 2035, secured by the Municipality.	Operational Activities	7,865,000
\$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.	Capital Activities	955,000
\$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.	Capital Activities	2,220,000
\$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.	Capital Activities	710,000
\$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.	Capital Activities	320,000
\$2,480,000 payable in annual installments from \$35,000 to \$210,000 with interest rate fluctuating from 3.75% to 7.5% until year 2035, secured by the Municipality.	Capital Activities	2,405,000
\$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 2030, secured by the Municipality.	Capital Activities	3,420,000
\$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.	Operational Activities	19,925,000
\$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.	Capital Activities	290,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$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.	Capital Activities	1,505,000
\$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.	Capital Activities	725,000
\$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.	Capital Activities	485,000
\$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.	Capital Activities	995,000
\$18,285,000 payable in annual installments of \$731,400 with interest rate fluctuating from 3.51% to 7.5% until year 2036, secured by the Municipality.	Capital Activities	17,553,600
\$815,000 payable in annual installments of \$81,500 with interest rate fluctuating from 3.46% to 7.5% until year 2021, secured by the Municipality.	Capital Activities	733,500
\$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.	Capital Activities	235,200
\$2,015,000 payable in annual installments of \$287,857 with interest rate fluctuating from 3.42% to 7.5% until year 2018, secured by the Municipality.	Capital Activities	1,727,143
\$615,000 payable in annual installments of \$87,857 with interest rate fluctuating from 3.42% to 7.5% until year 2018, secured by the Municipality.	Capital Activities	527,143

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
General Obligation Bonds - Property Taxes Income:		
\$9,760,000 payable in annual installments from \$145,000 to \$8,720,000 with interest rate fluctuating from 3.39% to 7.5% until year 2018, secured by the Municipality.	Capital Activities	9,615,000
\$13,325,000 payable in annual installments from \$195,000 to \$1,115,000 with interest rate fluctuating from 6% to 7.5% until year 2036, secured by the Municipality.	Operational Activities	13,130,000
\$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.	Capital Activities	275,000
\$1,505,000 payable in annual installments from \$20,000 to \$130,000 with interest rate fluctuating from 6% to 7.5% until year 2037, secured by the Municipality.	Capital Activities	1,505,000
\$3,120,000 payable in annual installments from \$113,000 to \$250,000 with interest rate at 4.25% until year 2030, secured by the Municipality.	Capital Activities	3,007,000
\$135,000 payable in annual installments from \$15,000 to \$25,000 with interest rate fluctuating from 6% to 7.5% until year 2019, secured by the Municipality.	Capital Activities	135,000
Total General Obligation Bonds		<u>\$ 183,991,263</u>

During the fiscal year ended June 30, 2013 the Municipality issued general obligation bonds payable in the amount of \$1,861,621 to finance capital projects. Principal and interest on the general obligation bonds are appropriated and paid from resources accumulated in the Debt Service Fund.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
Special Obligation Bonds - General Revenues:		
\$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.	Capital Activities	1,530,000
\$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.	Capital Activities	3,830,000
\$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.	Capital Activities	11,370,000
\$10,015,000 payable in annual installments from \$300,000 to \$765,000 with interest rate fluctuating from 5% to 5.58% until year 2025, secured by the Municipality.	Capital Activities	7,125,000
\$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.	Capital Activities	6,190,000
\$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.	Capital Activities	7,850,000
\$500,000 payable in annual installments from \$19,000 to \$52,000 with interest rate fluctuating from 1.53 % to 7.50% until year 2022, secured by the Municipality.	Capital Activities	364,000
\$3,185,000 payable in annual installments from \$60,000 to \$230,000 with interest rate fluctuating from 3.89 % to 5.82% until year 2032, secured by the Municipality.	Capital Activities	2,760,000
\$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	Capital Activities	5,765,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
Special Obligation Bonds - General Revenues:		
\$6,802,000 payable in annual installments from \$102,000 to \$567,000 with interest rate fluctuating from 1.53% to 7.50% until year 2033 secured by the Municipality	Capital Activities	6,218,000
\$3,805,000 payable in annual installments from \$50,000 to \$320,000 with interest rate fluctuating from 6% to 7.5% until year 2038, secured by the Municipality.	Operational Activities	3,805,000
\$9,450,000 payable in annual installments from \$150,000 to \$760,000 with interest rate fluctuating from 6% to 7% until year 2038, secured by the Municipality.	Operational Activities	9,450,000
Subtotal		<u>66,257,000</u>
Special Obligation Bonds - Sales and Usage Taxes:		
\$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.	Operational Activities	3,505,000
\$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.	Capital Activities	8,140,000
\$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.	Capital Activities	506,000
\$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.	Capital Activities	4,490,000

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

14. LONG-TERM DEBT – continuation

Type of Obligation	Purpose	Balance
Special Obligation Bonds - Sales and Usage Taxes:		
\$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.	Capital Activities	345,000
\$2,040,000 payable in annual installments from \$225,000 to \$360,000 with interest rate fluctuating from 6% to 7.5% until year 2019, secured by the Municipality.	Capital Activities	2,040,000
\$7,445,000 payable in annual installments from \$105,000 to \$620,000 with interest rate fluctuating from 6% to 7.5% until year 2038, secured by the Municipality.	Operational Activities	<u>7,445,000</u>
Subtotal		<u>26,471,000</u>
Total Special Obligation Bonds		<u>\$ 92,728,000</u>

Principal and interest on the bonds are generally paid from amounts withheld by CRIM from the monthly property tax remittances and deposited in GDB until the payment to the bond holder.

Federal Loan

Federal loan at June 30, 2013 consist of a note payable in annual installments fluctuating from \$200,000 to \$600,000 bearing interest at 7.5% secured by real estate property owned by the Municipality.

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2013, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

15. OTHER NON-CURRENT LIABILITIES

The following is a summary of changes in other non-current liabilities of the Municipality for the year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases and Adjustments	Balance June 30, 2013	Due Within On Year
Compensated absences	\$ 14,300,778	\$ 7,254,346	\$ (6,750,106)	\$ 14,805,018	\$ 2,813,000
Accrued legal claims	1,853,680	-	(1,357,680)	496,000	74,000
Christmas Bonus	1,158,823	1,099,978	(1,158,823)	1,099,978	1,099,978
Due to Municipal Revenue Collection Center	1,593,957	-	(40,259)	1,553,698	42,790
Total	<u>\$ 18,907,238</u>	<u>\$ 8,354,324</u>	<u>\$ (9,306,868)</u>	<u>\$ 17,954,694</u>	<u>\$ 4,029,768</u>

Compensated Absences

The GWFS, Statement of Net Position, includes approximately \$14.8 million in the governmental activities for the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations. The General Fund have been used to liquidate the liability for this concept.

Accrued Legal Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2013 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2013.

