

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**SINGLE AUDIT REPORT  
WITH INDEPENDENT AUDITORS' REPORT THEREON  
FISCAL YEAR ENDED JUNE 30, 2012**

**Table of Contents**

**Financial Section:**

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-25

**Basic Financial Statements:**

Government-wide Financial Statements:

Statement of Net Assets.....	26-27
Statement of Activities.....	28

Fund Financial Statements:

Balance Sheet – Governmental Funds.....	29
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets .....	30
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	31
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities .....	32

Budget Financial Statements:

Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund.....	33
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Notes to Basic Financial Statements .....	34-97
Independent Auditors' 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 .....	98-99
Independent Auditors' Report on Compliance With Requirements that Could Have a Direct And Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	100-102
Schedule of Expenditures of Federal Awards .....	103-104
Notes to Schedule of Expenditures of Federal Awards.....	105
Section I – Summary and Audit Results.....	106
Section II – Financial Statement Findings.....	107
Section III – Federal Award Findings and Questioned Costs.....	108-109
Prior Years Findings and Questioned Costs .....	110-116



**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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### *Independent Auditors' Report*

The Honorable Mayor, Members of the  
Municipal Legislature and People of  
Autonomous Municipality of Mayagüez  
Mayagüez, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Autonomous Municipality of Mayagüez, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. We also have audited the accompanying statement of revenues and expenditures – budget and actual – budgetary basis – general fund of the Municipality for the fiscal year then ended, which is presented as part of the basic financial statements. 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 respective financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the general fund for the fiscal year then ended in conformity with the budgetary (statutory) basis of accounting, as described in Note 1.

**Independent Auditors' Report**  
(Continuation)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 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. 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Finding Progress – Employees' Retirement System by the Government of Puerto Rico and its instrumentalities 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 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 Municipality's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and as derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico  
December 28, 2012

Stamp No.2672769 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

As management of the Municipality of Mayagüez (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Municipality's financial statements, which follow this narrative.

**FINANCIAL HIGHLIGHTS**

***Government-Wide Highlights:***

- The Municipality's assets exceeded its liabilities (net assets) by \$51,695,086 at June 30, 2012. The Municipality's net assets decreased by \$1,705,386 (excess of expenses over revenues) during the fiscal year ended June 30, 2012.
- The Municipality's assets increase from \$216,809,273 at June 30, 2011 to \$245,553,814 at June 30, 2012, for an increase of \$28,744,541 (13.26 percent).
- The liabilities of the Municipality increase from \$162,304,908 at June 30, 2011 to \$193,858,728 at June 30, 2012, for an increase of \$31,553,820 (19.44 percent).
- The revenues of the Municipality decreased from \$97,740,418 for the fiscal year ended June 30, 2011 to \$95,165,630 for the fiscal year ended June 30, 2012, for a decrease of \$2,574,785 (2.63 percent).
- The Municipality's expenses decreased from \$97,917,264 for the fiscal year ended June 30, 2011 to \$96,871,016 for the fiscal year ended June 30, 2012, for a decrease of \$1,046,248 (1.07 percent).

***Governmental Funds' Highlights:***

- The total fund balances of governmental funds amounted to \$86,720,769 at June 30, 2012, which increased by \$29,901,668 (excess of revenues and other financing sources over expenditures and other financing uses) during fiscal year ended June 30, 2012.
- The total assets of governmental funds increased from \$121,850,141 at June 30, 2011 to \$145,165,607 at June 30, 2012, for an increase of \$23,415,466 (19.13 percent).
- The governmental fund's total liabilities decreased from \$63,927,145 at June 30, 2011 to \$58,444,838 at June 30, 2012, for a decrease of \$5,482,309 (8.58 percent).
- The total revenues of governmental funds increase from \$98,173,049 for the fiscal year ended June 30, 2011 to \$100,116,191 for the fiscal year ended June 30, 2012, for an increase of \$1,943,142 (1.98 percent).
- The governmental fund's total expenditures increased from \$107,274,828 for the fiscal year ended June 30, 2011 to \$110,395,523 for the fiscal year ended June 30, 2012, for an increase of \$3,120,695 (2.91 percent).
- Other financing sources (uses) net, of governmental funds increased from \$3,085,000 for the fiscal year ended June 30, 2011 to \$40,181,000 for the fiscal year ended June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. Many external parties use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2012. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS) and (3) notes to the basic financial statements (NBFS). This report also contains additional required and other supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

### **a) Government-wide Financial Statements**

The GWFS are composed of: (1) the statements of net assets (SNA) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2012. The GWFS are prepared using methods that are similar to those used by most private businesses.

