

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

**MUNICIPIO DE CAYEY
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

**BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

Year Ended June 30, 2012



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Oficina del Comisionado
de Asuntos Municipales

Autonomous Municipality of Cayey
PO Box 371330, Cayey, Puerto Rico 00737
Hon. Rolando Ortíz Velázquez

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2012

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2012

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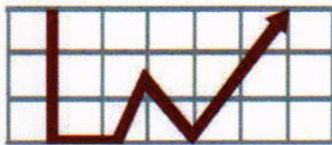
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- 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 **Autonomous Municipality of Cayey, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

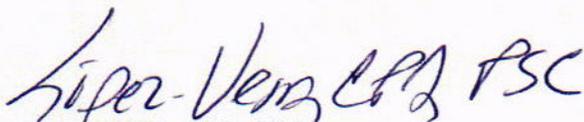
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Cayey, Puerto Rico**, as of June 30, 2012, 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 October 26, 2012, 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 should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

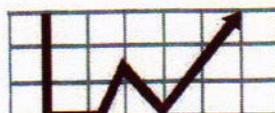
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Cayey's** basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepared the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 26, 2012

Stamp No. 2632072 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



Certified Public Accountants / Management Advisors

López-Vega, CPA, PSC

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

This discussion and analysis of the **Autonomous Municipality of Cayey** (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2012. 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, 2011. 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 2012 deserve special mention:

1. Total assets of the Municipality amounted to \$166,135,454 which represents a decrease of .4% compared to prior fiscal year.
2. At the end of fiscal year 2012, total liabilities amounted to \$69,302,507. Out of said amount, \$56,022,391 corresponded to long-term liabilities of which \$46,225,000 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 \$96,832,947 which represents a decrease of 1% compared to prior fiscal year, as restated.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL HIGHLIGHTS (CONTINUED)

4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$45,635,554 derived from the following sources: \$4,006,233 charges for services; \$9,642,271 from operating grants and contributions; \$2,178,288 from capital grants and contributions obtained from other sources, and \$29,808,762 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 \$46,423,010.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by \$787,456.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$38,242,213.
8. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$7,544,584, compared to a fund balance of \$7,705,600 in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in a favorable balance of \$4,203,766.

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 2012. 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
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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 **Autonomous Municipality of Cayey's** 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, 2012, shows total expenses incurred to afford the cost of all functions and programs amounted to \$46,423,010. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$15,826,792 was derived from the following sources: \$4,006,233 charges for services; \$9,642,271 from operating grants and contributions; and \$2,178,288 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$29,808,762. When such figure is added to the \$15,826,792 previously mentioned, total revenues available for the financing of activities amounted to \$45,635,554. There was a deficiency of revenues over expenses in the amount of \$787,456 which contributed with a decrease to the figure of net assets attained at the end of the fiscal year.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

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.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may be better understand the long-term impact of the Municipality's near term financial decisions. The Government Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

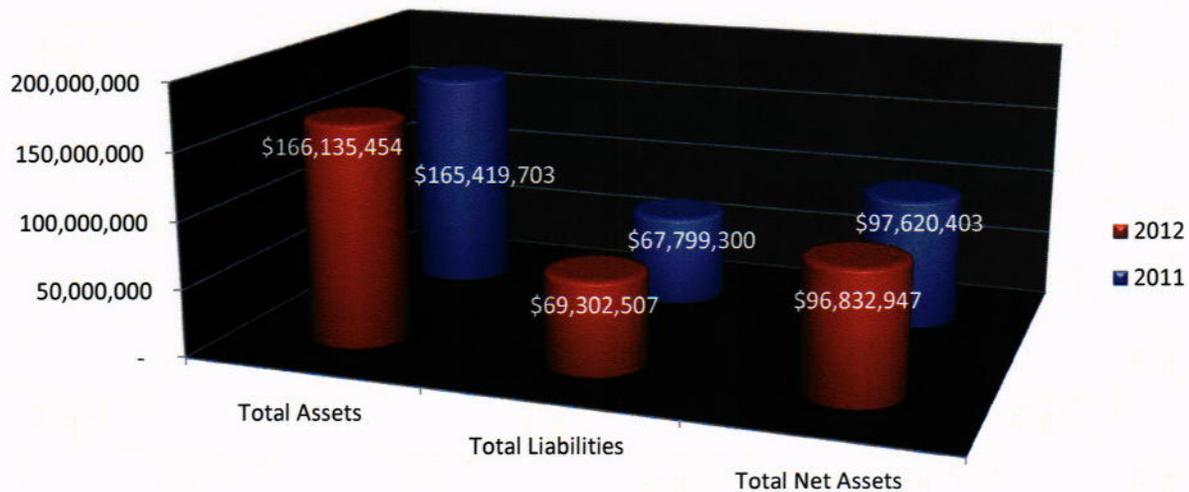
YEAR ENDED JUNE 30, 2012

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 **Autonomous Municipality of Cayey**, primary government assets exceeded total liabilities by \$96,832,947 at the end of 2012, compared to \$97,620,403 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Assets of the Primary Government.

Condense Statement of Net Assets	2012	2011	Change	%
Current and other assets	\$49,792,022	\$56,057,536	(\$6,265,514)	(11%)
Capital Assets	116,343,432	109,362,167	6,981,265	6%
Total Assets	166,135,454	165,419,703	715,751	.4%
Current and other liabilities	13,280,116	11,378,614	1,901,502	17%
Long-term liabilities	56,022,391	56,420,686	(398,295)	(1%)
Total Liabilities	69,302,507	67,799,300	1,503,207	2%
Invested in capital assets, net of related debt	70,118,432	63,313,167	6,805,265	11%
Restricted	35,179,940	38,086,835	(2,906,895)	(8%)
Unrestricted (deficit)	(8,465,425)	(3,779,599)	(4,685,826)	124%
Total net assets	\$96,832,947	\$97,620,403	\$ (787,456)	(1)%



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 53 percent of the Municipality's total revenue came from taxes, while 34 percent resulted from grants and contributions, including federal aid. Charges for Services provide 9 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 34 percent, and health and welfare services 32 percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condense Statement of Activities	2012	2011	Change	%
Program revenues:				
Charges for services	\$ 4,006,233	\$ 5,139,595	(1,133,362)	(22%)
Operating grants and contributions	9,642,271	10,557,778	(915,507)	(9%)
Capital grants and contributions	2,178,288	1,186,796	991,492	(83%)
General revenues:				
Property taxes	13,402,751	12,117,252	1,285,499	11%
Municipal license tax	6,478,433	6,287,583	190,850	3%
Municipal sales and use tax	4,068,231	3,933,643	134,588	3%
Grants and contributions not restricted to specific programs	4,097,607	4,068,683	28,294	1%
Other local taxes	423,155	669,560	(246,405)	(37%)
Interest and investment earnings	878,148	328,573	549,575	167%
Miscellaneous	460,437	747,871	(287,434)	(38%)
Total revenues	<u>45,635,554</u>	<u>45,037,334</u>	<u>598,220</u>	<u>(1%)</u>
Expenses:				
General government	\$15,713,218	15,242,949	470,269	3%
Public safety	802,986	914,041	(111,055)	(12)%
Public works	9,789,103	2,052,470	7,736,633	376%
Health and welfare	14,903,780	14,883,232	20,548	.1%
Culture and recreation	1,412,376	458,079	954,297	208%
Economic development	182,743	464,375	(281,632)	(61)%
Community development	491,711	171,472	320,239	187%
Urban development	314,267	57,879	256,388	443%
Education	923,043	550,736	372,307	68%
Interest on long-term debt	1,889,783	1,487,831	401,952	27%
Total expenses	<u>46,423,010</u>	<u>36,283,064</u>	<u>10,139,946</u>	<u>28%</u>
Change in net assets	(787,456)	8,754,270	(9,541,726)	(109)%
Net assets, beginning, as restated	<u>97,620,403</u>	<u>88,866,133</u>	<u>8,754,270</u>	<u>10%</u>
Net assets, end of year	<u>96,832,947</u>	<u>\$ 97,620,403</u>	<u>(787,456)</u>	<u>(1%)</u>