Due to Municipal Revenue Collection Center

The Act No. 42 dated January 2000, allows the Municipal Revenue Collection Center (CRIM, as per its Spanish acronyms) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation prior to fiscal year 2000. The municipalities agreed to repay CRIM such loans in semi-annual installments plus accrued interest. In connection with Law 42 the Municipality issued a note payable to CRIM in the amount of \$1,876,000 payable in 30 years plus interest at a semi-annual rate of 3.0938%.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

15. OTHER NON-CURRENT LIABILITIES – continuation

The debt service requirement for the long-term debt with CRIM is scheduled as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 42,790	\$ 95,484	\$ 138,274
2015	45,479	92,795	138,274
2016	48,336	89,937	138,273
2017	51,373	86,900	138,273
2018	54,602	83,672	138,274
2019-2023	328,987	362,381	691,368
2024-2028	446,171	245,196	691,367
2029-2033	535,960	86,269	622,229
Total	\$ 1,553,698	\$ 1,142,634	\$ 2,696,332

16. RETIREMENT PLANS

Defined Benefit Plan

The Government of Puerto Rico Employees Retirement System (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico (the Commonwealth). All regular employees of the Municipality under the age of 55 at the date of employment become members of the ERS as a consequence of their employment.

The ERS provides retirement, death, and disability benefits pursuant to Act No. 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952. Disability retirement benefits for occupational and non-occupational disabilities are available to members enrolled in the plan before January 1, 2000. Benefits vest after ten years of plan participation. The amount of the annuity shall be one and one half percent (1.5%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case shall the annuity be less than \$200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive a Merit Annuity. Such participants who have not attained fifty-five years of age will receive 65% of the average compensation or if they have attained fifty-five years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten years of service. No benefits are payable if participants receive a refund of their accumulated contributions.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

16. RETIREMENT PLANS – continuation

Commonwealth legislation requires that employees hired before April 1, 1990 contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% of their gross monthly salary in excess of \$550. Employees hired after April 1, 1990 contribute 8.275% of their gross monthly salary. The Lottery's contributions are 11.275% of the gross monthly salary.

Defined Contribution Plan

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted for the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the ERS as of December 31, 1999 had the option to stay in the defined benefit plan or transfer to System 2000. Employees joining the Administration on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the ERS, together with those of the current defined benefit plan. Benefits at retirement age are not guaranteed by the Commonwealth. The annuity is based on a formula that assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) is invested in an account, which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the ERS' investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the ERS on or after April 1, 1990. Disability pensions are not granted under System 2000.

Total employer contributions under both plans during year ended June 30, 2013 amounted to approximately \$2,598,947 which represented 100% of required contributions.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

16. RETIREMENT PLANS – continuation

- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.
- The Municipality's contributions will increase gradually effective July 1, 2013. The required contribution for fiscal year ending June 30, 2014 will be 12.275%. Subsequently the required contribution will increase by 1% every year up to July 1, 2016 when the annual increase will be 1.25% up to a total contribution of 20.525%.

During the year ended June 30, 2013, the Municipality contributions to this plan amounted to approximately \$2,602,946, and for the years ended June 30, 2012 and 2011 contributed approximately \$2,579,052 and \$2,630,838, respectively. These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

16. RETIREMENT PLANS – continuation

Termination Benefits Payable

Effective June 18, 2013, the Municipality created an early voluntary retirement program (the Program) for all municipality's employees in conjunction with state retirement system, who, provide, at least, 25 years of service contributions to the ERS at June 30, 2013. Also, employees who apply to the Program must present an irrevocable resign effective June 30, 2013 to the Municipality.

The ERS will proceed to process employees' retirement benefits based on 50% of their average retribution for those who qualify under benefits pursuant to Act 447, approved on May 15, 1951, as amended, which became effective on January 1, 1952, effective June 30, 2013.

During the year ended June 30, 2013, the Municipality recorded expenditures to this program amounted to approximately \$2 million.

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 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) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994, as amended.

The Municipality is 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. At June 30, 2013 the Plan has 390 active participants. 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.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

16. RETIREMENT PLANS – continuation

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, 2013, the Municipality contributions to this plan amounted to approximately \$258,000, and for the years ended June 30, 2012 and 2011 contributed approximately \$247,000 and \$233,000, respectively.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from 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>.

17. COMMITMENTS

Construction and Improvement Commitments

	<u>Encumbered For</u>	<u>Amount</u>	<u>Reported within Fund Balance</u>
Capital			
Projects Fund	C3TEC Zones 3 and 4	\$ 1,510,542	Restricted to Improvement for Capital Projects
	C3TEC	522,136	Restricted to Improvement for Capital Projects
	Tomas de Castro's Sport Facility	903,712	Restricted to Improvement for Capital Projects
	Quebrada Los Muertos Project	460,589	Restricted to Improvement for Capital Projects
	C3TEC Multimedia Construction	129,920	Restricted to Improvement for Capital Projects
	C3TEC Illumination System		
	Acquisition for Exhibitors	106,772	Restricted to Improvement for Capital Projects

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, 2013 amounted to approximately \$1,420,694.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

17. COMMITMENTS – continuation

Future operating lease commitments are scheduled as follows:

Year	Amount
2014	\$ 481,122
2015	435,565
2016	255,622
2017	139,633
2018	69,866
Total	<u>\$ 1,381,808</u>

Solid Waste Disposal Contract

The Municipality formalized a contract for the recollection and disposal and management of solid waste with a private entity (the Company). The original contract was emended to a total amount of \$26,713,322 and is due on December 31, 2016. Such contract requires the Municipality to pay the Company \$11.50 per unit served. The contract provides for a minimum of 45,500 units served. Also the fee paid to the Company will increase annually by one percent (1%) until December 31, 2019. Expenditures for the year ended June 30, 2013 for this service under the terms of this contract amounts to approximately \$7.9 million.

In addition, the Municipality is agreed to pay an additional \$25.00 per tons of solid waste that the Municipality transports and deposits in the Company’s recollection center for processing. The fee is also subject to an annual increase of one percent (1%). Future commitments unless the terms of this contract are estimated as follow:

2010-002090	
Year	Amount
2014	\$ 8,433,087
2015	4,216,543
2016	-
Total	<u>\$ 12,649,630</u>

2010-002090B	
Year	Amount
2014	\$ 3,895,249
2015	3,895,249
2016	3,895,249
Total	<u>\$ 11,685,748</u>

Other Commitments

At June 30, 2013, the non-major Special Revenue Funds had a deficit of \$423,703 as follows: Housing Funds \$81,597, Health and Human Services Fund \$23,946, Social & Welfare Activities Fund \$51,446, and Economic Development Fund \$266,714. The deficits resulted from the accrual of expenditures without accruing intergovernmental and federal revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental and federal revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

17. COMMITMENTS – continuation

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>
2014	\$ 8,236,700
2015	448,888
2016	208,600
2017	104,620
2018	104,620
Total	<u><u>\$ 9,103,427</u></u>

Contributions to Not for Profits Corporations

Act No. 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 Autonomous 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); (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO); and (6) Centro Criollo de Ciencia y Tecnología del Caribe (C3tec).