#### **I. Statement of Net Assets**

The purpose of SNA is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments or municipal solid waste landfill closure and post closure care costs, even though these liabilities might not be paid until several fiscal years into the future. The difference between the Municipality's total assets and total liabilities reported in SNA is presented as *net assets*, which is similar to the total owners' equity reported by a commercial

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)**

**a) Government-wide Financial Statements (Continuation)**

**1. Statement of Net Assets (Continuation)**

enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net assets, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

**2. Statement of Activities**

The SA presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2012, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net assets*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

GWFS and GFFS present all of the Municipality's governmental activities, which are supported mostly by taxes and intergovernmental revenues (such as federal and state grants and contributions). All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)**

**b) Governmental Fund Financial Statements**

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Fund accountings segregates funds according to their intended purpose and are used to aid management in demonstrating compliance with legal, financial and contractual provisions.

Governmental funds are used to account for all of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of GFFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, GFFS report the Municipality's operations in more detail than the GWFS.

GFFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is to say, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects fund and (5) permanent funds.

GFFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, GFFS focus on near-term inflows and outflows of expendable financial resources, consequently, generally measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)**

**b) Governmental Fund Financial Statements (Continuation)**

Because the focus of GFFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has five major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The five major governmental funds are: (1) general fund, (2) state legislative joint resolutions special revenue fund, (3) head start special revenue fund, (4) permanent improvements bonds fund and (5) debt service fund.

**c) Notes to Basic Financial Statements**

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and GFFS. The NBFS can be found immediately following the basic financial statements.

**d) Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information (RSI) which consists of the Schedule of Funding Progress of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS). ERS is the multi-employer cost-sharing retirement system in which the employees of the Municipality participate.

**e) Other Supplementary Information**

The RSI is followed by a section of other supplementary information (OSI) which consists of: (1) combining balance sheet – non-major governmental funds, (2) combining statement of revenues, expenditures and changes in fund balances (deficits) – non-major governmental funds, (3) budgetary comparison schedule – debt service fund, (4) notes to budgetary comparison schedule – debt service fund and (5) schedules of capital assets used in the operation of governmental funds, as detailed in the accompanying table of contents.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Municipality's overall financial position and operations for the last two fiscal years are summarized as follows, based on the information included in the accompanying GWFS:

**Comparative Condensed Statement of Net Assets**  
**Governmental Activities**  
**Fiscal Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Current assets	\$ 138,895,973	\$ 114,727,938
Noncurrent assets:		
Capital assets, net	105,546,943	100,991,644
Other noncurrent assets	<u>1,110,898</u>	<u>1,089,691</u>
Total assets	<u>245,553,814</u>	<u>216,809,273</u>
<b>Liabilities:</b>		
Current liabilities	39,823,604	42,480,852
Long-term liabilities due within one year	11,706,022	11,272,687
Noncurrent liabilities:		
Long-term liabilities due after one year	<u>142,329,104</u>	<u>108,551,369</u>
Total liabilities	<u>193,858,730</u>	<u>162,304,908</u>
<b>Net assets (liabilities):</b>		
Invested in capital assets, net of related debt	67,705,236	52,008,854
Restricted	29,160,089	18,712,380
Unrestricted	<u>(45,170,241)</u>	<u>(16,216,869)</u>
Total net assets	<u>\$ 51,695,084</u>	<u>\$ 54,504,365</u>

At June 30, 2012, the Municipality's current assets, amounting to \$138,895,973 are mainly composed of restricted cash (\$105,981,494), unrestricted cash and cash equivalents (\$17,229,307), property taxes receivable (\$2,850,388), municipal license taxes receivable (\$3,517,573) and intergovernmental receivables (\$2,913,433).

The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets and (3) the operations of federally and state funded programs. Restricted cash also consists of unspent proceeds of bonds issued to pay accounts payable and certain specific commitments. Restricted property taxes receivable represent resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

The Municipality's noncurrent assets, amounting to \$106,657,841 at June 30, 2012, are substantially composed of capital assets, with a cost basis of \$172,419,149, which are reported net of accumulated depreciation, and amortization of \$66,872,206.