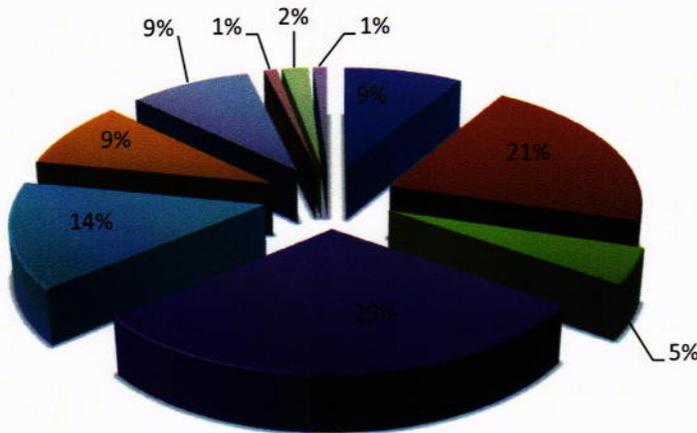
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

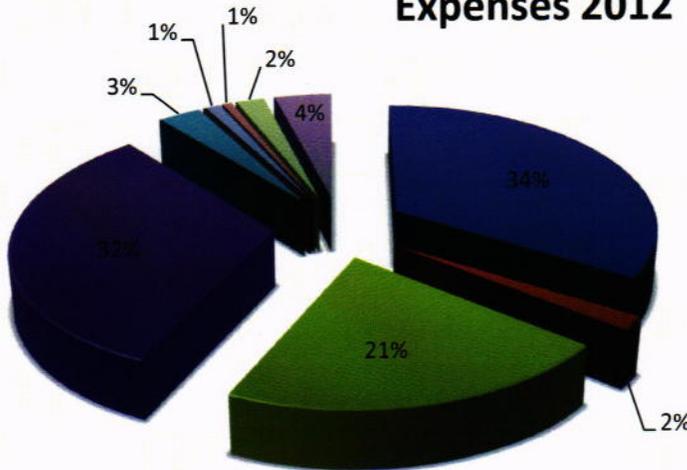
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2012



- Charges for services
- Operating grants and contributions
- Capital grants and contributions
- Property taxes
- Municipal license tax
- Municipal sales and use tax
- Grants and contributions not restricted to specific programs
- Other local taxes
- Interest and investment earnings
- Miscellaneous

Expenses 2012



- General Government
- Public safety
- Public works
- Health and welfare
- Culture and recreation
- Economic development
- Community development
- Urban development
- Education
- Interest on long-term debt

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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, unassigned 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 \$38,242,213, a decrease of \$7,550,222 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$35,179,940. The combined fund balances include restricted fund balance amounting to \$27,802,909. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$5,841,828); 2) to pay for capital projects (\$13,824,634); 3) to pay debt services (\$8,136,447). There are committed fund balance amounting to \$2,136,399 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose (\$2,034,941) and; 2) to pay for capital projects (\$101,458). There are assigned fund balances amounting to \$5,240,632 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) 1) to pay for specific programs purposes (\$4,216,090); and 2) to pay for capital projects (\$1,024,542).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2012, the general fund has an unassigned fund balance of \$3,062,273.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature 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 \$4,203,766, caused mainly due to unexpected variances in revenue and expenditures.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2012, amounts to \$159,195,486, with an accumulated depreciation of \$42,852,054 (including depreciation charges for the year totaled \$3,807,140), leaving a net book value of \$116,343,432. 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.

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, 2012, the Municipality has \$12,329,697 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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 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 2012-2013.

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 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
Autonomous Municipality of Cayey
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 25,720,857
Cash with fiscal agent	23,421,526
Accounts receivable:	
Municipal license tax	101,045
Municipal sales and use tax	263,172
Intergovernmental	231,027
Federal grants	54,395
Capital assets	
Land, improvements, and construction in progress	43,063,980
Other capital assets, net of depreciation	73,279,452
Total capital assets	116,343,432
Total assets	166,135,454
Liabilities	
Accounts payable and accrued liabilities	4,281,599
Line of credit payable	381,653
Due to other governmental entities	958,218
Deferred revenues:	
Municipal license tax	5,023,832
Federal grant revenues	2,634,814
Noncurrent liabilities:	
Due within one year	4,204,447
Due in more than one year	51,817,944
Total liabilities	69,302,507
Net Assets	
Invested in capital assets, net of related debt	70,118,432
Restricted for:	
Capital projects	14,950,634
Debt service	8,136,447
Other purposes	12,092,859
Unrestricted (deficit)	(8,465,425)
Total net assets	\$ 96,832,947

**Commonwealth of Puerto Rico
Autonomous Municipality of Cayey
Statement of Activities
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Governmental Activities
General government	\$ 15,713,218	\$ 121	\$ -	\$ -	\$ (15,713,097)
Public safety	802,986	49,915	57,365		(695,706)
Public works	9,789,103	125,227	165,403	303,053	(9,195,420)
Health and welfare	14,903,780	2,956,006	8,927,001		(3,020,773)
Culture and recreation	1,412,376	15,745	81,370	555,738	(759,523)
Economic development	182,743	859,219	137,303		813,779
Community development	491,711		992	872,532	381,813
Urban development	314,267			446,965	132,698
Education	923,043		272,837		(650,206)
Interest on long-term debt	1,889,783				(1,889,783)
Total governmental activities	\$ 46,423,010	\$ 4,006,233	\$ 9,642,271	\$ 2,178,288	(30,596,218)
General revenues:					
					13,402,751
Property taxes					6,478,433
Municipal license tax					4,068,231
Municipal sales and use tax					423,155
Other local taxes					4,097,607
Grants and contributions not restricted to specific programs					878,148
Interest and investment earnings					460,437
Miscellaneous					
Total general revenues					29,808,762
Change in net assets					(787,456)
Net assets - beginning, as restated					97,620,403
Net assets - ending					\$ 96,832,947

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

**Commonwealth of Puerto Rico
Autonomous Municipality of Cayey
Balance Sheet
Governmental Funds
June 30, 2012**

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 14,385,478	\$ 6,130,815	\$ 534,161	\$ 3,255,171	\$ 217,566	\$ -	\$ 1,197,666	\$ 25,720,857
Cash with fiscal agent		1,430,411		12,329,697	1,596,560	8,064,858		23,421,526
Accounts receivable:								
Municipal license tax	101,045							101,045
Municipal sales and use tax	263,172							263,172
Intergovernmental	159,438					71,589		231,027
Federal grants							54,395	54,395
Due from other funds	591,878			11,446	356,050			959,374
Total assets	\$ 15,501,011	\$ 7,561,226	\$ 534,161	\$ 15,596,314	\$ 2,170,176	\$ 8,136,447	\$ 1,252,061	\$ 50,751,396
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities	\$ 1,833,525	\$ -	\$ -	\$ 654,326	\$ -	\$ -	\$ 63,441	\$ 2,551,292
Line of credit payable	958,218			381,653				381,653
Due to other governmental entities	140,852	311,477	194,780	183,229			129,036	959,374
Deferred revenues:								
Municipal license tax	5,023,832		339,381		1,596,648		698,785	5,023,832
Federal grant revenues								2,634,814
Total liabilities	7,956,427	311,477	534,161	1,219,208	1,596,648	-	891,262	12,509,183
Fund balances:								
Restricted	266,221	5,214,808		13,251,106	573,528	8,136,447	360,799	27,802,909
Committed		2,034,941		101,458				2,136,399
Assigned	4,216,090			1,024,542				5,240,632
Unassigned	3,062,273							3,062,273
Total fund balances	7,544,584	7,249,749	-	14,377,106	573,528	8,136,447	360,799	38,242,213
Total liabilities and fund balances	\$ 15,501,011	\$ 7,561,226	\$ 534,161	\$ 15,596,314	\$ 2,170,176	\$ 8,136,447	\$ 1,252,061	\$ 50,751,396