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.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

17. COMMITMENTS - continuation

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, during the fiscal year 2012-2013 the Municipality contributed \$250,000 to SANOS for education and drug prevention services.

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 2012-2013, the Municipality made contributions to CCECI for a total of \$ 450,361 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. During fiscal year the Municipality contributed \$1,934,500 to INTECO to cover operating expenses.

On July 1st, 2010, el Banco de Desarrollo Centro Oriental, Inc. (BADECO) came to its existence as the only Regional Community Bank in Puerto Rico. BADECO is a non-profit organization created and funded by the Autonomous Municipality of Caguas (MAC) as a spinoff of what was known for 27 years as the Community Development Bank of Caguas.

Out of this affiliation, BADECO administers for the MAC the loan programs that were not able to be transferred due to their nature of their funding, which came from Federal Government agencies, such as business loan fund granted by the Economic Development Administration (EDA) and the energy efficiency loan fund for home owners granted by the federal Department of Energy (DOE). BADECO reports to the MAC the programs performance and holds all the documentation regarding such programs. These programs are audited yearly by the MAC and are also open to audit procedures for the funding agencies.

On March 26, 2012 representation of Municipality of Caguas and Board of Directors signed a contractual agreement where the Municipality authorized Centro Criollo de Ciencia y Tecnología del Caribe (C3tec) to manage and operate such property. C3Tec is an interactive educational center intended to awaken the curiosity and stimulate interest in Science among children from the elementary level onward. The Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. As part of the agreement, during fiscal year the Municipality contribution to C3tec was \$500,000 to cover operating expenses and \$395,489 for permanent exhibitions.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

17. COMMITMENTS – continuation

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, 2013 the Municipality received HAP's assistance payments in the amount of approximately \$7.4 million. No significant changes are expected during the subsequent fiscal year.

18. 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 \$496,000 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

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

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

18. CONTINGENCIES – continuation

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.

19. HEALTH CARE 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 \$7.9 million for the fiscal year ended June 30, 2013.

20. NET POSITION / FUND BALANCES RESTATEMENTS

The Municipality made adjustments to net position at July 1, 2012 to correct certain accounting errors. During the year ended June 30, 2013 the Municipality evaluated its capital assets and determined that the amount of capital assets, net of accumulated depreciation, reported in prior years was overstated by \$77,327,585. In addition the Municipality determined that certain payables and debt were overstated and other items were not properly reflected in prior year financial statements.

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Municipality restated the ending net position at June 30, 2012, in connection with unamortized bond issuance costs amounting to \$2,131,385 at June 30, 2012. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

In addition the Municipality determined that certain payables and debt were overstated and other items were not properly reflected in prior year financial statements.

Reclassifications of Fund Balances

During the year ended June 30, 2013 the Municipality revised the presentation of its financial statements and certain funds presented as major in prior years were consolidated as non-major governmental funds. These funds are the housing rental fund, head start fund and legislative fund. In addition in prior years the certain rental and other business activities were presented as proprietary fund activity while this year such activities were combined with non-major governmental funds.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

20. NET POSITION / FUND BALANCES RESTATEMENTS – continuation

Other adjustments to fund balances are described below.

A. Net Position Restatements

For the year ended June 30, 2013, the Municipality adjusted net position for reclassification, change in accounting principles, and other adjustments to assets, liabilities and revenues.

The following schedule reconciles the June 30, 2012 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2012:

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Net Position, as Previously Reported, At June 30, 2012	\$ 328,288,233	\$ 25,128,544
Implementation of GASB No. 65	(2,131,385)	-
Reclassifications of Proprietary Activities	25,128,544	(25,128,544)
Adjustments to Capital Assets	(77,327,585)	
Overstatement of Accounts Payable	1,126,442	
Overstatement of Revenues	(268,410)	
Unrecorded Cash	55,474	
Adjustments to Claims and Judgments	1,357,680	
Adjustment Unearned - Head Start	6,143,924	
Adjustments to Unearned Revenues - Volume of Business Taxes	(6,219,254)	
Adjustments to Sales and Usage Taxes	(1,669,414)	
Adjustments to Unearned Revenues - Others	(1,495,534)	
Adjustments to Long-Term Debts	(1,526,832)	-
Beginning Net Position, as Restated, At July 1, 2012	\$ 271,461,883	\$ -

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

20. NET POSITION / FUND BALANCES RESTATEMENTS – continuation

B. Fund Balance Restatements

The following reconciles the June 30, 2012 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2012 for the various funds:

	GENERAL FUND	HOUSING AND RENTAL PROGRAM FUND	HEAD START FOOD AND CHILDREN PROGRAM FUND	CAPITAL PROJECT FUND	DEBT SERVICE FUND	LEGIS- LATIVE FUND	OTHER GOVERN- MENTAL FUND	TOTAL GOVERN- MENTAL FUND
At June 30, 2012	\$ 16,938,668	\$ 1,178,217	\$ 159,078	\$ 24,832,522	\$ 19,963,005	\$ 41,553	\$ 4,618,048	\$ 67,731,091
Reclassification of Fund Balances	(159,522)	(1,178,217)	(159,078)	3,182,109	-	(41,553)	(1,643,739)	-
Overstatement of Accounts Payable	797,541	-	-	271,745	-	-	57,156	1,126,442
Interfund Balances	(2,351,872)	-	-	1,012,808	-	-	1,339,064	-
Overstatement of Revenues	-	-	-	-	(268,410)	-	-	(268,410)
Unrecorded Cash	55,474	-	-	-	-	-	-	55,474
Reclassification of Proprietary Activities	-	-	-	-	-	-	1,981,363	1,981,363
Beginning Fund Balance, As Restated, At July 1, 2012	\$ 15,280,289	\$ -	\$ -	\$ 29,299,184	\$ 19,694,595	\$ -	\$ 6,351,892	\$ 70,625,960

21. RECENTLY ADOPTED ACCOUNTING STANDARDS

The GASB has issued Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that are included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. GASB 62 does not have any impact on the Municipality's financial statements.

The GASB has issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. Deferred outflows is defined as the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows is defined as the acquisition of net assets by the government that is applicable to a future reporting period. In compliance with GASB 63, the Statement of Net Assets has been renamed the Statement of Net Position and includes four components as applicable: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The adoption of this Statement resulted in a change in the term "Net Assets" to "Net Position" throughout the financial statements.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

21. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

GASB Statement No. 64 ("GASB 64") Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53 was issued in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011 and were adopted the Municipality effective July 1, 2012 with no significant impact on the financial statements.