At June 30, 2012, the assets of the Municipality increased by \$28,744,541 (13.26 percent) in comparison with prior fiscal year, principally for the following facts:

- Restricted cash and cash equivalents increased by \$32,377,390 due to the net effect of a bonds issuance of \$40,181,000 uses for payment of certain operating expenses, acquisition of capital assets and permanent improvements.
- Property taxes receivable decreased by \$4,616,475 due to the effect of write off of bad debts accounts by revenue collection center (CRIM) during the fiscal year.
- Intergovernmental receivables decreased by \$371,423 due to expenses incurred in program before the end of fiscal year.
- Capital assets increased by \$4,555,299 due to the excess of current year additions (\$8,041,086) over depreciation/amortization expense (\$3,446,811) for the fiscal year ended June 30, 2012.

At June 30, 2012, the Municipality's current liabilities amounting to \$51,529,624 are mainly composed of unearned revenues (\$20,194,568), accounts payable and accrued liabilities (\$16,224,941), intergovernmental payables (\$3,404,093) the portions due within one year of compensated absences (\$3,153,616) and bonds payable (\$8,035,000). Unearned revenues principally consist of unearned revenues associated with municipal license taxes and intergovernmental grants and contributions related to state and federally funded programs. As noted in the condensed statement of net assets, the Municipality's current assets exceeded current liabilities by \$87,366,349, for a current ratio (current assets to current liabilities) of 2.70 to 1.00.

The Municipality's noncurrent liabilities, amounting to \$142,329,104 at June 30, 2012, are mainly composed of portions due after one year of bonds payable (\$124,423,201), notes payable (\$1,233,383), compensated absences (\$3,741,137) and claim and judgments (\$9,392,847). Noncurrent liabilities include also the estimated liability for the municipal solid waste landfill closure and post closure care costs (\$3,266,076).

At June 30, 2012, the liabilities of the Municipality increased by \$31,553,820 (19.44 percent) in comparison with prior fiscal year-end, principally for the following facts:

- Bonds payable increased by \$32,806,001 due to the net effect of relate debt service principal payments and bond issuance made during current fiscal year.
- Notes payable decreased by \$196,545 due to the net effect of the related debt service principal payments made during current fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

- Unearned revenues decreased by \$4,211,794 due to: (1) the decrease of \$2,377,617 in municipal license taxes collected in advance (corresponding to fiscal year 2012-2013) and (2) the decrease of \$1,834,177 in grants and contributions for which not all eligibility requirements have been met at June 30, 2012.
- Intergovernmental payables, account payables and accrued liabilities increased by \$1,554,544 due principally to: (1) the increase of \$1,819,092 on restricted account payables, and (2) the decrease of \$372,043 on account payables and accrued liabilities.

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. The assets of the Municipality exceeded liabilities by \$51,695,086 at June 30, 2012. The most significant portion of net assets (\$67,705,236) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net assets (\$29,160,089) at June 30, 2012, represents resources that are subject to external restrictions on how they must be used, such as: (1) debt service (\$12,905,162), (2) General governments' activities (\$13,603,673) and (3) other governmental activities, principally to finance federally and state funded programs (\$2,651,254).

The remaining component of total net assets consists of an unrestricted liabilities amounting to \$45,170,241 at June 30, 2012. These unrestricted liabilities are the consequence of previous budgets that not provide sufficient funding for incurred long-term obligations, such as solid waste landfill closure and post closure care costs, bonds and notes payable, compensated absences, claims and judgments, certain obligations under capital leases, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net assets of the Municipality decreased by \$1,705,386 for the fiscal year ended June 30, 2012. Such decrease is due to the excess of total expenses (\$96,871,016) over revenues (\$95,165,630) for the fiscal year ended June 30, 2012 and is principally composed as follows:

- An increase of \$15,696,382 in net assets invested in capital assets, net of related debt. The increase in this net asset category is due to the combination of: (1) the excess of current year additions (\$8,041,086) over depreciation/amortization of capital assets (\$3,446,811), (2) the net increase of \$23,482,719 in outstanding debt related to the acquisition, construction or improvement of capital assets and (3) and the net increase of \$34,526,698 in the unspent proceeds of debt associated with the acquisition, construction or improvement of capital assets.
- An increase of \$10,447,709 in restricted net assets due principally to an increase of \$15,696,382 in net assets restricted to the acquisition, construction and improvements of mayor capital assets, an increase in assets restricted to debt service of \$2,586,704.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

- An increase of \$28,953,460 in unrestricted net liabilities due principally to: (1) an increase of \$1,252,093 in the estimated liability for solid waste landfill closure and post closure care costs, (2) a increase of \$79,805 in accrued vacation and sick pay expenses, (3) a decrease of \$3,745,191 in accounts receivables, (4) an increase of \$7,883,572 in general governments activities.

