

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

MUNICIPIO DE CAYEY
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

OFFICIAL DEL COMISIONADO
DE ADMINISTRACION

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY
BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY
BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

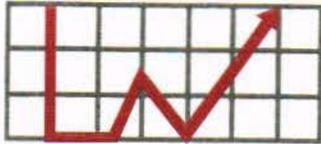
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BASIC FINANCIAL STATEMENTS
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Cayey
Cayey, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cayey, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cayey, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2009, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule-General Fund on page 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Cayey's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the **Municipality of Cayey**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 17, 2009

Stamp No. 2407047 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

This discussion and analysis of the **Municipality of Cayey** (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2009. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2008. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 deserve special mention:

1. Total assets of the Municipality amounted to \$129,963,987 which represents an increase of 10% compared to prior fiscal year.
2. At the end of fiscal year 2009, total liabilities amounted to \$61,299,575. Out of said amount, \$43,527,859 corresponded to long-term liabilities of which \$31,159,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$68,664,412 which represents an increase of 9% compared to prior fiscal year, as restated.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$47,247,526 derived from the following sources: \$3,667,541 charges for services; \$10,165,294 from operating grants and contributions; \$4,473,521 from capital grants and contributions obtained from other sources, and \$28,941,170 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$41,359,922.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$5,887,604.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$33,848,711.
8. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$6,701,333, compared to a fund balance of \$4,958,535 in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in a favorable balance of \$9,566,110.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2009. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS COMPONENTS

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

The Statement of Net Assets reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net assets. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net assets figure either thru additional borrowings or thru internally generated funds. This in turn will benefit the welfare of the **Municipality of Cayey** constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net assets at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the Statements of Activities of the Municipality at June 30, 2009, shows total expenses incurred to afford the cost of all functions and programs amounted to \$41,359,922. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$18,306,356 was derived from the following sources: \$3,667,541 charges for services; \$10,165,294 from operating grants and contributions; and \$4,473,521 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$28,941,170. When such figure is added to the \$18,306,356 previously mentioned, total revenues available for the financing of activities amounted to \$47,247,526. There was an excess of revenues over expenses in the amount of \$5,887,604 which contributed with an increase to the figure of net assets attained at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered thru this Statement is limited to the Municipality most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified accrual accounting which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Cayey**, primary government assets exceeded total liabilities by \$68,664,412 at the end of 2009, compared to \$62,776,808, as restated, at the end of the previous year, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condensed Statement of Net Assets	2009	2008	Change	%
Current and other assets	43,530,734	42,344,118	1,186,616	3%
Capital Assets	86,433,253	75,650,933	10,782,320	14%
Total Assets	129,963,987	117,995,051	11,968,936	10%
Current and other liabilities	17,771,716	11,005,342	6,766,374	61%
Long-term liabilities	43,527,859	44,212,901	(685,042)	(2)%
Total liabilities	61,299,575	55,218,243	6,081,332	11%
Invested in capital assets, net of related debt	55,274,253	43,089,933	12,184,320	28%
Restricted	27,413,599	28,772,818	(1,359,219)	(5)%
Unrestricted deficit	(14,023,440)	(9,085,943)	(4,937,497)	54%
Total net assets	\$ 68,664,412	\$ 62,776,808	\$ 5,887,604	9%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 48 percent of the Municipality's total revenue came from taxes, while 39 percent resulted from grants and contributions, including federal aid. Charges for Services provide 8 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government (37%), and health and welfare services (34%). As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 3,667,541	\$ 3,867,184	\$ (199,643)	(5%)
Operating grants and contributions	10,165,294	10,169,450	(4,156)	-
Capital grants and contributions	4,473,521	2,795,326	1,678,195	60%
General revenues:				
Property taxes	11,607,107	12,039,837	(432,730)	(4%)
Municipal license tax	5,582,346	5,630,908	(48,562)	(1%)
Municipal sales and use tax	3,883,135	3,759,491	123,644	3%
Grants and contributions not restricted to specific programs	3,909,268	3,586,278	322,990	9%
Other local taxes	1,732,320	1,018,759	713,561	70%
Interest and investment earnings	875,502	1,246,431	(370,929)	(30%)
Miscellaneous	1,351,492	380,417	971,075	255%
Total revenues	47,247,526	44,494,081	2,753,445	6%
Expenses:				
General government	15,284,708	14,134,512	1,150,196	8%
Public safety	1,380,423	1,971,874	(591,451)	(30%)
Public works	4,497,102	4,038,603	458,499	11%
Health and welfare	14,077,874	12,614,842	1,463,032	12%
Culture and recreation	685,321	933,874	(248,553)	(27%)
Economic development	240,186	508,343	(268,157)	(53%)
Community development	1,228,090	605,634	622,456	103%
Urban development	53,849	32,410	21,439	66%
Education	2,307,684	1,352,498	955,186	71%
Interest on long-term debt	1,604,685	1,816,376	(211,691)	(12%)
Total expenses	41,359,922	38,008,966	3,350,956	9%
Change in net assets	5,887,604	6,485,115	(597,511)	(9%)
Net assets, beginning as restated	62,776,808	56,291,693	6,485,115	12%
Net assets, end of year	\$ 68,664,412	\$ 62,776,808	\$ 5,887,604	9%

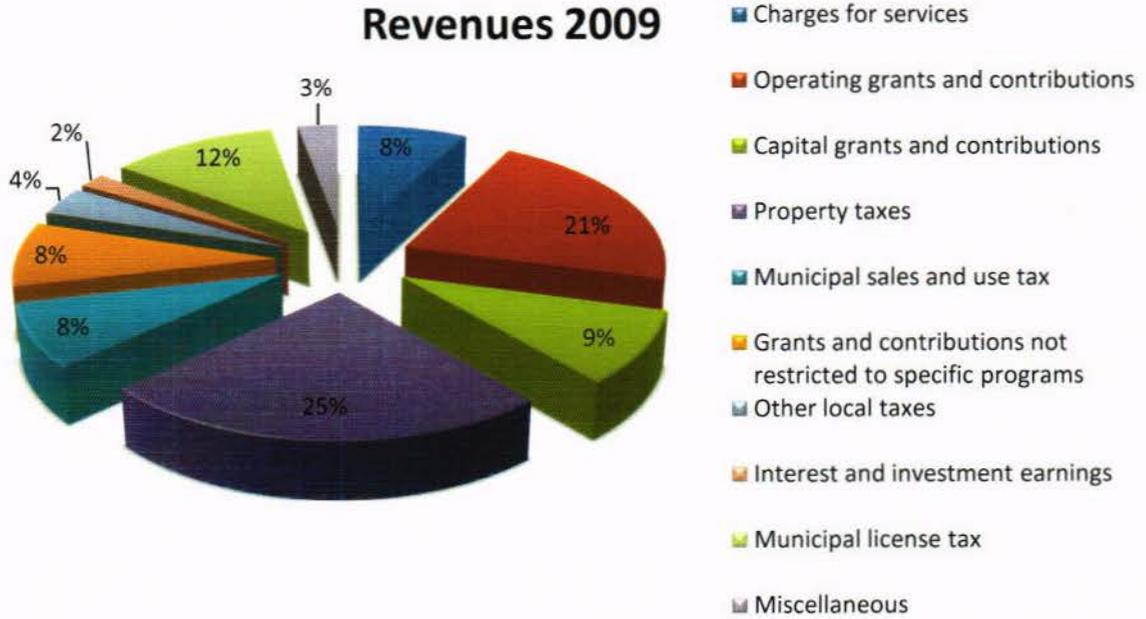
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