GASB Statement No. 65 ("GASB 65") Items Previously Reported as Assets and Liabilities was issued in March 2012. 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. The requirements of this Statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and were early adopted by the Municipality effective July 1, 2012. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$2,259,422 in Net Position as of the beginning of 2012 (see Note 20), for deferred bond issue cost previously deferred and amortized over the life of the bonds. In addition for as a result of implementing this statement the Municipality changed the classification of certain liabilities to deferred inflows.

22. SUBSEQUENT EVENTS

On July 11, 2013 the Municipality transfers various types of assets for daily operations of Corporation for Caguas City Development (CODECCA), INC., a nonprofit organization created under the Article 17.016 to the 1991 Autonomous Municipalities Law No. 81 of the Commonwealth of Puerto Rico. Among those assets includes approximately \$192 thousand, on cash, \$21 thousand in office furniture, nonpayment on utilities charges on the office premises, rights over future monthly parking revenues of approximately \$15 thousand, over various municipalities' properties and over a mortgage note receivable of \$485 thousand. Also, municipality transfers various real properties in the city downtown to CODECCA for the creation of residential properties and infrastructure improvement of the Caguas City downtown area.

On July 17, 2013, the Municipality issued refunding notes in the aggregate amount of \$29.2 million (the Notes) with a commercial bank for the purpose of refinancing certain outstanding notes at June 30, 2013. The notes provided funds for the payment of the outstanding notes, accrued interest at closing date and provide for the payment of the transaction cost. The notes bear's interest at a variable rate per annum to the greater of (a) prime rate plus applicable spread as defined in the agreements or (b) the corresponding interest rate floor of the note subject to reset on each change in prime rate (actually ranging from 3.70% for Series A through 4.05% for Series K). In the case of an event of default the note will bear interest at prime rate plus 5%. The notes will be paid in a combined initial principal installments amount of \$865,000 to \$1,170,204 with due date from fiscal year 2016 through 2037.

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

22. SUBSEQUENT EVENTS – continuation

On August 30, 2013, the Municipality entered into a Loan Agreement (the Agreement) with the Governmental Development Bank of Puerto Rico (the GDB) for the acquisition and implementation of an accounting software. The Agreement provides for borrowing in the amount of \$1,485,000, including finance charges, through July 1, 2020 (the Maturity Date) and shall be known as *2013 Municipal General Obligation Notes*. The *Debt* will be dated the day it is issued with denominations of \$5,000 with maturities of July 1 of each year through 2020. 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, 2014. The Municipality will also pay legal, accounting, and other fees and expenses in accordance with the Loan Agreement.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2013

22. SUBSEQUENT EVENTS – continuation

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through February 20, 2014, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

Required Supplementary Information

This page intentionally left blank.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Revenues and Expenditures Budget and Actual – General Fund
Non GAAP Budgetary Basis
For the Fiscal Year Ended June 30, 2013*

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Notes 1 and 2)	Final Budget
Resources (Inflows):				
Property Taxes	\$ 33,255,226	\$ 33,255,226	\$ 33,255,226	\$ -
Volume of Business Taxes	26,320,000	26,320,000	25,577,030	(742,970)
Sales and Usage Taxes	17,500,000	17,500,000	16,819,756	(680,244)
Construction Excise Taxes	3,500,000	3,500,000	3,091,545	(408,455)
Intergovernmental Revenues	14,452,684	15,472,257	15,458,323	(13,934)
Interest	697,800	697,800	776,573	78,773
Rent and Other Resources	12,454,443	14,503,443	14,812,182	308,739
Fines and Penalties	600,000	600,000	569,759	(30,241)
Total Resources (Inflows)	<u>108,780,153</u>	<u>111,848,726</u>	<u>110,360,394</u>	<u>(1,488,332)</u>
Charges to Appropriations (Outflows):				
General Government	41,901,802	44,450,987	43,487,220	963,767
Public Safety	11,229,641	10,502,482	10,290,442	212,040
Public Works	10,629,243	12,569,951	12,369,827	200,124
Culture and Recreation	6,173,722	6,089,677	5,924,910	164,767
Health and Welfare	12,320,024	12,301,962	12,146,745	155,217
Economic and Social Development	5,657,806	5,963,826	5,814,467	149,359
Housing	1,035,524	1,007,836	965,301	42,535
Sanitation and Environmental	17,061,552	16,514,399	16,181,874	332,525
Education	2,770,839	2,447,606	2,415,144	32,462
Total Charges to Appropriations	<u>108,780,153</u>	<u>111,848,726</u>	<u>109,595,930</u>	<u>2,252,796</u>
Excess of Resources Over Appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 764,464</u>	<u>\$ 764,464</u>

The notes to the required supplementary information are an integral part of this schedule.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Schedule of Revenues and Expenditures Budget and Actual – General Fund
 Non GAAP Budgetary Basis
 For the Fiscal Year Ended June 30, 2013

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, 2013 is presented below for the general fund.

2. EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

	<u>General Fund</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 92)	\$ 110,360,394
Difference – Budget to GAAP:	
Transfers from Other Funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(13,676,735)
Perspective Difference:	
Non Budgetary items - Revenues of Other Funds	4,249,706
Non Budgetary items	<u>907,744</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	<u>\$ 101,841,109</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 92)	\$ 109,595,930
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary items - Expenditures of Other Funds	(3,773,515)
Other Items - Non budgetary	(948,928)
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	2,007,782
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	(786,637)
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>8,176,469</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	<u>\$ 114,271,101</u>

END OF NOTES

**Supplementary Information Required by U.S. Department of
Housing and Urban Development**

This page intentionally left blank.

Financial Data Schedules (RQ07)
 Entity Wide Balance Sheet Summary
 June 30, 2013

Submission Type:		Fiscal Year End:
Audited / A-133		June 30, 2013
Assets	Current Assets - Cash:	
111	Cash - Unrestricted	\$ 812,734
113	Cash - Other Restricted	106,750
100	Total Cash	919,484
	Receivables:	
121	Accounts Receivable - PHA Projects	600
128	Fraud Recovery	151,201
128.1	Allowance for Doubtful Accounts - Fraud Recovery	(121,733)
120	Total Receivable, Net of Allowance for Doubtful Accounts	30,068
150	Total Current Assets	949,552
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	544,157
166	Accumulated Depreciation	(320,480)
160	Total Capital Assets, Net of Accumulated Depreciation	223,677
190	Total Assets	\$ 1,173,229
Liabilities and Equity	Liabilities:	
	Current Liabilities:	
312	Accounts Payable <=90 days	\$ 30,310
322	Accrued Compensated Absences - Current Portion	14,600
342	Deferred Revenues	29,468
347	Inter Program - Due to	230,738
310	Total Current Liabilities	305,116
	Non-Current Liabilities:	
354	Accrued Compensated Absences - Non Current	118,245
350	Total Non-Current Liabilities	118,245
300	Total Liabilities	423,361
Equity	Equity	
508.1	Net Investment In Capital Assets	223,677
511.1	Restricted Net Assets	94,298
512.1	Unrestricted Net Assets	431,893
513	Total Equity / Net Assets	749,868
600	Total Liabilities and Equity / Net Assets	\$ 1,173,229

See accompanying notes to Financial Data Schedule.