The following is a comparative condensed presentation of the Municipality's results of operations as reported in the GWFS:

**Statement of Activities**  
**Governmental Activities**  
**Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Program revenues:</b>		
Program-specific operating grants and contributions	\$ 20,644,146	\$ 19,526,027
Program-specific capital grants and contributions	437,632	4,537,135
Charges for services	3,512,909	3,489,249
Total programs revenues	24,594,687	27,552,411
<b>General revenues:</b>		
Property taxes	26,169,449	33,212,379
Municipal license taxes	14,293,215	10,527,599
Sales Taxes	10,686,497	10,267,965
Unrestricted grants and contributions	11,772,040	10,607,303
Other general revenues (various sources)	7,649,742	5,572,761
Total general revenues	70,570,943	70,188,007
Total revenues	95,165,630	97,740,418
<b>Program expenses:</b>		
General Government	27,330,203	30,775,336
Public Safety	5,278,141	6,138,427
Urban Economic Development	12,011,874	12,940,254
Health and Sanitation	13,278,358	12,626,587
Culture, Recreation and Education	20,181,773	19,778,308
Public Housing and Welfare	13,092,103	11,691,559
Interest on Long-term Obligations	5,698,564	3,966,793
Total expenses	96,871,016	97,917,264
<b>Net (decrease) increase in assets</b>	(1,705,386)	(176,846)
<b>Net assets, at beginning of fiscal year</b>	54,504,365	54,681,211
Prior year adjustment and reclassification	(1,103,895)	-
<b>Net assets, at beginning of fiscal year as restated</b>	53,400,470	54,681,211
<b>Net assets, at end of fiscal year</b>	\$ 51,695,084	\$ 54,504,365

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

As previously mentioned, the Municipality's net assets decreased by \$1,705,386 or (3.19) percent during current fiscal year. Approximately 57.23 percent (\$54,463,870) of the Municipality's total revenues for the current fiscal year came from property, municipal license, sales taxes, and construction excise taxes while 22.15 percent (\$21,081,778) resulted from restricted and unrestricted capital and operating grants and contributions. Charges for services and other revenues, amounting to \$3,512,909, provided 3.69 percent of the total revenues for the current fiscal year.

There was an increase of \$1,528,540 (8.64 percent) in the net change in net assets for the Municipality as a whole, when operations for the fiscal current year are compared to those of the prior fiscal year. This occurred because the decrease of \$2,574,788 in total revenues was sufficient to offset the decrease in total expenses of \$1,046,248. The most significant fluctuations among the current fiscal year revenues and those of the prior fiscal year were as follows:

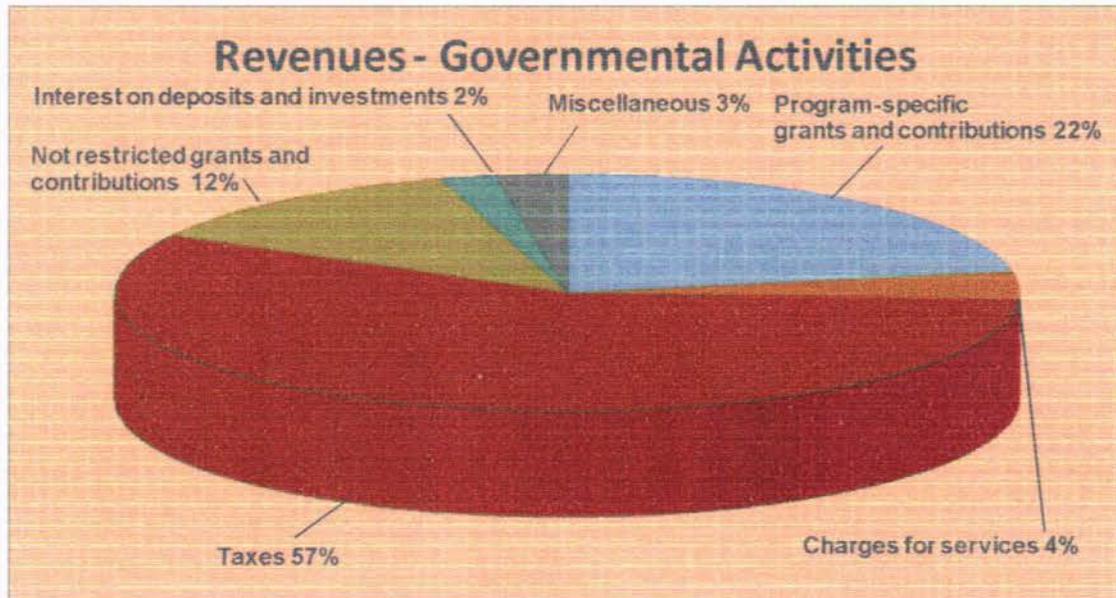
- Other government general revenues increased by \$1,777,929 during the fiscal year. The increase in other governments grant revenues is due to an increase in interest revenues due to the issuance of debts for capital improvements, increase in federal grant and contributions and miscellaneous income during the year.
- Charges for services increased by \$23,660 principally due to: (1) increase in Health and Sanitation activities amounting to \$68,003, (2) decrease in urban and economic development activities amounting to \$ 27,980 and (3) decrease in other activities amounting to \$16,363, which were received during current fiscal year.
- Program-specific capital and operating grants and contributions decreased by \$2,981,384 principally due to: (1) an decrease of \$3,602,540 in capital grant revenues related to urban and economic development programs, (2) a decrease in other grant revenues, for public safety, amounting to \$484,359, (3) increase in other grant revenues for culture, recreation and education programs amounting to \$620,649 and (4) increase in other capital grant revenue for public housing and welfare, amounting to \$ 571,396

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

The following table presents the composition of revenues for the fiscal year ended June 30, 2012:



The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2012 were related to: (1) general administrating and operating costs (\$27,330,203), which were classified as "general government" and accounted for 28.21 percent of total expenses, (2) public safety (\$5,278,141), which accounted for 5.45 percent of total expenses, (3) urban and economic development (\$12,011,874), which accounted for 12.40 percent of total expenses, (4) health and sanitation (\$13,278,358), which accounted for 13.71 percent of total expenses, (5) culture, recreation and education (\$20,181,773), which accounted for 20.83 percent of total expenses and (6) public housing and welfare (\$13,092,103), which accounted for 13.51 percent of total expenses.

The most significant fluctuations between the current fiscal year's expenses and those of the prior fiscal year occurred in the following functions/activities:

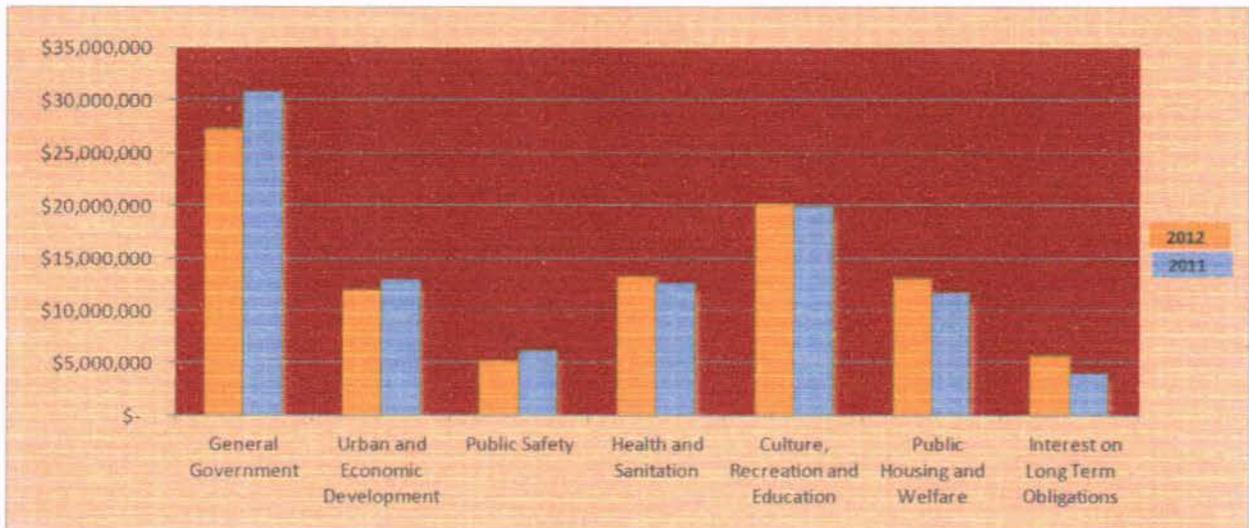
- General Government expenses decreased by \$3,445,133 due to an implementation of new policies of expenditure control during the fiscal year.
- Public Housing and Welfare expenses increased by \$1,400,544 due to an increase in direct services to citizens
- Interest on long-term obligations increased by \$1,731,771, in comparison with the prior fiscal year, principally due to the net increase in bonds issuance during the year to finance capital projects.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The following table presents the composition of expenses for the fiscal years ended June 30, 2012 and 2011:

Expenses by Functions/Program  
Fiscal Year Ended June 2012 and 2011



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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

**Comparative Condensed Balance Sheet - Governmental Funds**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<i>Assets:</i>		
Total assets - major governmental funds	\$ 137,838,480	\$ 110,697,147
Total assets - other governmental funds	7,327,127	11,152,994
Combined total assets	145,165,607	121,850,141
 <i>Liabilities:</i>		
Total liabilities - major governmental funds	53,705,973	55,066,802
Total liabilities - other governmental funds	4,738,865	8,860,343
Combined total liabilities	58,444,838	63,927,145
 <i>Fund balances:</i>		
Non-spendable	94,573	170,898
Restricted for	16,160,354	7,597,046
Committed to	73,240,398	49,351,278
Unassigned	(2,774,556)	803,774
Combined total fund balances	86,720,769	57,922,996
 <i>Total liabilities and fund balances</i>	 \$ 145,165,607	 \$ 121,850,141

*Analysis of Financial Position of Governmental Funds*

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2012, the total assets of governmental funds increased by \$23,315,466 (19.13 percent) in comparison with the prior fiscal year principally for: (1) the decrease on investments in certificates of deposits of \$3,016,332, (2) the increase in intergovernmental grants and contributions receivables of \$554,333, (3) the increase in restricted cash of \$32,601,325, (4) the decrease in property and sales taxes and municipal license of \$4,503,169.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

At June 30, 2012, the total liabilities of governmental funds decreased by \$5,482,309 (8.58 percent) in comparison with the prior fiscal year principally for: (1) a net decrease of \$5,246,538 in deferred revenues, (2) a net increase of \$1,266,714 on intergovernmental and accounts payables, (3) a net decrease due to other funds of \$776,671.

For a detailed explanation of the individual fluctuations of total assets and total liabilities of governmental funds, please refer to the previous financial analysis of the government-wide financial statements included in this management's discussion and analysis, where a detailed discussion of most of these fluctuations has been made.

At the end of the current fiscal year, total unassigned fund balances of the governmental funds amounted to (\$2,774,556) while total fund balance reached \$86,720,769. The total fund balances increased by \$28,797,775 during the current fiscal year. The most significant fluctuation in total fund balances occurred in (1) committed fund for encumbrances, which decrease by 47.22 percent (\$2,653,039), and (2) the unassigned fund balance, which decrease by 445.19 percent (\$3,578,330).

The following is a detailed financial analysis of the Municipality's governmental funds:

**Major Governmental Funds**

**General Fund (GF)** - The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$41,010,570 at June 30, 2012. Such assets consist mainly of: (1) unrestricted and restricted cash and cash equivalents (\$27,854,061), (2) property, municipal license and sales tax receivables (\$7,136,888), (3) short-term and long-term amounts due from other funds (\$2,375,512) and (4) intergovernmental grants and contribution receivable (\$2,913,433).

The GF's total liabilities amounted to \$30,194,453 at June 30, 2012. Such liabilities are composed of: (1) deferred revenues (\$18,733,672) and (2) accounts payable and accrued liabilities, including amounts due to other governments (\$8,429,130).

At the end of the current fiscal year, unreserved fund balance of the GF amounted to (\$2,774,556) while total fund balance reached \$10,816,117. As a measure of the GF's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents (4.10) percent of the total GF's expenditures, while total fund balance represents 16.00 percent of total GF's expenditures.