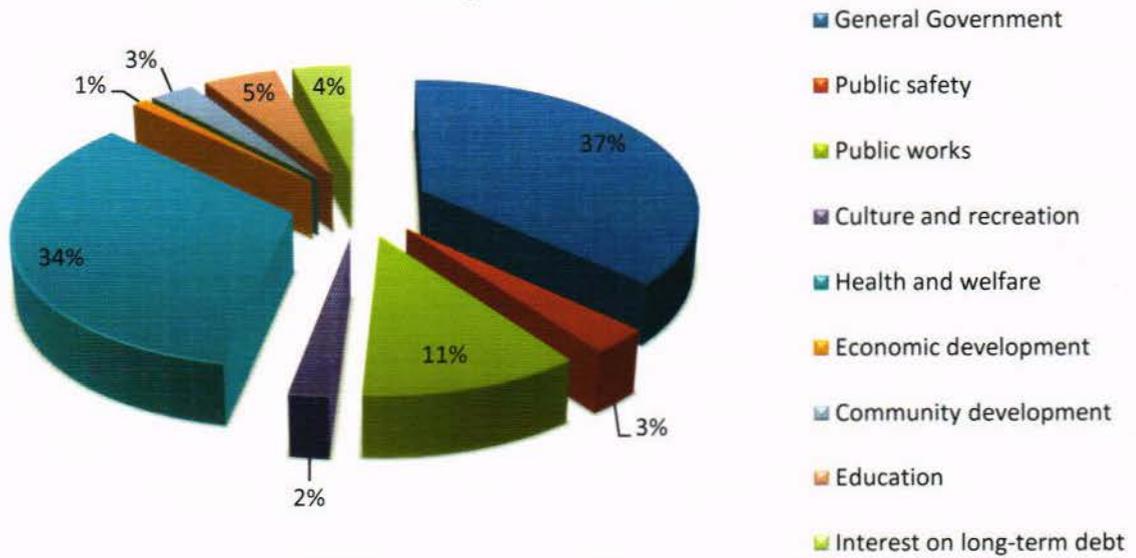
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$33,848,711, an increase of \$478,657 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$30,298,472. This is the fund balance that it is not available for new spending because it has already been committed 1) \$2,884,873 to liquidate contracts and purchase orders of the prior fiscal year, 2) \$5,281,480 to pay debt service, 3) \$15,998,719 to pay for capital projects, and 4) \$6,133,400 for other purposes.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2009, the general fund has an undesignated fund balance of \$3,550,239.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of \$9,566,110, caused mainly due to unexpected variances in revenue and expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounts to \$119,011,247, with an accumulated depreciation of \$32,577,994 (including depreciation charges for the year totaled \$2,812,967), leaving a net book value of \$86,433,253. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2009, the Municipality has \$6,835,984 of unexpended proceeds mainly from bonds and notes issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2009-2010.

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Cayey** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Cayey** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies. The Municipality assigned the totally funds \$1,578,947 for infrastructure projects.

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINAL COMMENTS (CONTINUED)

General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Assets as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Cayey
Statement of Net Assets
June 30, 2009

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 23,212,173
Cash with fiscal agent	12,153,203
Accounts receivable:	
Municipal license tax	16,344
Municipal sales and use tax	261,640
Intergovernmental	676,854
Federal grants	355,741
Others	1,416
Notes receivable	244,409
Other assets	6,608,954
Capital assets	
Land, improvements, and construction in progress	37,592,693
Other capital assets, net of depreciation	48,840,560
Total capital assets	<u>86,433,253</u>
Total assets	<u>129,963,987</u>
Liabilities	
Accounts payable and accrued liabilities	11,007,111
Due to other governmental entities	1,050,131
Deferred revenues:	
Municipal license tax	4,929,672
Federal grant revenues	784,802
Noncurrent liabilities:	
Due within one year	4,765,106
Due in more than one year	38,762,753
Total liabilities	<u>61,299,575</u>
Net Assets	
Invested in capital assets, net of related debt	55,274,253
Restricted for:	
Capital projects	15,998,719
Debt service	5,281,480
Other purposes	6,133,400
Unrestricted (deficit)	<u>(14,023,440)</u>
Total net assets	<u>\$ 68,664,412</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Cayey
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 15,284,708	\$ 4,628	\$ -	\$ -	\$ (15,280,080)
Public safety	1,380,423	151,973	247,632		(980,818)
Public works	4,497,102	134,356	870,571	2,370,184	(1,121,991)
Health and welfare	14,077,874	2,685,370	8,663,521	6,021	(2,722,962)
Culture and recreation	685,321		19,776	401,554	(263,991)
Economic development	240,186	691,214	160,498		611,526
Community development	1,228,090			1,666,169	438,079
Urban development	53,849			29,593	(24,256)
Education	2,307,684		203,296		(2,104,388)
Interest on long-term debt	1,604,685				(1,604,685)
Total governmental activities	\$ 41,359,922	\$ 3,667,541	\$ 10,165,294	\$ 4,473,521	(23,053,566)

General revenues:	
Property taxes	11,607,107
Municipal license tax	5,582,346
Municipal sales and use tax	3,883,135
Other local taxes	1,732,320
Grants and contributions not restricted to specific programs	3,909,268
Interest and investment earnings	875,502
Miscellaneous	1,351,492
Total general revenues	28,941,170
Change in net assets	5,887,604
Net assets - beginning, as restated	62,776,808
Net assets - ending	\$ 68,664,412