Commonwealth of Puerto Rico
Autonomous Municipality of Cayey
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue		Capital Projects		Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	Fund - State & Local Grants	Revenue Fund Head Start	Fund - State & Local Grants	Fund - Federal Grants			
Revenues							
Property taxes	9,000,194	\$ -	\$ -	\$ -	4,402,557	\$ -	\$ 13,402,751
Municipal license taxes	6,478,433						6,478,433
Municipal sales and use tax	3,299,568				768,663		4,068,231
Licenses, permits and other local taxes	434,380						434,380
Charges for services	2,857,068						2,857,068
Intergovernmental	4,097,607	942,279	100,000				5,139,886
Fines and forfeitures	34,848						34,848
Rent of property	1,103,093						1,103,093
Interest	878,148						878,148
Federal grants		6,102,396		547,762		3,416,709	10,066,867
Miscellaneous	460,437					53,417	513,854
Total revenues	28,643,776	942,279	100,000	547,762	5,171,220	3,470,126	44,977,559
Expenditures							
Current:							
General government	16,424,550						16,768,913
Public safety	731,852	344,363					731,852
Public works	3,809,635			8,013,727			11,901,544
Health and welfare	5,791,439	78,182		632,565			15,270,372
Culture and recreation	992,468	213,183		3,179,976		2,530,789	4,179,184
Economic development		6,740		56,238			182,392
Community development	276,268	29,013				97,141	752,881
Urban development						476,613	446,965
Education	475,499	104,396					579,895
Debt service:							
Principal					3,244,000		3,244,000
Interest					1,889,783		1,889,783
Total expenditures	28,501,711	775,877	11,882,506	446,965	5,133,783	3,104,543	55,947,781

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

Commonwealth of Puerto Rico
Autonomous Municipality of Cayey
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Special Revenue Fund - State & Local Grants		Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants		Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
		Local Grants	State & Local Grants		Local Grants	State & Local Grants				
Excess (deficiency) of revenues over (under) expenditures	142,065	166,402	(11,782,506)	-	100,797	37,437	365,583	(10,970,222)		
Other financing sources (uses)										
Transfers in										
Transfers out	(303,081)	260,282	210,991		(100,797)	540,506	936	1,012,715		
Long-term debt issued			(210,991)				(397,846)	(1,012,715)		
		3,420,000	3,420,000					3,420,000		
Total other financing sources (uses)	(303,081)	260,282	3,420,000	-	(100,797)	540,506	(396,910)	3,420,000		
Net change in fund balances	(161,016)	426,684	(8,362,506)	-	-	577,943	(31,327)	(7,550,222)		
Fund balance, beginning, as restated	7,705,600	6,823,065	22,739,612		573,528	7,558,504	392,126	45,792,435		
Fund balance, ending	\$ 7,544,584	\$ 7,249,749	\$ 14,377,106	\$ -	\$ 573,528	\$ 8,136,447	\$ 360,799	\$ 38,242,213		

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Commonwealth of Puerto Rico
Autonomous Municipality of Cayey
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2012

Total Fund Balances - Governmental Funds **\$ 38,242,213**

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. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 43,063,980	
Depreciable Capital Assets	116,131,506	
Accumulated Depreciation	<u>(42,852,054)</u>	
Total Capital Assets		116,343,432

Accounts payable accumulated according to the accrual basis of accounting. In the current period those accounts payable amount to: (1,730,307)

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	46,225,000	
Advances from CRIM	4,000,652	
Due to other Governmental Entities	1,098,111	
Compensated Absences	3,527,307	
Claims and Judgments	27,058	
Landfill Obligation	<u>1,144,263</u>	
Total Long-Term Liabilities		<u>(56,022,391)</u>

Total Net Assets of Governmental Activities **\$ 96,832,947**

**Commonwealth of Puerto Rico
Autonomous 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, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ (7,550,222)
 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.	10,144,703
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.	657,994
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.	(14,292)
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.	(3,807,140)
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 proceeds exceed debt service principal payments.	(176,000)
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.	245,440
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.	(718,116)
Long-term claims and judgments 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.	948,210
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.	(12,448)
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.	60,589
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.	50,620
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.	<u>(616,794)</u>
Change in Net Assets of Governmental Activities	<u>\$ (787,456)</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous 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 basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

The Municipality's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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 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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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.

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. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following major governmental funds in the accompanying GFFS:

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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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.

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.

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.

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

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

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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 – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other

Special Revenue Funds– is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Funds – is a major governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transaction, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been occurred and the amount of loss is reasonably estimated.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

Government Fund Financial Statements – The accompanying GFFS are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2012. At June 30, 2012, all revenues sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

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

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.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

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.

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 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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

5. Deferred revenues- In the GFFS, deferred revenues arises when one of the following situations occur:

- a. Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2012 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

6. 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.

7. 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.

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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

8. 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.

9. Fund Balances- In fiscal year 2011, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- b. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal’s highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- c. **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

- d. **Unassigned** - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2012.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. Net Assets

Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net assets are segregated into three categories:

- a. **Invested in capital assets, net of related debt:** Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. **Restricted net assets:** Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. **Unrestricted net assets:** Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

11. Accounting for Pension Costs- On July 1, 2007, the Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

For the purpose of applying the requirements of GASBS No. 27, the state Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension 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 funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

12. 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.

13. 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, 2012 to \$544,606. The current insurance policies have not been cancelled or terminated.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACCA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACCA.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2012 amounted to \$488,312.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company. The Municipality will be managing all its insurance policies beginning on July 1, 2013.

14. Use of Estimates

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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, 2012.

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, 2012, (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, 2012, 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, 2012, 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 \$250,000 per depositor.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012, 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, 2012.

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).

Deposits – The Municipality's bank balances in commercial banks of \$14,385,478, \$6,130,815, \$534,161, \$3,255,171 and \$217,566 in the general fund, special revenue fund-state and local grants, special revenue fund – Head Start, capital project fund – state and local grants, and capital project fund – federal grants, respectively, were fully collateralized at June 30, 2012. In the other governmental funds deposits with commercial banks of approximately \$1,197,666 were fully collateralized.

The deposits at GDB of \$1,430,411 that is restricted for other purposes in the special revenue fund-state and local grants, the \$12,329,697 and \$1,596,560 that is restricted principally for capital projects in the capital project fund – state and local grants, and the capital project fund – federal grants respectively, and the \$8,064,858 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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 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, 2012, 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 \$101,045 represents filed municipal license tax returns that were uncollected as of June 30, 2012, 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 \$263,172 represents filed municipal sales and use tax returns that were uncollected as of June 30, 2012, net of allowance for uncollectible accounts.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. RECEIVABLES (CONTINUED)

c. Intergovernmental Receivables

Intergovernmental receivable in the general fund represents expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Department of Transportation and Public Work of Puerto Rico	\$ <u>159,438</u>
Total	\$ <u>159,438</u>

Intergovernmental receivable in the debt service fund represents property tax receivable at June 20, 2012. Following is a detail of the intergovernmental receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ <u>71,589</u>
Total	\$ <u>71,589</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>
SENDEC - Child Care Program	\$ 48,667
Others	<u>5,728</u>
Total	\$ <u>54,395</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2012, and interfund transfers during the fiscal year ended at June 30, 2012, are summarized as follows:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