**State Legislative Joint Resolutions Special Revenue Fund (SLJRSRF)** - The SLJRSRF's total assets amounted to \$7,029,927 at June 30, 2012, which consist of restricted cash in commercial banks. The SLJRSRF's total liabilities amounted to \$6,960,183 at June 30, 2012, which are mainly composed of deferred revenues (\$6,959,983). At the end of the current fiscal year, SLJRSRF's total and reserved fund balance reached \$69,744.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

**Major Governmental Funds**  
**(Continuation)**

**Head Start Special Revenue Fund (HSSRF)** - The HSSRF's total assets amounted to \$171,990 at June 30, 2012, which consist mainly of intergovernmental grants and contributions (\$114,055). The HSSRF's total liabilities amounted to \$165,742 at June 30, 2012, which are mainly composed of account payables and accrued liabilities (\$129,270). At the end of the current fiscal year, HSSRF's total and reserved fund balance reached \$6,248.

**Permanent Improvements Bonds Fund** - The PIBF's total assets amounted to \$64,990,772, which consist mainly of restricted cash in fiscal agent and commercial banks (\$64,406,706). The PIBF's total liabilities amounted to (\$4,655,536) at June 30, 2012, which are mainly composed of account payables and accrued liabilities (\$3,177,002). At the end of the current fiscal year, PIBF's total and committed for fund balance reached \$60,335,236.

**Debt Service Fund (DSF)**- The DSF's total assets amounted to \$24,635,221 at June 30, 2012, which consist mainly of restricted cash in fiscal agent (\$18,896,480) and restricted property taxes receivable net of allowances (\$3,135,698). The DSF's total liabilities amounted to \$11,730,059 at June 30, 2012, which is mainly composed of: (1) matured bonds due and payable (\$7,854,800), (2) matured interest due and payable (\$2,437,034) and (3) deferred revenues (\$1,438,225). At the end of the current fiscal year, DSF's total and restricted for fund balance reached \$12,905,162.

**Other Governmental Funds**

**Other Governmental Funds (OGF)**- The OGF's total assets amounted to \$7,327,127 at June 30, 2012, which consist mainly of restricted cash in commercial banks (\$4,965,692) and restricted receivables from intergovernmental grants and contributions (\$786,950). The OGF's total liabilities amounted to \$4,738,865 at June 30, 2012, which are mainly composed of due to other funds (\$2,032,564) and deferred revenues (\$1,983,134). At the end of the current fiscal year, OGF's total and restricted for fund balance reached \$2,493,691.

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

**Condensed Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds  
Fiscal Year Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<i><b>Revenues:</b></i>		
Total revenues - major governmental funds	\$ 88,368,565	\$ 84,647,494
Total revenues - other governmental funds	11,747,626	13,525,555
Combined total revenues	100,116,191	98,173,049
<i><b>Expenditures:</b></i>		
Total expenditures - major governmental funds	98,988,320	93,982,053
Total expenditures - other governmental funds	11,407,203	13,292,776
Combined total expenditures	110,395,523	107,274,829
<i><b>Excess of revenues over (expenditures)</b></i>	<i>(10,279,332)</i>	<i>(9,101,780)</i>
<i><b>Other financing sources (uses), net:</b></i>		
Other financing sources, net - major governmental funds	40,181,000	3,085,000
Other financing sources (uses), net - other governmental funds	-	-
Combined other financing sources (uses), net	40,181,000	3,085,000
<i><b>Net change in fund balance</b></i>	29,901,668	(6,016,780)
<i><b>Fund balance, at beginning of fiscal year</b></i>	57,922,996	63,939,776
Prior year adjustment and reclassification	(1,103,895)	-
<i><b>Fund balance, at beginning of fiscal year as restated</b></i>	56,819,101	63,939,776
<i><b>Fund balance, at end of fiscal year</b></i>	<i>\$ 86,720,769</i>	<i>\$ 57,922,996</i>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

*Analysis of Operating Results of Governmental Funds*

**Major Governmental Funds**

**General Fund** - The total fund balance of the GF increased by \$2,478,767 or 25.06 percent during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$61,977,767, \$67,618,509 and \$8,119,509, respectively, for the fiscal year ended June 30, 2012.

Approximately 73.87 percent (\$45,781,515) of the GF's total revenues for the current fiscal year came from property tax, municipal license tax, sales tax, construction excise taxes, and intergovernmental grants and contributions, while 5.91 percent (\$3,665,775) resulted from charges for services and interest on deposits and investments. Miscellaneous revenues, amounting to \$2,219,648, provided 3.58 percent of the total revenues for the current fiscal year.

There was an increase of \$4,140,751 (249.15 percent) in the GF's net change in fund balance when operations for the current fiscal year are compared to those of the prior fiscal year. This occurred because the increase of \$2,515,575 in total revenues and the increase in total expenditures of \$1,387,855 were not sufficient to offset the increase in other financing uses (net) of \$8,119,509.