**Autonomous Municipality of Caguas
of the Commonwealth of Puerto Rico**

*Financial Data Schedules (RQ07)
Program Revenues and Expenses Summary
For the Fiscal Year Ended June 30, 2013*

Submission Type:		Fiscal Year End:
<u>Audited / A-133</u>		<u>June 30, 2013</u>
70600	HUD PHA Operating Grants	\$ 7,985,266
71100	Investment Income - Unrestricted	2,367
71400	Fraud Recovery	23,800
71500	Other Revenue	196,378
72000	Investment Income - Restricted	1,541
70000	Total Revenue	8,209,352
	Expenses:	
	Administrative:	
91100	Administrative Salaries	424,201
91400	Advertising and Marketing	1,354
91500	Employee Benefit Contributions - Administrative	92,519
91600	Office Expenses	157,843
91800	Travel	3,242
91900	Other	73,243
91000	Total Operating - Administrative	752,402
96130	Workmen's Compensation	9,080
96100	Total Insurance Premiums	9,080
	General Expenses:	
96200	Other General Expenses	-
96210	Compensated Absences	-
96000	Total Other General Expenses	-
96900	Total Operating Expenses	761,482
97000	Excess of Operating Revenue over Operating Expenses	7,447,870
97300	Housing Assistance Payments	7,368,543
97350	HAP Portability-In	167,284
97400	Depreciation Expense	81,221
97500	Fraud Losses	-
90000	Total Expenses	8,378,530
	Excess (Deficiency) of Total Revenue Over (Under) Total	
10000	Expenses	\$ (169,178)
	Memo Account Information:	
11030	Beginning Equity	\$ 919,046
11170	Administrative Fee Equity	\$ 655,570
11180	Housing Assistance Payments Equity	\$ 94,298
11190	Units Months Available	\$ 15,900
11210	Number of Units Months Leased	\$ 15,782
11640	Furniture & Equipment - Administrative Purchases	\$ 8,506

See accompanying notes to Financial Data Schedule.

***Autonomous Municipality of Caguas
of the Commonwealth of Puerto Rico***

Financial Data Schedules (RQ07)

Notes to Financial Data Schedules

For the Fiscal Year Ended June 30, 2013

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, 2013, 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	\$ (139,710)	\$ 779,336
Subtract: fraud recoveries receivables presented as revenues as per GAAP but deferred as per HUD regulatory accounting basis.	<u>(29,468)</u>	<u>(29,468)</u>
Total Section 8 net income/net assets as per financial data schedule as required by HUD	<u>\$ (169,178)</u>	<u>\$ 749,868</u>

END OF NOTES

This page intentionally left blank.

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

This page intentionally left blank.

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Direct Program:			
Rural Housing Preservation Grants	10.433		\$ 21,387
Environmental Quality Incentives Program	10.912		22,400
ARRA – Emergency Watershed Protection Program	10.923		<u>421,509</u>
Sub-Total Direct Programs			<u>465,296</u>
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	CCC-003	<u>1,300,931</u>
Total U. S. Department of Agriculture			<u>1,766,227</u>
U.S. Department of Housing and Urban Development:			
Direct Program:			
Community Development Block Grants/Entitlements Grant (Cluster)	14.218		2,661,634
ARRA – Community Development Block Grants/ Entitlements Grant (Cluster)	14.253		<u>12,186</u>
Sub-Total Cluster Program			<u>2,673,820</u>
Emergency Shelter Grant Program	14.231		179,201
Home Investment Partnership Program (HOME)	14.239		764,828
Section 8 Housing Choice Vouchers	14.871		<u>8,138,949</u>
Sub-Total Direct Programs			<u>11,756,798</u>
Pass-Through Autonomous Municipality of San Juan of the Commonwealth of Puerto Rico:			
Housing Opportunities for Persons with AIDS	14.241	2012-V00105	<u>104</u>
Pass-Through Puerto Rico Department of Housing – Public Housing Administration:			
Public and Indian Housing	14.850	2012-000062	777,270
Public Housing Capital Fund	14.872	RQ-3033	<u>161,654</u>
Subtotal Puerto Rico Department of Housing – Public Housing Administration			<u>938,924</u>
Total U.S. Department of Housing and Urban Development			<u>12,695,826</u>

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013*

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community			
Policing Grants.....	16.710		49,652
Drug Enforcement Agency – Task Force.....	16.XXX		<u>13,060</u>
Sub-Total Direct Programs			<u>62,712</u>
Pass Through the Procurement for Woman Office of Puerto Rico:			
ARRA – Stop Violence against Woman Formula Grants .	16.588	E6170-141	<u>117,668</u>
Pass Through Puerto Rico Department of Justice:			
ARRA – VOCA Crime Victim Assistance Discretionary Grant Program	16.807	2011-VA-GX-0058	<u>45,000</u>
Total U. S. Department of Justice			<u>225,380</u>
U.S. Department of Transportation:			
Pass Through Puerto Rico Highway and Transportation Authority (Cluster):			
Job Access – Reverse Commute Program.....	20.516	PR-37-X002-00	72,801
New Freedom Program.....	20.521	PR-37-X002-00	<u>188,126</u>
Subtotal Puerto Rico Highway and Transportation Authority (Cluster).....			<u>260,927</u>
Pass Through Puerto Rico Safety Transit Commission:			
National Highway Traffic Safety Administration	20.614	12-08-11	<u>16,259</u>
Total U. S. Department of Transportation			<u>277,186</u>
U.S. National Endowment for the Arts:			
Direct Program:			
Promotion of the Arts Grants to Organizations and Individuals	45.024		<u>602</u>
Total U.S. National Endowment for the Arts			<u>602</u>

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013*

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Environmental Protection Agency:			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements.....	66.818		<u>8,819</u>
Total U.S. Environmental Protection Agency			<u>8,819</u>
U. S. Department of Energy:			
Direct Program:			
ARRA – Energy Efficiency and Conservation Block Grant Program	81.128		<u>68,640</u>
Total U.S. Department of Energy			<u>68,640</u>
U.S. Department of Education:			
Pass-Through Puerto Rico Department of Education:			
21 st Century Community Learning Centers	84.287	N/AV	<u>304,645</u>
Total U.S. Department of Education			<u>304,645</u>
U.S. Department of Health and Human Services:			
Direct Program:			
Head Start Program	93.600		11,910,285
HIV Emergency Relief Project Grant	93.914		<u>11,816</u>
Sub-Total Direct Program			<u>11,922,101</u>
Pass-Through Puerto Rico Department of Family:			
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers (Cluster)	93.044	130111R1	74,959
Special Programs for the Aging – Title III, Part C – Grants for Nutrition Services (Cluster)	93.045	130111R1	130,149
Nutrition Services Incentive Program (Cluster)	93.053	130111R1	<u>77,084</u>
Sub-Total Cluster Program			<u>282,192</u>