**Commonwealth of Puerto Rico
Municipality of Cayey
Balance Sheet
Governmental Funds
June 30, 2009**

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 13,162,094	\$ 4,924,842	\$ 385,788	\$ 3,737,833	\$ -	\$ 1,001,616	\$ 23,212,173
Cash with fiscal agent		589,173		6,512,909	4,728,046	323,075	12,153,203
Accounts receivable:							
Municipal license tax	16,344						16,344
Municipal sales and use tax	261,640						261,640
Intergovernmental	1,720	121,700			553,434		676,854
Federal grants			220,056			135,685	355,741
Others	1,416						1,416
Due from other funds	165,715					129,706	295,421
Notes receivable						244,409	244,409
Other assets				5,225,000			5,225,000
Total assets	\$ 13,608,929	\$ 5,635,715	\$ 605,844	\$ 15,475,742	\$ 5,281,480	\$ 1,834,491	\$ 42,442,201
Liabilities and Fund Balances							
Liabilities :							
Accounts payable and accrued liabilities	\$ 796,666	\$ 29,132	\$ 398,621	\$ 105,007	\$ -	\$ 202,318	\$ 1,531,744
Due to other governmental entities	1,050,131						1,050,131
Due to other funds	129,407	135,117				30,897	295,421
Deferred revenues:							
Municipal license tax	4,929,672						4,929,672
Intergovernmental	1,720						1,720
Federal grant revenues			207,223			577,579	784,802
Total liabilities	6,907,596	164,249	605,844	105,007	-	810,794	8,593,490
Fund balances:							
Reserved for:							
Encumbrances	2,884,873						2,884,873
Capital projects				15,370,735			15,370,735
Debt service fund					5,281,480		5,281,480
Other purposes	266,221	5,471,466					5,737,687
Reserved reported in nonmajor funds:							
Capital projects						627,984	627,984
Other purposes						395,713	395,713
Unreserved:							
Undesigned	3,550,239						3,550,239
Total fund balances	6,701,333	5,471,466	-	15,370,735	5,281,480	1,023,697	33,848,711
Total liabilities and fund balances	\$ 13,608,929	\$ 5,635,715	\$ 605,844	\$ 15,475,742	\$ 5,281,480	\$ 1,834,491	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	86,433,253
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(43,527,859)
Accrual basis of accounting accounts payable recognized in government-wide financial statements	(9,475,367)
Other assets reported in statement of net assets and not reported in funds	1,383,954
Liabilities reported in funds and not reported in statement of net assets	1,720
Net assets of governmental activities	\$ 68,664,412

Commonwealth of Puerto Rico
Municipality of Cayey
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 8,617,590	\$ -	\$ -	\$ -	\$ 3,384,470	\$ -	\$ 12,002,060
Municipal license taxes	5,582,346						5,582,346
Municipal sales and use tax	3,268,013				615,121		3,883,134
Licenses, permits and other local taxes	1,743,425						1,743,425
Charges for services	2,690,141						2,690,141
Intergovernmental	3,909,268	2,393,204		2,641,658			8,944,130
Fines and forfeitures	131,223						131,223
Rent of property	835,072						835,072
Interest	875,502						875,502
Federal grants			6,033,265			3,530,315	9,563,580
Miscellaneous	413,406	58,560				40,373	512,339
Total revenues	28,065,986	2,451,764	6,033,265	2,641,658	3,999,591	3,570,688	46,762,952
Expenditures							
Current:							
General government	14,563,091	1,587,153					16,150,244
Public safety	1,105,069	174,132				149,863	1,429,064
Public works	3,844,475	931,688		1,977,709		135,228	6,889,100
Health and welfare	4,679,438	798,818	6,033,265			2,078,686	13,590,207
Culture and recreation	1,008,847	46,232		532,047			1,587,126
Economic development		160,498		79,577			240,075
Community development	306,365	199,077				547,057	1,052,499
Urban development						29,592	29,592
Education	497,346	1,291,267		521,090			2,309,703
Debt service:							
Principal					2,917,000		2,917,000
Interest					1,604,685		1,604,685
Total expenditures	26,004,631	5,188,865	6,033,265	3,110,423	4,521,685	2,940,426	47,799,295
Excess (deficiency) of revenues over (under) expenditures	2,061,355	(2,737,101)	-	(468,765)	(522,094)	630,262	(1,036,343)
Other financing sources (uses)							
Transfers in	15,725			173,895	739,747	10,121	939,488
Transfers out	(334,282)	(15,725)				(589,481)	(939,488)
Long-term debt issued				1,515,000			1,515,000
Total other financing sources (uses)	(318,557)	(15,725)	-	1,688,895	739,747	(579,360)	1,515,000
Net change in fund balances	1,742,798	(2,752,826)	-	1,220,130	217,653	50,902	478,657
Fund balance, beginning as restated	4,958,535	8,224,292		14,150,605	5,063,827	972,795	33,370,054
Fund balance, ending	\$ 6,701,333	\$ 5,471,466	\$ -	\$ 15,370,735	\$ 5,281,480	\$ 1,023,697	\$ 33,848,711



Commonwealth of Puerto Rico
Municipality of Cayey
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 478,657
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	13,642,700
Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period.	1,053
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Changes in Net Assets.	(48,466)
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(2,812,967)
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt service principal payments exceed debt proceeds.	1,402,000
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term property tax advance debt from prior year.	122,205
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year.	259,280
Retirement System Administration-Special Laws debt increase long-term liabilities in the Government-Wide statement of Net Assets. The following amount represent the change in long-term Retirement System Administration -Special Laws	(123,006)
Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year.	(1,005,669)
Long-term landfill obligation is reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, landfill obligation is not reported as expenditures in Government Funds. The following amount represent the change in long-term landfill obligation from prior year.	(87,140)
Repayment of long term Puerto Rico Electric Power Authority (PREPA) is an expenditure in Governmental Funds, but the repayment reduces long term PREPA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term PREPA debt from prior year.	31,199
Repayment of long term Land Information Management System (LIMS) is an expenditure in Governmental Funds, but the repayment reduces long term LIMS in the Government-Wide Statement of Net Assets. The following amount represent the change in long term LIMS debt from prior year.	86,173
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. The following amount represents the change in this revenues from prior year.	(394,954)
Expenses reported in the Governmental Funds but not reported in the Government-Wide Statement of Activities and Change in Net Assets because they must be capitalized	1,383,954
Expenses reported in the Government-Wide Statement of Activities and Change in Net Assets, but not reported as in the Governmental Funds because they do not require the use of current financial resources. The following amount represents the change in this expenses from prior year.	(7,047,415)
Change in Net Assets of Governmental Activities	\$ 5,887,604