4. INTERFUND TRANSACTIONS (CONTINUED)

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Projects Fund- State & Local Grants	Payrolls, accruals, and other expenditures not reimbursed	\$ 183,229
General Fund	Special Revenue Fund- State & Local Grants	Payrolls, accruals, and other expenditures not reimbursed	85,132
General Fund	Special Revenue Fund- Head Start	Payrolls, accruals, and other expenditures not reimbursed	194,780
General Fund	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	128,737
Capital Projects Fund- Federal Grants	Other Governmental Funds	Payrolls, accruals, and other expenditures not reimbursed	299
Capital Projects Fund- Federal Grants	General Fund	Payrolls, accruals, and other expenditures not reimbursed	129,406
Capital Projects Fund- Federal Grants	Special Revenue Fund- State & Local	Payrolls, accruals, and other expenditures not reimbursed	226,345
Capital Projects Fund- State and Local Grants	General Fund	Reimbursable Expenditures	<u>11,446</u>
Total			<u>\$ 959,374</u>

b. Transfer in/out to other fund

<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Special Revenue Funds-State and Local Grants	Transfer of funds for special purpose	\$ 260,282
Capital Projects Fund-Federal Grants	Transfer of funds for special purpose	210,991
Other Governmental Funds	Transfer of funds for other federal grants	936
Debt Service Fund	Transfer of funds for debt retirement	<u>540,506</u>
Total		<u>\$ 1,012,715</u>

<u>Transfer out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Transfer of funds for special purpose and debt retirement	\$ 303,081
Capital Projects Fund-State and Local Grants	Transfer of funds for special purpose	210,991
Capital Projects Fund-Federal Grants	Transfer of funds for special purpose	100,797
Other Governmental Funds	Transfer of funds for debt retirement	<u>397,846</u>
Total		<u>\$ 1,012,715</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. 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 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital asset, not being depreciated:				
Land	\$ 24,314,463	\$ -	\$ -	\$ 24,314,463
Construction in progress	<u>27,387,497</u>	<u>7,294,379</u>	<u>(15,932,359)</u>	<u>18,749,517</u>
Total capital assets not being depreciated	<u>51,701,960</u>	<u>7,294,379</u>	<u>(15,932,359)</u>	<u>43,063,980</u>
Capital assets, being depreciated:				
Buildings and buildings improvements	58,099,665	14,575,463		72,675,128
Equipment	6,594,547	1,074,624	(24,189)	7,644,982
Infrastructure and infrastructure improvements	21,950,123	2,570,715		24,520,838
Work of art	7,350			7,350
Vehicles	<u>10,063,333</u>	<u>1,219,875</u>	<u>-</u>	<u>11,283,208</u>
Total capital assets being depreciated	<u>96,715,018</u>	<u>19,440,677</u>	<u>(24,189)</u>	<u>116,131,506</u>
Less accumulated depreciation for:				
Buildings and buildings improvements	(16,886,089)	(1,575,648)		(18,461,737)
Equipment	(4,604,392)	(606,708)	9,897	(5,201,203)
Infrastructure and infrastructure improvements	(8,508,414)	(951,776)		(9,460,190)
Work of art	(3,552)	(735)		(4,287)
Vehicles	<u>(9,052,364)</u>	<u>(672,273)</u>	<u>-</u>	<u>(9,724,637)</u>
Total accumulated depreciation	<u>(39,054,811)</u>	<u>(3,807,140)</u>	<u>9,897</u>	<u>(42,852,054)</u>
Total capital assets being depreciated, net	<u>57,660,207</u>	<u>15,633,537</u>	<u>(14,292)</u>	<u>73,279,452</u>
Governmental activities capital assets, net	<u>\$109,362,167</u>	<u>\$ 22,927,916</u>	<u>\$ (15,946,651)</u>	<u>\$116,343,432</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 942,390
Public safety	64,802
Public works	1,246,776
Community development	141,948
Urban Development	32,795
Culture and recreation	818,983
Health and welfare	215,948
Economic development	350
Education	<u>343,148</u>
Total depreciation expense-governmental activities	<u>\$ 3,807,140</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 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>Capital Projects Fund - Federal Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$1,332,328	\$ -	\$ -	\$ 654,326	\$ -	\$ -	\$ 63,441	\$2,050,095
Accrued liabilities	<u>501,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,197</u>
Total	<u>\$1,833,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 654,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,441</u>	<u>\$2,551,292</u>

7. LINE OF CREDIT

Improvements to the Municipal Hospital

The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB), for up to \$5,500,000 as defined in the GDB loan agreement with the Municipality. The line of credit was made available to finance the improvements of the Municipal Hospital. Amounts drawn against the line of credit are repayable at the credit line maturity date. The credit line bears interest at a fixed interest rate of 4.625%. Maturity date is due on July 6, 2012. As of June 30, 2012, outstanding credit line balance was \$4,257,356. Interest expense incurred on the credit line was \$44,841 during the year ended on June 30, 2012.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. LINE OF CREDIT (CONTINUED)

The following is a schedule of changes in the line of credit:

Beginning Balance	Draws	Repayments	Ending Balance
\$ -	\$ 592,644	\$ 210,991	\$ 381,653

8. 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	\$ 22,973
Puerto Rico Telephone Company	8,839
Department of Treasury	532,043
United States Social Security Administration	76,817
General Service Administration	150
Puerto Rico Electric Power Authority	317,396
Total	\$ 958,218

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.

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. The total of \$777,289 was to be retained in a ten years period at an interest rate of 5.95%, last payment was issued on November 28, 2011.

9. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of \$ 5,023,832 in the general fund relates to municipal license tax collected in fiscal year 2011-2012 that will be earned in fiscal year 2012-2013.
- 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:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

9. DEFERRED REVENUES (CONTINUED)

<u>Program Description</u>	<u>Amount</u>
Head Start Program	\$ 339,381
Total	<u>\$ 339,381</u>

The deferred revenues amounting \$1,596,648 and \$698,785 presented in capital projects fund-federal grants and 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>Capital Projects Fund-Federal Grants Program Description</u>	<u>Amount</u>
Disaster Grants-Public Assistance	\$ 1,595,539
Others	<u>1,109</u>
Total	<u>\$ 1,596,648</u>

<u>Other governmental funds Program Description</u>	<u>Amount</u>
Disaster Grants-Public Assistance	\$ 559,935
Public and Indian Housing	10,843
Special Programs for Aging - Title III, Part B - Grant for Supportive Services and Senior Center	44,976
Emergency Shelter Grants Program	23,260
Energy Efficiency and Conservation Block Grant	20,611
Others	<u>39,160</u>
Total	<u>\$ 698,785</u>

10. 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

10. PROPERTY TAXES (CONTINUED)

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.

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.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

10. PROPERTY TAXES (CONTINUED)

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 \$3,660,382 and \$340,270, 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.

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.

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, 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	\$42,504,000	\$ 3,420,000	\$ (2,574,000)	\$43,350,000	\$2,927,000
Notes Payable	3,545,000		(670,000)	2,875,000	690,000
Advances from CRIM	4,108,476		(107,824)	4,000,652	113,529
Property Tax Debt	137,616		(137,616)		
Compensated Absences	2,809,191	1,086,570	(368,454)	3,527,307	423,825
Due to Other Governmental Entity	1,158,700		(60,589)	1,098,111	50,093
Claims and Judgments	975,268	3,000	(951,210)	27,058	
LIMS Repayment Plan	50,620		(50,620)		
Landfill Obligation	<u>1,131,815</u>	<u>12,448</u>	<u>-</u>	<u>1,144,263</u>	<u>-</u>
Total	<u>\$56,420,686</u>	<u>\$ 4,522,018</u>	<u>\$ (4,920,313)</u>	<u>\$56,022,391</u>	<u>\$4,204,447</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

- 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 \$3,420,000. Bonds payable outstanding at June 30, 2012 are as follows:

Description	Balance at June 30, 2012
1994 Serial bond for infrastructure construction with an original amount of \$663,000 due in annual installments of \$15,000 to \$47,000, through January 1, 2018, with interest of 5.0%	\$ 250,000
1994 Serial bond for infrastructure construction with an original amount of \$465,000 due in annual installments of \$12,000 to \$32,000 through January 1, 2018, with interest of 5.0%	171,000
1998 General obligation bond for the acquisition of a capital asset with an original amount of \$1,015,000 due in installments of \$10,000 to \$85,000, through July 1, 2022, with interest ranging from 4.9% to 6.7%	670,000
1998 General obligation bond for construction and improvements of capital assets with an original amount of \$1,990,000 due in installments of \$65,000 to \$205,000 through July 1, 2013, with interest ranging from 4.9% to 6.7%	395,000
1999 General obligation bond for the construction of a capital asset with an original amount of \$355,000 due in installments of \$15,000 to \$35,000 through July 1, 2013, with interest ranging from 4.9% to 6.3%	70,000
1999 General obligation bond for construction, improvements and acquisition of various capital assets with an original amount of \$3,705,000 due in installments of \$140,000 to \$390,000 through July 1, 2013, with interest ranging from 4.9% to 6.1%	755,000
1999 General bond for improvements of various capital assets with an original amount of \$725,000 due in installments of \$30,000 to \$80,000 through July 1, 2012, with interest ranging from 2.7% to 7.81%	80,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2012
1999 General obligation bond for the acquisition of a capital asset with an original amount of \$685,000 due in installments of \$10,000 to \$60,000 through July 1, 2023, with interest ranging from 2.7% to 7.8%	\$ 470,000
2000 General obligation bond for improvements of a capital asset with an original amount of \$355,000 due in installments of \$5,000 to \$30,000 through July 1, 2019, with interest ranging from 2.7% to 7.8%	205,000
2000 General obligation bond for infrastructure construction and acquisition of property with an original amount of \$1,765,000 due in installments of \$65,000 to \$185,000 through July 1, 2014, with interest ranging from 2.7% to 7.8%	520,000
2001 General obligation bond for construction of capital assets with an original amount of \$270,000 due in installments of \$5,000 to \$25,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	210,000
2001 General obligation bond for the acquisition of property with an original amount of \$1,010,000 due in installments of \$15,000 to \$90,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	780,000
2002 General obligation bond for construction of infrastructure and improvements to a capital asset with an original amount of \$255,000 due in installments of \$10,000 to \$30,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	120,000
2002 General obligation bond for construction and improvements of capital assets with an original amount of \$1,120,000 due in installments of \$45,000 to \$125,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	520,000
2002 General obligation bond for improvements of capital assets with an original amount of \$835,000 due in installments of \$25,000 to \$85,000 through July 1, 2018, with interest ranging from 2.7% to 5.1%	470,000
2002 General obligation bond for improvements of a capital asset with an original amount of \$125,000 due in installments of \$5,000 to \$20,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	60,000
2002 General obligation bond for improvements of a capital asset with an original amount of \$255,000 due in installments of \$5,000 to \$20,000 through July 1, 2026, with interest ranging from 2.7% to 5.6%	205,000
2003 General obligation bond for improvements of a capital asset with an original amount of \$235,000 due in installments of \$10,000 to \$25,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	120,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2012
2003 General obligation bond for improvements of a capital asset with an original amount of \$325,000 due in installments of \$15,000 to \$35,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	\$ 170,000
2003 General obligation bond for the acquisition of a capital asset with an original amount of \$85,000 due in installments of \$5,000 to \$10,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	40,000
2003 General obligation bond for construction and improvements of various capital assets with an original amount of \$1,110,000 due in installments of \$15,000 to \$85,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	890,000
2003 General obligation bond for infrastructure construction and improvements with an original amount of \$1,415,000 due in installments of \$25,000 to \$115,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	1,135,000
2003 General obligation bond for the construction of a capital asset with an original amount of \$205,000 due in installments of \$5,000 to \$15,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	160,000
2004 General obligation bond for professional services with an original amount of \$120,000 due in installments of \$10,000 to \$15,000 through July 1, 2013, with interest ranging from 4.2% to 5.0%	30,000
2004 General obligation bond for infrastructure improvements with an original amount of \$205,000 due in installments of \$10,000 to \$25,000 through July 1, 2018, with interest ranging from 2.4% to 4.8%	115,000
2004 General obligation bond for acquisition of property with an original amount of \$140,000 due in installments of \$5,000 to \$10,000 through July 1, 2028, with interest ranging from 2.4% to 5.3%	100,000
2005 General obligation bond for construction of capital assets with an original amount of \$140,000 due in installments of \$10,000 to \$15,000 through July 1, 2014, with interest ranging from 3.3% to 4.7%	45,000
2005 General obligation bond for property acquisition with an original amount of \$160,000 due in installments of \$5,000 to \$10,000 through July 1, 2029, with interest ranging from 3.3% to 5.3%	125,000
2005 General obligation bond for infrastructure improvements with an original amount of \$330,000 due in installments of \$10,000 to \$25,000 through July 1, 2024, with interest ranging from 4.2% to 5.3%	250,000

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2012
2005 General obligation bond for acquisition of a capital asset with an original amount of \$1,210,000 due in installments of \$25,000 to \$80,000 through July 1, 2029, with interest ranging from 4.2% to 5.3%	\$ 1,005,000
2005 General obligation bond for infrastructure improvements with an original amount of \$1,230,000 due in installments of \$95,000 to \$150,000 through July 1, 2014, with interest ranging from 3.3% to 4.7%	435,000
2005 Special obligation bond for the payment of debt with an original amount of \$1,698,000 due in installments of \$75,000 to \$145,000 through July 1, 2019, with interest ranging from 1.53% to 6.62%	914,000
2006 General obligation bond for improvements of a capital asset with an original amount of \$125,000 due in installments of \$5,000 to \$15,000 through July 1, 2020, with interest ranging from 1.5% to 6.6%	95,000
2006 General obligation bond for property acquisition with an original amount of \$135,000 due in installments of \$5,000 to \$10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	105,000
2006 General obligation bond for acquisition of a capital asset with an original amount of \$145,000 due in installments of \$5,000 to \$10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	115,000
2006 General obligation bond for acquisition of a capital asset with an original amount of \$305,000 due in installments of \$5,000 to \$25,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	275,000
2006 General obligation bond for the construction and improvements of capital assets with an original amount of \$905,000 due in installments of \$25,000 to \$75,000 through July 1, 2025, with interest ranging from 4.2% to 5.3%	730,000
2006 General obligation bond for infrastructure improvements with an original amount of \$1,010,000 due in installments of \$45,000 to \$95,000 through July 1, 2020, with interest ranging from 4.2% to 4.8%	695,000
2006 General obligation bond for acquisition of a capital asset with an original amount of \$5,755,000 due in installments of \$95,000 to \$445,000 through July 1, 2030, with interest ranging from 1.5% to 6.6%	5,065,000
2007 General obligation bond for infrastructure construction with an original amount of \$1,010,000 due in installments of \$70,000 to \$135,000 through July 1, 2016, with interest ranging from 1.5% to 7.0%	590,000

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2012
2008 General obligation bond for acquisition of capital assets with an original amount of \$1,235,000 due in installments of \$20,000 to \$100,000 through July 1, 2032, with interest ranging from 1.53% to 7.25%	\$ 1,150,000
2009 General obligation bond for the construction and improvement of infrastructure with an original amount of \$1,010,000 due in installments of \$70,000 to \$135,000 through July 1, 2018, with interest ranging from 1.53% to 7.25%	780,000
2010 General obligation bond for the construction of a capital asset with an original amount of \$1,335,000 due in installments of \$95,000 to \$185,000 through July 1, 2019, with interest ranging from 5.0% to 7.5%	1,140,000
2010 General obligation bond for the construction of a capital asset with an original amount of \$650,000 due in installments of \$5,000 to \$55,000 through July 1, 2034, with interest ranging from 5.0% to 7.5%	635,000
2010 General obligation bond for construction of infrastructure with an original amount of \$505,000 due in installments of \$20,000 to \$55,000 through July 1, 2024, with interest ranging from 5.0% to 7.5%	465,000
2010 General obligation bond for the acquisition of various capital assets with an original amount of \$3,750,000 due in installments of \$50,000 to \$315,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	3,640,000
2010 General obligation bond for the construction of a capital asset with an original amount of \$3,165,000 due in installments of \$40,000 to \$265,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	3,080,000
2011 General obligation bond for infrastructure construction with an original amount of \$2,015,000 due in installments of \$40,000 to \$185,000 through July 1, 2030, with interest ranging from 6.0% to 7.5%	1,975,000
2011 General obligation bond for construction of a capital asset with an original amount of \$630,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	620,000
2011 General obligation bond for acquisition of a capital asset with an original amount of \$1,015,000 due in installments of \$10,000 to \$85,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	1,005,000
2011 Special obligation bond for infrastructure improvements with an original amount of \$6,030,000 due in installments of \$230,000 to \$640,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	5,800,000