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013*

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services: (continuation)			
Child Care Development Block Grant Program	93.575	N/AV	366,009
Family Violence Prevention and Services/Battered Women's Shelters_Grants to State Domestic Violence Coalitions	93.591	G-1201PRFVPS-B	<u>54,105</u>
Total U.S. Department of Health and Human Services ..			<u>12,624,407</u>
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office of Public Safety Affairs:			
Homeland Security Grant Program	97.067	2009-SS-T9-0091	<u>75,738</u>
Pass-Through Puerto Rico Office of Disaster and Emergencies Administration:			
Disaster Grants – Public Assistance	97.036	N/AV	273
Homeland Security Grant Program	97.067	N/AV	<u>640,090</u>
Subtotal Puerto Rico Office of Disaster and Emergencies Administration			<u>640,363</u>
Total U. S. Department of Homeland Security			<u>716,101</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$28,687,833</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

1. REPORTING ENTITY

The Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (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.

2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Municipality. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies. The reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act require informing on use Recovery Act funds provided through this award. This report is prepared in accrual basis and will has differences with the information reported on the Schedule, which prepared in cash basis.

5. FEDERAL CFDA NUMBER

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

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013*

6. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Municipality provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
Community Development Block Grants/Entitlements Grants.....	14.218	\$ 30,693
Emergency Shelter Grant Program.....	14.231	166,526
Home Investment Partnership Program.....	14.239	<u>94,184</u>
TOTAL		<u>\$ 291,403</u>

**7. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND**

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund as follows: General Fund – \$640,690, Capital Projects Fund – \$3,244,797 and Other Governmental Funds \$24,802,346.

END OF NOTES



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Municipality's** basic financial statements, and have issued our report thereon dated February 20, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Municipality's** financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002 to be significant deficiency.

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

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

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-003.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
February 20, 2014

Stamp No. E63619 was affixed to
the original report.





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

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

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (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 **Municipality**'s major federal programs for the fiscal year ended June 30, 2013. **Municipality**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

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

Page 2

Basis for Qualified Opinion on Community Development Block Grants/Entitlements Grants (Cluster)

As described in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirement regarding CFDA 14.218/14.253 Community Development Block Grants/Entitlements Grants (Cluster) as described in finding number 2013-005 for Program Income. Compliance with such requirement is necessary, in our opinion, for the **Municipality** to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grants/Entitlements Grants (Cluster)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants/Entitlements Grants (Cluster) program for the fiscal year ended June 30, 2013.

Opinion on Each of the Other Major Federal Programs

In our opinion, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-004 and 2013-006. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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



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

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

Page 3

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-005 to be material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-004 and 2013-006 to be significant deficiencies.

Municipality's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
February 20, 2014

Stamp No. E63620 was affixed to
the original report.



This page intentionally left blank.

PART III

FINDINGS AND QUESTIONED COSTS

This page intentionally left blank.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified Opinion
Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditor's report issued on compliance for Major Programs:

- Unmodified Opinion
 - Child and Adult Care Food Program
 - Section 8 Housing Choice Vouchers
 - Head Start Program
- Qualified Opinion
 - Community Development Block Grants/Entitlements Grants (Cluster)
- Adverse Opinion Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218/14.253	Community Development Block Grants/Entitlements Grants (Cluster)
14.871	Section 8 Housing Choice Vouchers
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$860,635

Auditee qualified as low-risk auditee?

Yes No

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-001
TYPE OF FINDING	MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS
CRITERIA	<p>AU-C Section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>, paragraph .A11, states the follows:</p> <p>“Indicators of material weaknesses in internal control include</p> <p>...</p> <ul style="list-style-type: none">• <u>restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;</u>• <u>identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity’s internal control; and”</u> [underlying by us] <p>...</p> <p>Paragraph 4.23, <i>Communicating Deficiencies in Internal Control, Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse of the Government Auditing Standards</i> issued by the Comptroller General of the United States, 2011 Revision, states the follows:</p> <p>“4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) <u>significant deficiencies and material weaknesses in internal control;</u> ... “[underlying by us]</p> <p>Paragraph 4.24, <i>Deficiencies in Internal Control</i>, of the <i>Government Auditing Standards</i> states the follows:</p> <p>“4.24 The AICPA requirements to communicate in writing significant deficiencies and material weaknesses identified during an audit form the basis for reporting significant deficiencies and material weaknesses in the GAGAS report on internal control over financial reporting when deficiencies are identified during the audit.”</p> <p>Appendix I, <i>Supplemental Guidance</i>, paragraph A.06, <i>Examples of Deficiencies in Internal Control</i>, of the <i>Government Auditing Standards</i> states the follows:</p> <p>“A.06 The following are examples of control deficiencies:</p> <p>a. ...</p> <p>b. ...</p> <p>c. <u>Control systems that did not prevent, or detect and correct material misstatements so that it was necessary to restate previously issued financial statements or operational results.</u> Control systems that did not prevent or detect material misstatements in performance or operational results so that it was later necessary to make significant corrections to those results. [underlying by us]</p>

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2013-001 – continuation

d. Control systems that did not prevent, or detect and correct material misstatements identified by the auditor. This includes misstatements involving estimation and judgment for which the auditor identifies potential material adjustments and corrections of the recorded amounts. [Underlying by us]

CONDITION During the preparation of the financial statements by the **Municipality**, they noted material misstatements in prior year audited financial statements that required significant adjustments to the assets, capital assets, liabilities, revenues, and interfund transactions.

CAUSE The **Municipality's** internal control system, failed to obtain assurance of the capital assets completeness and ownership. In fact, the **Municipality** don't monitor periodically the capital assets transactions in order to verify on a timely basis if adjustments need to be made to reconcile with the schedules. In addition, the **Municipality** accounting system does not provide for some mechanized transaction that could lead to errors if proper trace is not maintained.

EFFECT OR POSSIBLE EFFECT The financial statements for the fiscal year ended June 30, 2013, prepared by the **Municipality** presented material adjustments and restatement of the beginning balance of the net position/fund balance in order to reconcile the trial balances data with aging and schedules.

RECOMMENDATION We recommend the **Municipality** to monitor the capital assets accountability during the year, and not wait until the fiscal year end to analyze this data. In addition, subsidiaries of interfund and payable transactions should be reconciled periodically to make the adjustments and take the corrective actions timely.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED Establish a data control in the Department of Finance for recording those assets that are processed outside the accounting system and must be registered by manual inventory adjustments. Strengthening property area with trained staff in order to effectively monitor assets transactions as well as prepare trainings aimed to record such transactions according to GASB 34. Develop and implement a process to serve as a guide for processing transactions that affects in any way the inventory of fixed assets as well as properly reconcile subsidiaries of interfund and payable transactions.