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Cayey** (Municipality) was founded on the year 1773. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

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

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

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

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

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

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

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - State & Local Grants- is the accounting entity in which revenues derived from local funds and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

Special Revenue Fund - Head Start- is the accounting entity, in which revenues derived from head start and child and adult care food program grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund - State & Local Grants - is the accounting entity in which revenues derived from local funds, and state grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

C. Financial reporting presentation

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

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

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

Special Revenue Fund – Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Head Start - Special Revenue Funds are used to account for revenues derived from head start and child and adult care food program funds. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

Capital Projects Fund - Federal Grants - Capital Project Fund are used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

Property taxes, other taxes, licenses, 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. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("USGAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

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

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM), related to preliminary liquidation. Intergovernmental and federal grant receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state founded programs. Intergovernmental receivable in the debt service fund represent the distribution of property tax collected by the CRIM which is restricted for the debt service.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

4. Capital assets- Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. Long-term obligations- The liabilities reported in the government-wide financial statements include the general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.
8. **Reservations of fund balance-** Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
- a. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - b. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

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

- b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

11. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2009 to \$592,036. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$605,675 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

12. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds", and that 'capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 86,433,253	
Deduct:		
Bonds Payable	(27,354,000)	
Notes Payable	<u>(3,805,000)</u>	\$ 55,274,253
<u>Net assets restricted for capital projects</u>		
Capital projects fund - state & local grants - fund balance restricted for capital projects		15,998,719
<u>Net assets restricted for debt service</u>		
Debt service fund - fund balance		5,281,480
<u>Net assets restricted for other purposes</u>		
General fund - fund balance restricted for other purposes	266,221	
Special revenue fund - state & local grants- fund balance restricted for other purpose	5,471,466	
Other governmental funds - fund balance restricted for other purpose	<u>395,713</u>	6,133,400
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$ 6,701,333	
Add:		
Accrual basis account receivable	1,720	
Accrual basis other asset	1,383,954	
Deduct:		
Accrual basis accounts payable	(9,475,367)	
Fund balance restricted for other purposes	(266,221)	
Advances from CRIM	(4,308,335)	
Compensated absences	(3,063,246)	
Due to other governmental entity	(1,257,942)	
Claims and judgments	(2,270,522)	
LIMS repayment plan	(238,889)	
Retirement System Administration-Special laws	(123,006)	
Landfill obligation	<u>(1,106,919)</u>	<u>(14,023,440)</u>
Total net assets - governmental activities		\$ 68,664,412

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

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 investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk – In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$13,162,094, \$4,924,842, \$385,788, \$3,737,833 in the general fund, special revenue fund-state and local grants, special revenue fund – Head Start, and capital project fund – state and local grants, respectively, were fully collateralized at June 30, 2009. In the other governmental funds were deposits with commercial banks of approximately \$1,001,616 that were fully collateralized.

The deposits at GDB of \$589,173 that is restricted for other purposes in the special revenue fund-state and local grants, the \$6,512,909 that is restricted principally for capital projects in the capital project fund – state and local grants, the \$4,728,046 in the debt service fund, and the \$323,075 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

- a. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable of \$16,344 represents filed municipal license tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

- b. **Municipal Sales and Use Tax-** On July 29, 2007, an amendment to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.1%), the Municipal Redemption Fund (.3%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$261,640 represents filed municipal sales and use tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

c. **Intergovernmental Receivables**

Intergovernmental receivable in special revenue fund - state & local grants represents expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Health	\$ 121,700
Total	<u>\$ 121,700</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

Intergovernmental receivable in the debt service fund represents property tax receivable at June 20, 2009. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 553,434
Total	<u>\$ 553,434</u>

d. Federal Grants Receivable

Federal grants receivable in special revenue fund - Head Start represents expenditures incurred not yet reimbursed by the pass-through grantor. Following is a detail of the federal grants receivable:

<u>Program Description</u>	<u>Amount</u>
Child and Adult Care Food Program	\$ 220,056
Total	<u>\$ 220,056</u>

Federal grants receivable in other governmental funds represents expenditures incurred not yet reimbursed by the Federal government or the pass-through grantors. Following is a detail of the federal grants receivable:

<u>Program Description</u>	<u>Amount</u>
Disaster Grants-Public Assistance	\$ 109,875
Community Development Block Grant	19,881
Others	<u>5,929</u>
Total	<u>\$ 135,685</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund- State & Local Grants	Payrolls, accruals, and other expenditures not reimbursed	\$ 135,117
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	30,598
Other Governmental Funds	General Fund	Reimbursable Expenditures	129,407
Other Governmental Funds	Other Governmental Funds	Reimbursable Expenditures	<u>299</u>
Total			<u>\$ 295,421</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS (CONTINUED)

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt Retirement	160,387
General Fund	Capital Projects Funds - State & Local Grants	Transfer of funds for special purpose	173,895
Other Governmental Funds	Debt Service Fund	Debt Retirement	579,360
Special Revenue Funds- State & Local Grants	General Fund	Transfer of funds for special purpose	15,725
Other Governmental Funds	Other Governmental Funds	Transfer of funds for special purpose	<u>10,121</u>
Total			<u>\$ 939,488</u>

5. NOTES RECEIVABLE

At June 30, 2009, the notes receivable are composed of the following:

<u>Description</u>	<u>Amount</u>
Note receivable from "Cooperativa Agro-Comercial de P.R., La Marquetin", in the original amount of \$ 740,000, to be collected as follows:	
1. Monthly interest payments of \$ 1,850, at 3% annual interest rate, from the first through the end of the fifth year;	
2. Monthly installments of \$ 5,110, including interest at 3%, starting on the sixth year through year 2011.	<u>\$ 244,409</u>
Total	<u>\$ 244,409</u>