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2012
2011 Special obligation bond for construction and improvements of infrastructure with an original amount of \$505,000 due in installments of \$20,000 to \$55,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	\$ 485,000
2012 Special obligation bond for construction and improvements of infrastructure with an original amount of \$3,420,000 due in installments of \$145,000 to \$330,000 through July 1, 2027, with interest ranging from 6.0%	3,420,000
Total	<u>\$ 43,350,000</u>

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. The Series 2011 and 2012, amounting \$6,030,000 and \$505,000, respectively, are payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,927,000	\$ 2,736,196
2014	3,020,000	2,561,176
2015	2,538,000	2,396,974
2016	2,313,000	2,251,356
2017	2,508,000	2,102,821
2018-2022	10,839,000	8,321,982
2023-2027	10,820,000	4,759,082
2028-2032	6,015,000	1,862,070
2033-2037	<u>2,370,000</u>	<u>289,000</u>
Total	<u>\$ 43,350,000</u>	<u>\$ 27,280,657</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

- 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, 2012</u>
2007 Series	7-1-13	495,000	1.54% to 7.00%	\$ 170,000
2009 Series	7-1-16	505,000	1.53% to 7.25%	320,000
2010 Series	7-1-16	1,115,000	5% to 7.5%	855,000
2011 Series	7-1-18	155,000	6% to 7.5%	135,000
Section 108 - 2000 Series	8-1-14	1,670,000	6.2% to 6.5%	350,000
Section 108 - 2000 Series	8-1-15	4,225,000	6.2% to 6.5%	<u>1,045,000</u>
Total notes payable				<u>\$ 2,875,000</u>

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 \$155,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 690,000	\$ 117,073
2014	720,000	88,803
2015	665,000	60,092
2016	550,000	32,631
2017	225,000	10,313
2018-2022	<u>25,000</u>	<u>937</u>
Total	<u>\$ 2,875,000</u>	<u>\$ 309,849</u>

- d. Advances from CRIM-** This amount represents the balance owed to the CRIM at June 30, 2012 will be repaid through a financing obtained by the CRIM with GDB.
- e. Property Tax Debt-** This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2012 as described in Note 10.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. LONG-TERM LIABILITIES (CONTINUED)

- f. **Compensated Absences-** The government-wide statement of net assets includes approximately \$1,607,028 of accrued sick leave benefits, and approximately \$1,920,279 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- g. **Due to Other Governmental Entity-** This amount represents the balance owed to the Puerto Rico Electric Power Authority (PREPA) at June 30, 2012, resulting from prior year's excess of electricity consumption over in lieu of payment of taxes.
- h. **LIMS Repayment Plan-** This amount represents the balance owed to the CRIM at June 30, 2012, as described in Note 11.
- 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 \$ 1,144,263 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2012. 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.

12. 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

12. PENSION PLAN (CONTINUED)

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.

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. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

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.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

12. PENSION PLAN (CONTINUED)

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.

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state and municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

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

Annual Contribution

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<u>Fiscal year</u>	<u>Law No. 447</u>	<u>System 2000</u>
2012	\$ 308,079	\$ 69,637
2011	\$ 305,279	\$ 63,123
2010	\$ 379,555	\$ 79,271

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and cost of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the Retirement System is provide in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

YEAR ENDED JUNE 30, 2012

13. FUND BALANCE

As of June 30 2012, fund balance is comprised of the following:

Fund Balance	General Fund	Special Revenue Fund- State & Local Grants	Special Revenue Fund-Head Start	Capital Projects Fund-State & Local Grants	Capital Projects Fund-Federal Grants	Debt Service Fund	Other Governmental Funds	Total
Restricted for:								
General Government	\$ -	\$ 200,830	\$ -	\$ 651,668	\$ -	\$ -	\$ -	\$ 200,830
Culture and Recreation		402,425		2,788,335	252,221		344,000	651,668
Health and Welfare		1,318,334		734,030			182	3,786,981
Economic Development	266,221	357,538					16,617	2,318,767
Public Safety								374,155
Capital Projects				9,077,073	321,307			9,398,380
Education		2,935,681				8,136,447		2,935,681
Debt Service								8,136,447
Committed:								
General Government		255,093						255,093
Culture and Recreation		111,949		9,248				121,197
Health and Welfare		1,045,571						1,045,571
Public Safety		5,001						5,001
Public Works		29,692		92,210				121,902
Education		587,635						587,635
Assigned:								
General Government	2,192,189							2,192,189
Culture and Recreation	28,847			183,672				212,519
Health and Welfare	426,486			780,869				1,207,355
Public Safety	8,549							8,549
Public Works	1,510,310							1,510,310
Education	49,709			60,001				109,710
Unassigned	3,062,273							3,062,273
Total Fund Balance	\$ 7,544,584	\$ 7,249,749	\$ -	\$ 14,377,106	\$ 573,528	\$ 8,136,447	\$ 360,799	\$ 38,242,213

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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, 2012, 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 \$27,058 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
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

c. Other Commitments:

At June 30, 2012, the general fund had commitments of approximately \$3,054,376 for executory purchase orders or contracts that will be honored during the subsequent year.

16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

- a. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. The requirements of this statement are effective for periods beginning after June 15, 2012.
- b. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- c. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- d. GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- e. GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- f. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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	Capital Projects Fund - Federal Grants	Debt Service Fund	Other Governmental Fund	Total
Fund balance, beginning	\$7,705,600	\$ 7,049,409	\$ -	\$22,739,612	\$ -	\$ 7,558,504	\$ 978,692	\$46,031,817
Reclassification for major fund presentation					591,593		(591,593)	-
To adjust Note Receivable, collected during fiscal year 2010-2011					(244,409)			(244,409)
To correct inter-fund transaction		(226,344)			226,344			-
To adjust accounts payable	-	-	-	-	-	-	5,027	5,027
Fund balance, beginning as restated	<u>\$7,705,600</u>	<u>\$ 6,823,065</u>	<u>\$ -</u>	<u>\$22,739,612</u>	<u>\$ 573,528</u>	<u>\$ 7,558,504</u>	<u>\$ 392,126</u>	<u>\$45,792,435</u>

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:

Description	Total
Net assets, beginning	\$ 97,859,785
To adjust Note Receivable, collected during fiscal year 2010-2011	(244,409)
To adjust accounts payable	5,027
Net assets, beginning as restated	<u>\$ 97,620,403</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 8,335,934	\$ 8,335,934	\$ 9,000,194	\$ 664,260
Municipal license tax	6,560,000	6,560,000	6,498,215	(61,785)
Municipal sales and use tax	3,230,000	3,230,000	3,313,678	83,678
Licenses, permits and other local taxes	1,050,000	1,050,000	434,381	(615,619)
Intergovernmental	4,549,920	4,549,920	4,097,608	(452,312)
Charges for services	4,103,133	4,103,133	4,050,427	(52,706)
Fines and forfeitures	225,000	225,000	34,848	(190,152)
Interest	505,000	505,000	878,147	373,147
Rent of property	923,000	923,000	1,103,092	180,092
Miscellaneous	<u>630,000</u>	<u>630,000</u>	<u>456,189</u>	<u>(173,811)</u>
Total revenues	30,111,987	30,111,987	29,866,779	(245,208)
Budget carryover (1)	-	4,794,445	4,794,445	-
Total revenues after carryover	<u>30,111,987</u>	<u>34,906,432</u>	<u>34,661,224</u>	<u>(245,208)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES				
Current:				
General government	16,756,048	19,879,401	17,258,303	2,621,098
Public safety	1,064,147	1,053,702	733,602	320,100
Public works	4,032,707	4,238,036	3,875,465	362,571
Culture and recreation	1,066,727	1,125,846	945,315	180,531
Health and welfare	5,843,720	6,163,478	5,641,891	521,587
Community development	431,907	431,947	276,068	155,879
Education	755,531	691,108	421,504	269,604
Operating transfer to other funds	<u>161,200</u>	<u>1,322,914</u>	<u>1,305,310</u>	<u>17,604</u>
Total expenditures, encumbrances and other financing uses	<u>30,111,987</u>	<u>34,906,432</u>	<u>30,457,458</u>	<u>4,448,974</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 4,203,766	\$ 4,203,766
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 34,661,224
Differences-budget to GAAP:				
Budget carryover				(4,794,445)
GAAP adjustments to revenues				<u>(1,223,003)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 28,643,776</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 30,457,458
Differences-budget to GAAP:				
Non-budgeted expenditures				(62,002)
Non-budgeted transfer out				159,485
Prior year encumbrances recorded as current year expenditures for GAAP basis				400,478
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(2,150,627)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 28,804,792</u>

(1) Represents fund balance carried over from prior year

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2012

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, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

<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	\$ 598,979
Total U.S. Department of Agriculture			<u>598,979</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218		872,532
Emergency Shelter Grants Program	14.231		158,641
Community Development Block Grants – Entitlement Grants (Recovery Act Funded)	14.253		992
Homelessness Prevention and Rapid Rehousing Program (Recovery Act Funded)	14.257		120,500
Public and Indian Housing	14.850		898,797
Section 8 Housing Choice Voucher	14.871		979,297
Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	<u>12,151</u>
Total U.S. Department of Housing and Urban Development			<u>3,042,910</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2012

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		204,306
Federal Transit – Urbanized Area Formula-Recovery Act Funded	20.507		242,659
Total U.S. Department of Transportation			446,965
U.S. DEPARTMENT OF ENERGY:			
Direct Programs:			
ARRA – Development of Energy Efficiency Conservation Strategy	81.128		97,141
Total U.S. Department of Energy			97,141
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico – Governor’s Office (Elderly Office):			
Special Program for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	72,673
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	181,550
Head Start Program	93.600	Not Available	5,523,697
Total U.S. Department of Health and Human Services			5,777,920
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 9,963,915

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

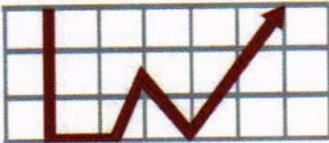
A. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Autonomous 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, Capital Projects Fund-Federal Grants, 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	Capital Projects Fund-Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 6,102,396	\$ 396,910	\$ 446,965	\$ 3,017,644	\$ 9,963,915
Non federal programs expenditures and other adjustments	-	4,736,873	-	86,899	4,823,772
Total expenditures in the fund financial statements	<u>\$ 6,102,396</u>	<u>\$ 5,133,783</u>	<u>\$ 446,965</u>	<u>\$ 3,104,543</u>	<u>\$ 14,787,687</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- 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
Autonomous 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 **Autonomous Municipality of Cayey, Puerto Rico**, as of and for the year ended June 30, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Autonomous 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 **Autonomous Municipality of Cayey's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Cayey's** internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, as item **12-01**, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous 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 **Autonomous Municipality of Cayey** in a separate letter dated October 26, 2012.

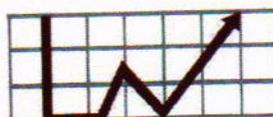
The **Autonomous Municipality of Cayey's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the **Autonomous Municipality of Cayey's** response and, accordingly, we express no opinion on it.

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

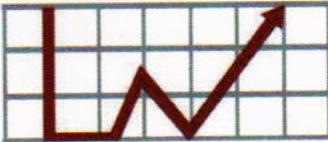
San Juan, Puerto Rico
October 26, 2012

Stamp No. 2632073 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

Compliance

We have audited the **Autonomous Municipality of Cayey's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Cayey's** major federal programs for the year ended June 30, 2012. The **Autonomous 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 **Autonomous Municipality of Cayey's** management. Our responsibility is to express an opinion on the **Autonomous 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 **Autonomous 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 **Autonomous Municipality of Cayey's** compliance with those requirements.

In our opinion, the **Autonomous Municipality of Cayey** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **12-02** through **12-05**.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

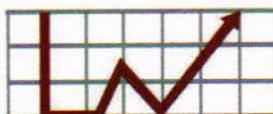
Internal Control Over Compliance

Management of the **Autonomous 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 **Autonomous Municipality of Cayey's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Cayey's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **12-02** through **12-05**. *A significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

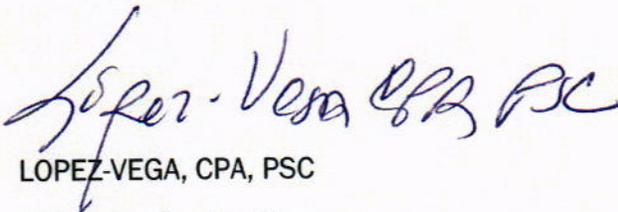
The **Autonomous Municipality of Cayey's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the **Autonomous Municipality of Cayey's** responses and, accordingly, we express no opinion on the responses.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON 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 **Autonomous Municipality of Cayey** in a separate letter dated October 26, 2012.

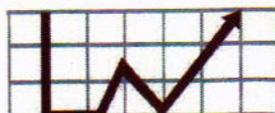
This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 26, 2012

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
	CDBG – Entitlement Grants Cluster:
14.218	Community Development Block Grant – Entitlement Program
14.253	Community Development Block Grant ARRA (CDBG-R) - (Recovery Act Funded)
14.850	Public and Indian Housing
14.871	Section 8 Housing Choice Voucher Program
	Federal Transit Cluster:
20.507	Federal Transit Formula Grants (Urbanized Area Formula Program)
20.507	Federal Transit Formula Grants (Urbanized Area Formula Program)-(Recovery Act Funded)
	Head Start Cluster:
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
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

Finding Reference	12-01
Requirement	Financial Reporting – Accounting Records
Statement of Condition	<p>During our examination of the Municipality's accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified accrual basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. The computerized system provided by the Office of Commissioner of Municipal Affairs (OCAM) and manual system maintained by finance department personnel do not provide financial information to generate the basic financial statements since the beginning balances were not properly presented in the accounting system.</p> <p>Therefore, the Municipality's hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and the Law No. 81.</p>
Criteria	<p>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.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry General Ledger record.</p>
Effect of Condition	<p>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.</p>
Recommendation	<p>We recommend 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.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section II – Financial Statements Findings

Finding Reference **12-01 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality maintains two set of accounting records; a manual system and a computerized system provided 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 firsts years of the system operation.