IMPLEMENTATION DATE June 30, 2014

RESPONSIBLE PERSON Angie Frías Báez, Director of Finance

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER 2013-002 (See FINDING REFERENCE NUMBER 2013-004)

TYPE OF FINDING SIGNIFICANT DEFICIENCY IN ELIGIBILITY COMPLIANCE

CRITERIA 7 CFR Section 226.23 states that the institution shall take the income information provided by the household on the application and calculate the household's total current income. When a completed application furnished by a family indicates that the family meets the eligibility criteria for free or reduced-price meals, the participants from that family shall be determined eligible for free or reduced-price meals. When the information furnished by the family is not complete or does not meet the eligibility criteria for free or reduced-price meals, institution officials must consider the participants from that family as not eligible for free or reduced-price meals, and must consider the participants as eligible for "paid" meals.

CONDITION We noted, as part of our audit procedures, that the **Municipality** calculated the household's total current income correctly and the family meets the eligibility criteria for free or reduced-price meals; however, the eligibility determination for free or reduced-price meals was incorrectly. The **Municipality** determined the participant as free instead of the correct classification of reduced-price meals based on the household's total current income.

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2013-003 (See FINDING REFERENCE NUMBER 2013-005)
TYPE OF FINDING	MATERIAL WEAKNESS IN PROGRAM INCOME COMPLIANCE
CRITERIA	<p>According to 24 CFR Section 570.504 – Program Income (a) Recording Program Income. The receipt and expenditure of program income as defined in §570.500(a) shall be recorded as part of the financial transactions of the grant program. On §570.504 (b)(2)(i) states that program income in the form of repayments to, or interest earned on, a revolving fund as defined in §570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. In addition, §570.500 (b) states that <i>Revolving Fund</i> means a separate fund (with a set of accounts that are independent of other program accounts) established for the purpose of carrying out specific activities which, in turn, generate payments to the fund for use in carrying out the same activities. Each revolving loan fund's cash balance must be held in an interest-bearing account, and any interest paid on CDBG funds held in this account shall be considered interest earned on grant advances and must be remitted to HUD for transmittal to the U.S. Treasury no less frequently than annually.</p>
CONDITION	<p>During our audit procedures related to the accountability of loans made by the Municipality with Community Development Block Grants (CDBG), we noted that the repayment related to principal and interests was not reported and therefore, not remitted to HUD. In addition, the Municipality did not provide a detail of all the property acquired with CDBG for which program income should be collected and reported. We noted in the drawdowns schedule made during fiscal year 2012-2013, the amount of \$45,874.77 was identified as program income. No documentation was provided indicating the source of funds.</p>

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-004 (See FINDING REFERENCE NUMBER 2013-002)
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (10.558) U.S. DEPARTMENT OF AGRICULTURE PASS-THROUGH PUERTO RICO DEPARTMENT OF EDUCATION
AWARD NUMBER	CCC-003
COMPLIANCE REQUIREMENT	ELIGIBILITY
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA	7 CFR Section 226.23 states that the institution shall take the income information provided by the household on the application and calculate the household's total current income. When a completed application furnished by a family indicates that the family meets the eligibility criteria for free or reduced-price meals, the participants from that family shall be determined eligible for free or reduced-price meals. When the information furnished by the family is not complete or does not meet the eligibility criteria for free or reduced-price meals, institution officials must consider the participants from that family as not eligible for free or reduced-price meals, and must consider the participants as eligible for "paid" meals.
CONDITION	We noted, as part of our audit procedures, that the Municipality calculated the household's total current income correctly and the family meets the eligibility criteria for free or reduced-price meals; however, the eligibility determination for free or reduced-price meals was incorrectly. The Municipality determined the participant as free instead of the correct classification of reduced-price meals based on the household's total current income.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Municipality didn't have an adequate monitoring procedure to ascertain that the correct data was used to determine the appropriate rate.
CAUSE	Municipality used the net amount of total current income instead of the gross amount when the participant's determination for free or reduced-price meals was done.
EFFECT OR POSSIBLE EFFECT	Municipality would claim reimbursement for the meals served to that participant at an incorrect rate.
QUESTIONED COSTS	None determined.
RECOMMENDATION	We recommend management to implement internal controls to ascertain that the correct total income is used to determine the eligibility of the participant for free or reduced-price meals.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2013-004 (See FINDING REFERENCE NUMBER 2013-002) – continuation

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

The food service supervisor assigned to the children's centers lists verified the enrollment of children of PACNA and Eligibility Forms with records of children. She noticed that in the lists for enrollment of children for PACNA they used the net income and in the eligibility form, the gross income. In one of the cases, when we reviewed the information, the participant was incorrectly determined as free. After the correction in the eligibility form, the participant was classified as reduced. In order to improve the classification process, we improved our Eligibility Form so we assure that in both forms the gross income is used.

IMPLEMENTATION DATE

September 11, 2013

RESPONSIBLE PERSON

Damaris Pagán Cordero, Executive – Direct Services to Children

continue

Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-005 (See FINDING REFERENCE NUMBER 2013-003)
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CFDA NO. 14.218) – CLUSTER ARRA – COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CFDA NO. 14.253) – CLUSTER U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B11-MC-720001
COMPLIANCE REQUIREMENT	PROGRAM INCOME
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	According to 24 CFR Section 570.504 – Program Income (a) Recording Program Income. The receipt and expenditure of program income as defined in §570.500(a) shall be recorded as part of the financial transactions of the grant program. On §570.504 (b)(2)(i) states that program income in the form of repayments to, or interest earned on, a revolving fund as defined in §570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. In addition, §570.500 (b) states that <i>Revolving Fund</i> means a separate fund (with a set of accounts that are independent of other program accounts) established for the purpose of carrying out specific activities which, in turn, generate payments to the fund for use in carrying out the same activities. Each revolving loan fund's cash balance must be held in an interest-bearing account, and any interest paid on CDBG funds held in this account shall be considered interest earned on grant advances and must be remitted to HUD for transmittal to the U.S. Treasury no less frequently than annually.
CONDITION	During our audit procedures related to the accountability of loans made by the Municipality with Community Development Block Grants (CDBG), we noted that the repayment related to principal and interests was not reported and therefore, not remitted to HUD. In addition, the Municipality did not provide a detail of all the property acquired with CDBG for which program income should be collected and reported. We noted in the drawdowns schedule made during fiscal year 2012-2013, the amount of \$45,874.77 was identified as program income. No documentation was provided indicating the source of funds.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Municipality was unable to provide evidence of the source for the program income. This is a systemic deficiency.
CAUSE	Municipality doesn't have accurate records to properly trace the program income activities that should be reported to HUD.
EFFECT OR POSSIBLE EFFECT	Municipality could have additional resources to provide additional assistances or perform additional activities, and because no accurate records exists related to program income these resources cannot be quantified.
QUESTIONED COSTS	Not determined.
RECOMMENDATION	We recommend Municipality to identify all properties acquired with CDBG funds in order to establish all program income and to report program income from revolving loans.