6. OTHER ASSETS

Other assets amounting to \$5,225,000 in the capital projects fund - state & local grants, and amounting to \$6,608,954 in the statement of net assets, represent amount consigned in the state court for the acquisition of real property by expropriation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2008, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$ 20,262,357	\$ 3,393,299	\$ -	\$ 23,655,656
Construction in progress	<u>24,809,656</u>	<u>7,432,941</u>	<u>(18,305,560)</u>	<u>13,937,037</u>
Total capital assets not being depreciated	<u>45,072,013</u>	<u>10,826,240</u>	<u>(18,305,560)</u>	<u>37,592,693</u>
Capital assets, being depreciated:				
Buildings and buildings improvements	31,062,822	16,722,105		47,784,927
Equipment	4,898,534	979,881	(53,048)	5,825,367
Infrastructure and infrastructure improvements	15,200,464	2,914,930		18,115,394
Work of art	7,350			7,350
Vehicles	<u>9,211,263</u>	<u>506,157</u>	<u>(31,904)</u>	<u>9,685,516</u>
Total capital assets being depreciated	<u>60,380,433</u>	<u>21,123,073</u>	<u>(84,952)</u>	<u>81,418,554</u>
Less accumulated depreciation for:				
Buildings and buildings improvements	(13,973,565)	(561,452)	7,241	(14,527,776)
Equipment	(2,311,008)	(867,138)		(3,178,146)
Infrastructure and infrastructure improvements	(6,378,362)	(595,731)		(6,974,093)
Work of art	(1,347)	(735)		(2,082)
Vehicles	<u>(7,137,231)</u>	<u>(787,911)</u>	<u>29,245</u>	<u>(7,895,897)</u>
Total accumulated depreciation	<u>(29,801,513)</u>	<u>\$ (2,812,967)</u>	<u>\$ 36,486</u>	<u>(32,577,994)</u>
Total capital assets being depreciated, net	<u>30,578,920</u>	<u>18,310,106</u>	<u>(48,466)</u>	<u>48,840,560</u>
Governmental activities capital assets, net	<u>\$ 75,650,933</u>	<u>\$ 29,136,346</u>	<u>\$ (18,354,026)</u>	<u>\$ 86,433,253</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 1,038,056
Public safety	110,838
Public works	997,864
Community development	121,698
Culture and recreation	264,569
Health and welfare	246,248
Urban development	24,256
Economic development	111
Education	<u>9,327</u>
Total depreciation expense-governmental activities	<u>\$ 2,812,967</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund - State & Local Grants</u>	<u>Special Revenue Fund - Head Start</u>	<u>Capital Projects Fund - State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 320,692	\$ 29,132	\$ 398,621	\$ 105,007	\$ -	\$ 202,318	\$1,055,770
Accrued liabilities	<u>475,974</u>	-	-	-	-	-	<u>475,974</u>
Total	<u>\$ 796,666</u>	<u>\$ 29,132</u>	<u>\$ 398,621</u>	<u>\$ 105,007</u>	<u>\$ -</u>	<u>\$ 202,318</u>	<u>\$1,531,744</u>

9. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	59,715
Puerto Rico Telephone Company	36,870
Department of Treasury	532,043
Internal Revenue Service	88,462
Department of Labor and Human Resources	15,395
General Service Administration	250
Puerto Rico Electric Power Authority	<u>317,396</u>
Total	<u>\$ 1,050,131</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED)

During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System - LIMS, contracted by the CRIM. A total of \$777,289 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2009, the outstanding debt balance was \$ 238,889. This amount will be presented in the government wide statement of net assets.

10. DEFERRED REVENUES

a. **Municipal License Tax-** The deferred revenues of \$ 4,929,672 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

b. **Federal Grants-** The deferred revenues presented in special revenue fund - head start represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the pass-through grantors are as follows:

<u>Program Description</u>	<u>Amount</u>
Head Start Program	\$ 207,223
Total	<u>\$ 207,223</u>

The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government or the pass-through grantors are as follows:

<u>Program Description</u>	<u>Amount</u>
Special Program for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	\$ 67,237
Disaster Grants-Public Assistance	318,219
Public and Indian Housing	135,466
Others	<u>56,657</u>
Total	<u>\$ 577,579</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. PROPERTY TAXES

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. 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 tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the preliminary liquidation noting that the collections exceeded advances by \$ 1,720. In the governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. PROPERTY TAXES (CONTINUED)

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

The Statement of Net Assets includes an outstanding debt balance of \$3,917,023 and \$391,312, respectively, related to Law No. 42 and Law No. 146.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. PROPERTY TAXES (CONTINUED)

The annual tax rate is 9.33% for real property and 7.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

12. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$28,201,000	\$ 1,010,000	\$ (1,857,000)	\$27,354,000	\$2,054,000
Notes Payable	4,360,000	505,000	(1,060,000)	3,805,000	870,000
Advances from CRIM	4,430,540	5,082	(127,287)	4,308,335	97,404
Compensated Absences	3,322,526	101,211	(360,491)	3,063,246	375,000
Due to Other Governmental Entity	1,289,141		(31,199)	1,257,942	52,157
Claims and Judgments	1,264,853	1,341,853	(336,184)	2,270,522	1,146,431
LIMS Repayment Plan Retirement System	325,062		(86,173)	238,889	91,376
Administration-Special Laws		123,006		123,006	66,290
Landfill Obligation	<u>1,019,779</u>	<u>87,140</u>	<u>-</u>	<u>1,106,919</u>	<u>12,448</u>
Total	<u>\$44,212,901</u>	<u>\$ 3,173,292</u>	<u>\$ (3,858,334)</u>	<u>\$43,527,859</u>	<u>\$4,765,106</u>

- a. **Legal debt margin**-The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues if the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
- b. **Bonds Payable** -The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and construction of major capital facilities. During the current year, the Municipality issued bonds for \$1,010,000. Bonds payable outstanding at June 30, 2009 are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. LONG-TERM LIABILITIES (CONTINUED)