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
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-02
Program	CDBG - Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218)
Requirement	Earmarking
Statement of Condition	During our earmarking test over the funds used over the three year period, we found that the Municipality has not complied with the seventy percent (70%) of the funds that must be used over a period of up to three years for activities that benefit low - and moderate - income persons.
Criteria	24 CFR 570.200(a) (3) and 570.208(a) established the criteria in determining low - and moderate - income benefits.
Cause of Condition	The Municipality's internal control and procedures failed to detect noncompliance of the earmarking requirement during the program year.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 570.200(a) (3) and 570.208(a).
Recommendation	We recommend that the Program should implement procedures in order to assure compliance with the program requirements.
Questioned Costs	None
Management Response	We acknowledge the efforts made by all the staff members during the reviewed period, through June 30, 2012; in order to perform activities with a direct impact for the low and moderate income community of the Municipality of Cayey. Consisting with federal requirements for the CDBG Program, the Municipality has implemented process to assure the compliance with all applicable regulations. As a result of these efforts, several actions were made, mostly during program year 2012. During Program year 2009, the amount of \$365,000 was originally allocated for the construction of a pedestrian bridge at "Sector Buena Vista", Toita Ward.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-02 (Continued)**

Management
Response

During PY 2012, an amendment to the 2009 Action Plan was made in order to create a new infrastructure activity, with a Streets Improvements activity throughout several low income communities all over the Municipality of Cayey. This Amendment is currently being evaluated by the US Department of Housing and Urban Development (HUD) and is projected to start during the current program year (2012). For program years 2010 and 2011, all infrastructure activities were currently underway. As of June 30, 2012 only \$23,882.39 were expended from program year 2010 for the streets improvements activity. Nevertheless, during program year 2012, the amount of \$547,267.96 is expected to be expended during current program year for both infrastructure activities from program years 2010 and 2011. Another big infrastructure activity is currently underway and projected to be completed during program year 2012, with the rehabilitation of the Brisas de Jajome Rd. at Jajome Alto Ward, with a total allocation of \$190,861.57 CDBG funds from several program years. This activity is also expected to be completed during the present program year 2012. All these projects and activities will be performed at several low and moderate income communities throughout the Municipality of Cayey and are expected to be completed by June 30, 2012 with a total CDBG investment and expenditures in the amount of \$912,267.96 during program year 2012. For the underway housing activities, all homeowners will be low and moderate households and for all the current public services activities, at least a 51% will be for low and moderate income persons.

Implementation Date: In process

Responsible Person: Ramón Figueroa
Federal Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-03
Program	CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218)
Requirement	Reporting Test
Statement of Condition	During our test over the reports submitted to the grantor agency, we found that the Municipality is not submitting the required information regarding the Federal Funding Accountability and Transparency Act
Criteria	2 CFR, Subpart 170.320, OMB is issuing interim final guidance to agencies to establish requirements for Federal assistance applicants, recipients, and subrecipients that are necessary for the implementation of the Federal Funding Accountability and Transparency Act of 2006, hereafter referred to as “the Transparency Act” or “The Act”. This interim final guidance provides standard wording for an award term that each agency must include in grant and cooperative agreement awards it makes on or after October 1, 2010, to require recipients to report information about first-tier subawards and executive compensation under only those award.
Cause of Condition	Adequate internal controls do not exist to assure the correctness of reports submitted to the federal agencies
Effect of Condition	The Municipality is not in compliance with 2 CFR, Subpart 170.320.
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the all reports were submitted on time to the federal agencies.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-03 (Continued)**

Questioned Costs None

Management Response

And corrective action The member of our staff in charge of the CDBG Program has begun the process of being registered in the applicable system, in order to prepare and send the required information.

Implementation Date: In process

Responsible Person: Mr. Ramon Figueroa Cortés
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-04
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 \$392,793.</p> <p>In addition, the PHA maintained an average leasing rate of 83% 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.</p> <p>In addition, the Municipality did not maintain an occupancy rate of 95% during the fiscal year.</p>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-04 (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 that the Municipality should improve its internal control and procedures in order to assure that the Program maintains an average leasing rate of 95%, as required by Federal regulation.
Questioned Costs	None
Management Response And corrective action	From July 1, 2012 to November 1, 2012 we have issued eleven (11) vouchers. Of these, three (3) are already under lease contract. Implementation Date: In process Responsible Person: Mr. Ramon Figueroa Cortés Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-05**

Program **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S.
Department of Housing and Urban Development**

Requirement **Special Test - Waiting List**

Statement of Condition We performed a Waiting List - Internal Control and Compliance Test and after our procedures, we found that the current Waiting List do not contain the following information:

- a) Family unit size
- b) Racial or ethnic designation
- c) Qualification for any local preference

Also, the admission of new participants to the program does not follow Regulation as established by the Administrative Plan.

Criteria

24 CFR, Subpart E, Sec. 982.204 (b) (1)-(5) states that the PHA must maintain information that permits the PHA to select participants from the waiting list in accordance with the PHA admission policies. Also, the waiting list must contain the following information: (1) applicant name; (2) family unit size (number of bedrooms for which family qualifies under PHA occupancy standards); (3) date and time of the application; (4) qualification for any local preferences; (5) racial or ethnic designation of the head of household.

24 CFR, Subpart E, Sec. 982.204 (c) (1) states that the PHA administrative plan must state PHA policy on when applicant names may be removed from the waiting list. The policy may provide that the PHA will remove names of applicants who do not respond to PHA requests for information or updates.

24 CFR, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family, whose names reaches the top of the waiting list, to come in to verify eligibility for admission.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	12-05 (Continued)
Cause of Condition	The Municipality did not maintain a waiting list with all the required information in order that permits the PHA to select participants with all the available criteria.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart E, Sec. 982.204 (b) (1)-(5), 24 CFR, Subpart E, Sec. 982.204 (c) (1), 24 CFR, Sections 982.54 (d) and 982.201 through 982.207.
Recommendation	We recommend to the Municipality's management to improve its internal control and procedures in order to assure that the Program maintained a complete and accurate waiting list and that the updating process of the waiting list will be in accordance with the Municipality's Section 8 Administrative Plan and with the Housing Choice Voucher Program Guidebook.
Questioned Costs	None
Management Response	The waiting list is being established in a computer data base system, with all the required information. Currently, the complete information is registered in the historical waiting list (book), and not in the one used in a daily basis. Implementation Date: In process Responsible Person: Mr. Ramon Figueroa Cortés Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT

YEAR ENDED JUNE 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-02	14.218	<p><u>On our earmarking test over the funds used over the three year period, we found that the Municipality has not complied with the seventy percent (70%) of the funds that must be used over a period of up to three years for activities that benefit low - and moderate - income persons.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 12-02</p>
11-03	14.218	<p><u>On our test over the reports submitted to the grantor agency we found the following situations: (a) The Standard Forms 272 and 425 corresponding to the fiscal year 2010-2011 do not agree with the accounting records. The Standard Form 425 corresponding to the fourth quarter do not agree with the Bank Reconciliation as of June 30, 2011; (b) The amounts presented in the reports required by Section 1512 ARRA, do not agree with the accounting records.</u></p> <p>Corrective action has been taken.</p>
11-04	14.257	<p><u>On our test over the reports submitted to the grantor agency, we found the following situations: (a) The Integrated Disbursement and Information System (IDIS) reports: C04PR02 -List of Activities by Program Year and Project, C04PR19 - HPRP Statistics for Projects as of Grant Year, PR60 - HPRP Financial Summary Report and the PR61 HPRP Draw Report, corresponding to June 30, 2011, were not available to verify the amounts presented and compare the accuracy with the accounting records. (b) The amounts presented in the reports required by Section 1512 ARRA, do not agree with the accounting records.</u></p> <p>Corrective action has been taken.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT (CONTINUED)

YEAR ENDED JUNE 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
11-05	14.871	<p><u>We performed a Waiting List – Internal Control and Compliance Test and after our procedures, we found that the current Waiting List do not contains the following information: (a) Family unit size; (b) Racial or ethnic designation (c) Qualification for any local preference. Also the process of updating the Waiting List does not follow the required process stated in the Municipality's Administrative Plan.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 12-05</p>
11-06	93.600 93.708	<p><u>We performed a Cash Management Test and examined four (4) cash advances received by the Municipality during the fiscal year ended on June 30, 2011. Also, we 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, on a reasonable lapse of time; (b) The Municipality maintains an average cash balance of \$490,940 during the fiscal year ended on June 30, 2011.</u></p> <p>Corrective action has been taken.</p>
10-03	14.871	<p><u>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 \$381,848. Also, at June 30, 2010, the cash balance in books was \$359,552. In addition, the PHA maintained an average leasing rate of 80% 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 12-04</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT (CONTINUED)

YEAR ENDED JUNE 30, 2012

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
09-02	14.871	<p><u>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.</u></p> <p><u>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.</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>