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2013-005 (See FINDING REFERENCE NUMBER 2013-003) – continuation

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

During the fiscal year, we are in the process of identifying all property constructed bought with funds from the CDBG Program, in order to establish the amount of program income and document it accordingly. In addition, for the loans revolving program, we are improving the accountability of the repayment loans, to have assurance of the amounts that area available to continue with the program and inform HUD this data.

IMPLEMENTATION DATE

June 30, 2014

RESPONSIBLE PERSON

Sandra Velázquez, Director of Planning
Angie Frias Báez, Director of Finance

continue

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2013-006
FEDERAL PROGRAMS	ARRA – COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS (CFDA NO. 14.253) – CLUSTER U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AWARD NUMBER	B11-MC-720001
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY
CRITERIA	The Circular A-133 Compliance Supplement, Part III, Section L – Reporting, states that the Report 1512 should be traceable to financial records and data elements to determine accuracy.
CONDITION	During our audit procedures related to reporting requirements of the Municipality with Community Development Block Grants – ARRA Funded (CDBG-R), we noted that 1512 Report for the quarter ended September 30, 2012 (the last report submitted), the Municipality reported total ARRA expenditures of \$909,301. This amount included \$134,967, which were not expended by the program.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The official responsible for preparing this report didn't verify if those funds were actually incurred by the CDBG-R.
CAUSE	Municipality completed the 1512 Report and didn't verify if the funds were still available for the payment of the invoice amounting to \$134,967. This funds were covered by the General Fund.
EFFECT OR POSSIBLE EFFECT	Municipality may be incurring in expenditures for which no available funds exists, and therefore, have to be paid from other municipal funds.
QUESTIONED COSTS	Not determined.
RECOMMENDATION	We recommend Municipality to implement internal controls in order to have proper monitoring of the reports, and that those reports are traced to accounting records and available budget.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	As instructed by HUD, we made a request for change in the 1512 Report for the quarter ended September 30, 2012. The request was successfully submitted on February 14, 2014 on line and at this moment is pending for the corresponding approval.
IMPLEMENTATION DATE	February 14, 2014
RESPONSIBLE PERSON	Sandra Velázquez, Director of Planning

END OF SCHEDULE

**Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico**

Summary Schedule of Prior Audits Findings
For the Fiscal Year Ended June 30, 2013

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2012

Finding Number	2012-III-1	Period of Availability of Funds Grant balance exceeded the maximum allowed.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	2012-III-2	Monitoring Municipality did not monitor loans made by the Central Oriental Development Bank (BADECO, Spanish acronyms).
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

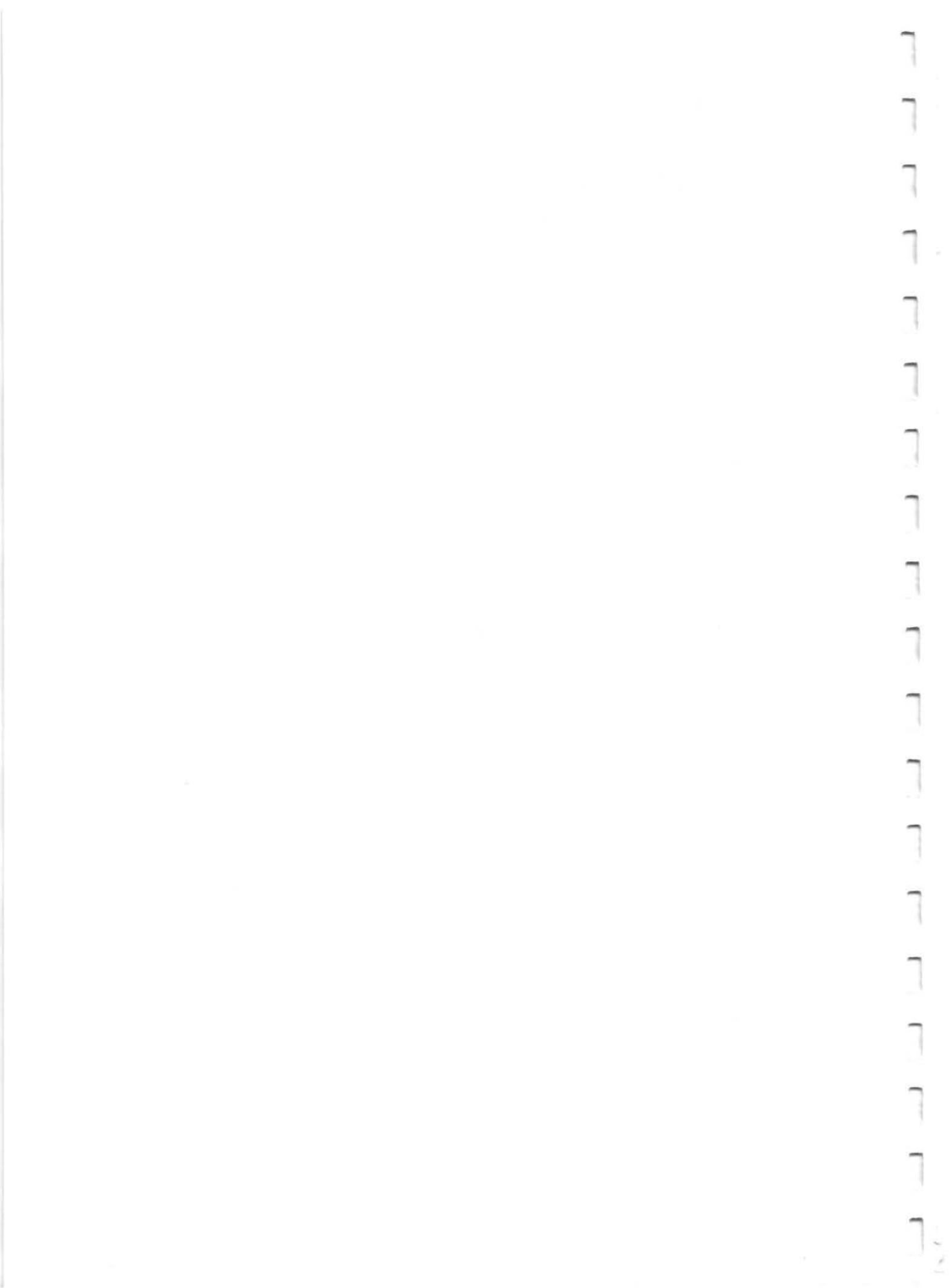
(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE



OCAM
DIVISION REGLAMENTACION
E INSTRUCCIONES

14 MAR 10 PM 4:17