<u>Type of bonds</u>	<u>Maturity date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2009</u>
1994 Series	1-1-18	663,000	5.0%	\$ 350,000
1994 Series	1-1-18	465,000	5.0%	240,000
1998 Series	7-1-22	1,015,000	4.9% to 6.7%	780,000
1998 Series	7-1-13	1,990,000	4.9% to 6.7%	885,000
1999 Series	7-1-13	355,000	4.9% to 6.7%	160,000
1999 Series	7-1-13	3,705,000	4.9% to 6.7%	1,700,000
1999 Series	7-1-12	725,000	2.7% to 7.3%	285,000
1999 Series	7-1-23	685,000	2.7% to 7.3%	540,000
2000 Series	7-1-19	355,000	2.7% to 7.8%	255,000
2000 Series	7-1-14	1,765,000	2.7% to 7.8%	940,000
2001 Series	7-1-25	270,000	2.7% to 6.1%	230,000
2001 Series	7-1-25	1,010,000	2.7% to 6.1%	865,000
2002 Series	7-1-16	255,000	2.7% to 5.0%	170,000
2002 Series	7-1-16	1,120,000	2.7% to 5.0%	745,000
2002 Series	7-1-18	835,000	2.7% to 5.1%	610,000
2002 Series	7-1-16	125,000	2.7% to 5.0%	90,000
2002 Series	7-1-26	255,000	2.7% to 5.6%	220,000
2003 Series	7-1-17	235,000	4.2% to 5.0%	165,000
2003 Series	7-1-17	325,000	4.2% to 5.0%	230,000
2003 Series	7-1-17	85,000	4.2% to 5.0%	55,000
2003 Series	7-1-27	1,110,000	4.2% to 5.3%	980,000
2003 Series	7-1-27	1,415,000	4.2% to 5.3%	1,245,000
2003 Series	7-1-18	205,000	4.2% to 5.3%	175,000
2004 Series	7-1-13	120,000	4.2% to 5.0%	70,000
2004 Series	7-1-18	205,000	2.4% to 4.8%	155,000
2004 Series	7-1-28	140,000	2.4% to 5.3%	90,000
2004 Series	7-1-14	140,000	3.3% to 4.7%	115,000
2005 Series	7-1-29	160,000	3.3% to 5.3%	140,000
2005 Series	7-1-24	330,000	4.2% to 5.3%	290,000
2005 Series	7-1-29	1,210,000	4.2% to 5.3%	1,100,000
2005 Series	7-1-14	1,230,000	3.3% to 4.7%	810,000
2005 Series	7-1-14	1,698,000	3.2% to 5.0%	1,229,000
2006 Series	7-1-20	125,000	6.3% to 7.3%	110,000
2006 Series	7-1-30	135,000	4.2% to 5.3%	120,000
2006 Series	7-1-30	145,000	4.2% to 5.3%	130,000
2006 Series	7-1-30	305,000	4.2% to 5.3%	290,000
2006 Series	7-1-25	905,000	4.2% to 5.3%	825,000
2006 Series	7-1-20	1,010,000	4.2% to 4.8%	865,000
2006 Series	7-1-30	5,755,000	6.3% to 7.2%	5,445,000
2007 Series	7-1-16	1,010,000	6.6% to 7.3%	860,000
2007 Series	7-1-10	825,000	3.93% to 7.50%	570,000
2008 Series	7-1-32	1,235,000	3.93% to 7.25%	1,215,000
2009 Series	7-1-19	1,010,000	2.43% to 7.25%	<u>1,010,000</u>
Total general obligation bonds				<u>\$ 27,354,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 2005 Series \$ 1,698,000 bond, are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2005 Series \$ 1,698,000 bond is payable with General Fund resources.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,054,000	\$ 1,290,859
2011	2,186,000	1,372,056
2012	2,029,000	1,253,804
2013	2,177,000	1,140,309
2014	2,220,000	1,020,864
2015-2019	7,073,000	3,792,699
2020-2024	4,345,000	2,235,350
2025-2029	3,870,000	1,000,341
2030-2034	<u>1,400,000</u>	<u>118,807</u>
Total	<u>\$ 27,354,000</u>	<u>\$ 13,225,089</u>

- c. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2009</u>
2003 Series	7-1-09	1,030,000	4.2% to 5.0%	\$ 180,000
2003 Series	7-1-09	745,000	4.2% to 5.0%	130,000
2004 Series	7-1-10	180,000	4.2% to 5.0%	60,000
2005 Series	7-1-09	135,000	3.3% to 4.4%	30,000
2007 Series	7-1-13	495,000	6.6% to 7.3%	380,000
2009 Series	7-1-16	505,000	2.43% to 7.25%	505,000
Section 108 - 2000 Series	8-1-14	1,670,000	6.2% to 6.5%	680,000
Section 108 - 2000 Series	8-1-15	4,225,000	6.2% to 6.5%	<u>1,840,000</u>
Total notes payable				<u>\$ 3,805,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. LONG-TERM LIABILITIES (CONTINUED)

Except for the Section 108 notes, which are payable with Community Development Block Grant - Entitlement Program and General Fund sources of revenues, these notes are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. During the current year, the Municipality issued notes for \$505,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 870,000	\$ 225,200
2011	535,000	200,231
2012	515,000	161,926
2013	525,000	123,209
2014	540,000	83,191
2015-2019	<u>820,000</u>	<u>57,833</u>
Total	<u>\$ 3,805,000</u>	<u>\$ 851,590</u>

- d. **Advances from CRIM-** This amount represents the balance owed to the CRIM at June 30, 2009 will be repaid through a financing obtained by the CRIM with GDB.
- e. **Compensated Absences-** The government-wide statement of net assets includes approximately \$1,506,113 of accrued sick leave benefits, and approximately \$1,557,133 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- f. **Due to Other Governmental Entity-** This amount represents the balance owed to the Puerto Rico Electric Power Authority (PREPA) at June 30, 2009, resulting from prior year's excess of electricity consumption over in lieu of payment of taxes.
- g. **LIMS Repayment Plan-** This amount represents the balance owed to the CRIM at June 30, 2009, as described in Note 11.
- h. **Retirement System Administration Special Law -Payment Plan-** This amount represents the amount owed by the Municipality to the Retirement System Administration for the increase in benefits to employees as per various laws approved between 2002 and 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. LONG-TERM LIABILITIES (CONTINUED)

- i. **Landfill Obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

Based on this study, the Municipality has recognized \$ 1,106,919 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2009. The annual estimate of post closure costs has been assessed approximately to be \$15,500 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

13. PENSION PLAN

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

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. PENSION PLAN (CONTINUED)

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2009 recorded as pension expenditures were approximately \$ 450,939. This amount represented 100% of the required contribution.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. RISK MANAGEMENT

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

15. COMMITMENTS AND CONTINGENCIES

a. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2009, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

b. Claims and lawsuits:

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$2,270,522 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

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

17. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund - Head Start	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$4,863,457	\$ 8,288,223	\$ -	\$14,121,778	\$ 5,063,827	\$ 972,795	\$33,310,080
To reclassify accounts payable		(63,931)		63,931			-
To adjust inter-fund transaction	95,078			(35,104)		(59,974)	-
To correct prior year intergovernmental receivable	-	-	-	-	-	59,974	59,974
Fund balance, beginning as restated	<u>\$4,958,535</u>	<u>\$ 8,224,292</u>	<u>\$ -</u>	<u>\$14,150,605</u>	<u>\$ 5,063,827</u>	<u>\$ 972,795</u>	<u>\$33,370,054</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

17. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 62,716,834
To correct prior year intergovernmental receivable	<u>59,974</u>
Net assets, beginning as restated	<u>\$ 62,776,808</u>

18. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Cayey** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. The Municipality expects funding to be awarded and expended in the following fiscal year 2009-2010.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan are to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Cayey** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies. The Municipality assigned the \$1,578,947 for infrastructure projects.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 7,697,788	\$ 7,697,788	\$ 8,617,590	\$ 919,802
Municipal license tax	6,149,750	6,149,750	5,571,486	(578,264)
Municipal sales and use tax	3,450,000	3,450,000	3,268,014	(181,986)
Licenses, permits and other local taxes	1,560,500	1,560,500	1,743,425	182,925
Intergovernmental	3,700,758	3,700,758	3,909,268	208,510
Charges for services	3,759,194	3,759,194	5,852,648	2,093,454
Fines and forfeitures	80,000	80,000	131,223	51,223
Interest	1,320,000	1,320,000	875,502	(444,498)
Rent of property	961,000	961,000	835,072	(125,928)
Miscellaneous	<u>260,000</u>	<u>260,000</u>	<u>403,610</u>	<u>143,610</u>
Total revenues	28,938,990	28,938,990	31,207,838	2,268,848
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES				
Current:				
General government	15,583,964	15,333,358	9,905,384	5,427,974
Public safety	1,389,716	1,424,765	1,118,059	306,706
Public works	4,133,589	4,232,767	3,785,879	446,888
Culture and recreation	1,021,114	1,077,161	1,006,569	70,592
Health and welfare	5,608,039	5,517,828	4,713,417	804,411
Community development	381,333	381,981	306,365	75,616
Education	658,985	634,985	471,773	163,212
Operating transfer to other funds	<u>162,250</u>	<u>336,145</u>	<u>334,282</u>	<u>1,863</u>
Total expenditures, encumbrances and other financing sources	<u>\$ 28,938,990</u>	<u>\$ 28,938,990</u>	<u>21,641,728</u>	<u>7,297,262</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,566,110</u>	<u>\$ 9,566,110</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 31,207,838
Differences-budget to GAAP:				
GAAP adjustments to revenues				(3,157,577)
Non-budgeted transfer in				<u>15,725</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 28,065,986</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 21,641,728
Differences-budget to GAAP:				
Non-budgeted expenditures				1,272,691
Prior year encumbrances recorded as current year expenditures for GAAP basis				4,472,036
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,047,542)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 26,338,913</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>641,292</u>
Total U.S. Department of Agriculture			<u>641,292</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants - Entitlement Grants	14.218		1,126,417
Urban Development Action Grants	14.221		6,500
Emergency Shelter Grants Program	14.231		137,670
Public and Indian Housing	14.850		664,199
Section 8 Housing Choice Voucher	14.871		974,213
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	<u>29,193</u>
Total U.S. Department of Housing and Urban Development			<u>2,938,192</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Programs:			
Federal Transit - Formula Grants	20.507		<u>29,593</u>
Total U.S. Department of Transportation			<u>29,593</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office):			
Special Program for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	75,031
Pass-through the Commonwealth of Puerto Rico - Family Department:			
Child Care and Development Block Grant	93.575	Not Available	120,429
Head Start Program	93.600	Not Available	<u>5,410,936</u>
Total U.S. Department of Health and Human Services			<u>5,606,396</u>
U.S DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Disaster Grants - Public Assistance	97.036	Not Available	139,345

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico Governor Office - Public Security Affair Office: Homeland Security Grant Program	96.067	Not Available	<u>149,863</u>
Total U.S. Department of Homeland Security			<u>289,208</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,504,681</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

A. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Cayey** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue – Head Start, Debt Service Fund and in the Other Governmental Funds in the Municipality’s fund financial statements. The reconciliation between the expenditures in the funds financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Head Start	Debt Service Fund	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 6,033,265	\$ 579,360	\$ 2,892,056	\$ 9,504,681
Non federal programs expenditures and other adjustments	-	3,942,325	48,370	3,990,695
Total expenditures in the fund financial statements	<u>\$ 6,033,265</u>	<u>\$ 4,521,685</u>	<u>\$ 2,940,426</u>	<u>\$ 13,495,376</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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 the Municipal Legislature
Municipality of Cayey
Cayey, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cayey, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 17, 2009, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Municipality of Cayey's** ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Cayey's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Cayey's** internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, as item **09-01**.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Cayey's** internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

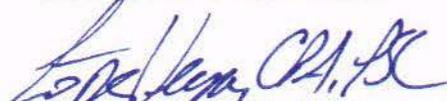
Compliance and Other Matters

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

We also noted certain other matters that we reported to management of the **Municipality of Cayey** in a separate letter dated November 17, 2009.

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

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 17, 2009

Stamp No. 2407048 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Cayey
Cayey, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Cayey** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **Municipality of Cayey's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Cayey's** management. Our responsibility is to express an opinion on the **Municipality of Cayey's** compliance based on our audit.

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

In our opinion, the **Municipality of Cayey** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **09-02** through **09-03**.

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

Internal Control Over Compliance

The management of the **Municipality of Cayey** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Cayey's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of Cayey's** internal control over compliance.

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **09-02** through **09-03** to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Cayey** in a separate letter dated March 19, 2010.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 19, 2010

Stamp No. 2407074 of the Puerto Rico
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grants – Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000	
Auditee qualified as low-risk auditee?	Yes	No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference	09-01
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality’s accounting system, we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds). Also, the Municipality’s accounting system did not provide to produce its Governmental Wide Financial Statements.
Criteria	Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality’s accounting data is not summarized in the form of a double-entry General Ledger record.
Effect of Condition	The Municipality’s accounting system did not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend to the Municipality’s Management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality maintains two set of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial records for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference

09-01 (Continued)

Nevertheless, as part of the corrective action plan, the Commissioner of Municipal Affairs (“OCAM”) consider alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date: Not available at this moment

Responsible Person: Mr. Edwin Quiles Rosario
Finance Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-02
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash management
Statement of Condition	<p>We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately \$371,856. Also, at June 30, 2009, the cash balance in books was \$399,547.</p> <p>In addition, the PHA maintained an average leasing rate of 76% instead a 95%, as required. This means that the Program did not use all vouchers approved to the Municipality.</p>
Criteria	<p>OMB Common Rules, Subpart C, Section .20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.</p> <p>Housing Choice Voucher Program Guidebook, Chapter 24, Section, 24.6 stated that a PHA must lease 95 percent of its units. A PHA with a utilization rate below 95 percent will not be identified as a high performer regardless of its overall score and will not be eligible to receive new unit's allocations.</p>
Cause of Condition	<p>The Municipality did not maintain appropriate cash management procedures in order to request funds to Federal agencies only for immediate needs. Also, the condition may be cause by cumulative effect of accounting errors in the past years.</p> <p>In addition, the Municipality did not maintain an occupancy rate of 95% during the fiscal year; however, it continued to receive funds consistent with a higher lease up.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-02 (Continued)**

Effect of Condition The Municipality is not in compliance with the OMB Common Rules, Subpart C, Section .20 (b) (7) and with the Housing Choice Voucher Program Guidebook, Chapter 24, Section, 24.6.

Recommendation We recommend to the Municipality's management to instruct the program accountant to review the accounting records and related transactions supporting documents for the past years, in order to identify the cash balance respects to its origin, and later, to make any necessary adjusting journal entries to correct accounting records.

Also, we recommend that the Municipality should improve its internal control and procedures in order to assure that the Program maintained an average leasing rate of 95%, as required by Federal regulation.

Questioned Costs None

**Management Response
And corrective action**

As part of our corrective action plan, the program accountant will be instructed according to the auditor's recommendation.

Implementation Date: April, 2010

Responsible Person: Mr. Edwin Quiles Rosario
Finance Department Director

Mr. Ramon Figueroa Cortés
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico – Family Department (ACUDEN)
Requirement	Cash Management
Statement of Condition	<p>We performed a cash management test and examined four (4) cash advances received by the Municipality during the fiscal year ended on June 30, 2009. Also, we verified the bank statements and cash reconciliation for that period. The following summarizes the situations found:</p> <ul style="list-style-type: none">a. The request of funds system maintained by the Municipality and the pass through agency did not provide the Program to disburse these cash advances received, on a reasonable lapse of time;b. The Municipality maintains an average cash balance of \$283,112 during the fiscal year ended on June 30, 2009.
Criteria	<p>OMB Common Rules, Subpart C, Section .20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.</p>
Cause of Condition	<p>The procedures established by ACUDEN in the agreement of delegation of funds do not provide a clause to comply with this requirement.</p>
Effect of Condition	<p>The Municipality is not in compliance with OMB Common Rules, Subpart C, Section .20 (b) (7).</p>
Recommendation	<p>We recommend management to require ACUDEN alternate methods to request cash in order to comply with this requirement.</p>
Questioned Costs	<p>None</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-02	14.218	<p><u>HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2008.</u></p> <p>Corrective action was taken.</p>
08-03	14.871	<p><u>During the cash management test, the auditors noted that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately \$241,416. Also, at June 30, 2008, the cash balance in books was \$352,134. Of this amount, \$211,617 represents the results of fiscal year 2007-2008 Program's operations, principally an excess of HAP revenues. The auditors could not identify the origin of the remaining \$140,517. In addition, the PHA maintained an average leasing rate of 79% instead a 95%, as required. This means that the Program did not use all vouchers approved to the Municipality.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-02.</p>
08-04	14.871	<p><u>The auditors performed an eligibility test of fifteen (15) participant's files and found the following exceptions: a) In two (2) participant's files, we noted that the PHA did not apply the Minimum Rent according the Administrative Plan; b) Four (4) participant's files did not include evidence of the birth certificate and the social security card of the participants; c) In five (5) cases, the third party evidence to support family annual income found in the participant's files did not agree with the family income reported in the Family Report, Form HUD-50058; d) In one (1) participant's file, we did not found evidence that demonstrate if the PHA, within a period of twelve (12) months, required the participant to update the third party verification, regarding to documents used for the HAP calculation; e) In two (2) cases, the PHA did not use an updated Utility Allowance Schedule for the HAP calculation; f) In one (1) case, the PHA did not use an updated Fair Market Rent Schedule for the HAP calculation; g) In one (1) participant's file, we found that the information</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>included in the contract used to calculate the utility allowance did not agree with the information included in the Family Report, Form HUD-50058. As result of the situations mentioned above, the Program paid an incorrect HAP to these owners and reimbursed an incorrect utility allowance to these participants</u></p> <p>Corrective action was taken.</p>
08-05	14.871	<p><u>The auditors did not obtain evidence that demonstrate that during the fiscal year ended on June 30, 2008, the Municipality (PHA) performed the quality control re-inspections.</u></p> <p>Corrective action was taken.</p>
08-06	93.600	<p><u>The auditors performed a cash management test and examined four (4) cash advances received by the Municipality during the fiscal year ended on June 30, 2008. Also, verified the bank statements and cash reconciliation for that period. The following summarizes the situations found: a) The request of funds system maintained by the Municipality and the pass through agency did not provide the Program to disburse these cash advances received, on a reasonable lapse of time; b)The Municipality maintains an average cash balance of \$247,907 during the fiscal year ended on June 30, 2008.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-03.</p>
07-05	14.871	<p><u>The auditors realized Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately \$116,031. Also, at June 30, 2007, the cash balance in book was \$140,517. The auditors did not identify the origin of those funds.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>Also, the PHA maintained an average leasing rate of 89% instead a 95%, as required. This means that the Program did not use all vouchers approved to the Municipality.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-02.</p>
07-06	14.871	<p><u>The auditors performed an eligibility test of fifteen (15) participant's files and found the following exceptions: (a) In four (4) cases, the PHA did not use an updated Fair Market Rent Schedule for the HAP calculation; (b) In two (2) cases, the PHA used an incorrect family income for the HAP calculation; (c) In one (1) case, the PHA did not use the minimum rent for the HAP calculation; (d) In one (1) case, the PHA used an incorrect utility allowance for the HAP calculation; (e) In one (1) case, the PHA assigned an incorrect handicap deduction for the participant. As result, the Program paid an incorrect HAP to the owner and reimbursed an incorrect utility allowance to the participant.</u></p> <p>Corrective action was taken.</p>
07-07	93.600	<p><u>The auditors realized cash management test and examined five (5) cash advances received by the Municipality during the fiscal year 2006-2007. Also, the auditors verified the bank statements and cash reconciliation for that period. The following summarizes the situations found: (a) The Municipality requested funds that were not disbursed on a reasonable lapse of time; (b) and in The Municipality maintains an average cash balance of \$115,229 during the fiscal year 2006-2007.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 09-03.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAYEY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-06	14.871	<p><u>During the test, the auditors noted that the PHA did not use an updated Fair Market Rent Schedule to calculate Housing Assistance Payment. As result, the Program paid an incorrect HAP to the owner and it caused differences in the amount of Tenants Rent to the owner.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>