The GF most significant fluctuations among the current fiscal year revenues and those of the prior fiscal year were as follows:

- Sales taxes increased by \$86,301 mainly due to changes made to the imposition of new tax by the central government to the citizens, including the recognition in the debt service fund of the percent designated to increase the debt margin.
- Municipal license revenues increased by \$1,903,515 due to the overall economic conditions of the west region of Puerto Rico in comparison with the prior fiscal year.
- Construction excise taxes increase by \$567,282 mainly due to significant increase in construction investment driven by infrastructure.
- Property taxes decrease by \$525,461 and charges for services decreased by \$122,143.

The most significant fluctuation between the current fiscal year expenditures and those of the prior fiscal year occurred in general governments, which increased by \$2,108,900, decreased in Urban and Economics Developments (\$680,427), and a increased in Health and Sanitation \$832,404. Other financing uses (net) increased by \$8,119,509 mainly due to the increase of interfund transaction in comparison with the prior fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

*Analysis of Operating Results of Governmental Funds*

**Major Governmental Funds**  
**(Continuation)**

**State Legislative Joint Resolutions Special Revenue Fund (SLJRSRF)** - The total fund balance of the SLJRSRF increased by \$3,610 or 5.46 percent during current fiscal year. Total revenues and expenditures, amounted to \$327,969 and \$324,359, respectively, for the fiscal year ended June 30, 2012.

Approximately 98.90 percent (\$324,359) of SLJRSRF's total revenues for the current fiscal year came from intergovernmental grants. There was an increase of \$279,066 in the SLJRSRF's total revenues (mainly on intergovernmental grants), while total expenditures increased by \$269,724 (mainly on direct benefits to citizens).

**Head Start (HSSRF)** - The total fund balance of the HSSRF increased by \$49 or .79 percent during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$9,741,162, \$10,781,758 and \$1,040,645, respectively, for the fiscal year ended June 30, 2012.

Approximately 99.99 percent (\$9,741,113) of HSSRF's total revenues for the current fiscal year came from intergovernmental grants. There was an increase of \$540,080 in the HSSRF's total revenues (mainly on intergovernmental grants), while total expenditures increased by \$755,427 (mainly on direct benefits to citizens). Other financing sources (net) increased by \$215,245.

**Permanent Improvements Bond Fund (PIBF)** - The total fund balance of the PIBF increased by \$24,736,509 or 69.98 percent during current fiscal year. Total revenues, expenditures, and other financial sources and uses net amounted to \$2,033,283, \$7,568,985, and \$30,272,211 respectively, for the fiscal year ended June 30, 2012.

Approximately 54.78 percent (\$1,113,810) of PIBF's total revenues for the current fiscal year came from the Commonwealth of Puerto Rico Grants and Contributions. There was a decrease of \$13,667 in the PIBF's total revenues (Commonwealth of Puerto Rico Grants and Contributions), while total expenditures increased by \$1,295,803 (mainly on capital outlays).

**Debt Service Fund (DSF)** - The total fund balance of the DSF increased by \$2,586,704 or 25.07 percent during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$14,288,384, \$12,694,709 and \$993,029, respectively, for the fiscal year ended June 30, 2012.

Approximately 88.32 percent (\$12,620,200) of DSF's total revenues for the current fiscal year came from restricted property taxes. There was an increase of \$2,586,704 in the DSF's net change in fund balance when operations for the current fiscal year are compared to those of the prior fiscal year. This occurred because of: (1) the increase in total revenues (\$400,017), (2) the increase in other net financing sources (\$2,424,670), and (3) the increase of \$1,297,458 in total expenditures

The increase in total DSF's revenues is mainly due to the increase of 0.53 percent (\$66,310) in property tax revenues in this fund. Other financing sources increased by \$2,424,670 in comparison with the prior fiscal year.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)**

**Other Governmental Funds**

**Other Governmental Funds (OGF)** - The total fund balance of the OGF increased by \$96,029 or 3.85 percent during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to \$11,747,626, \$11,407,203 and (\$244,394), respectively, for the fiscal year ended June 30, 2012.

Approximately 96.54 percent (\$11,340,665) of OGF's total revenues for the current fiscal year came from intergovernmental grants. There was a decrease of \$1,777,929 in the OGF's total revenues (mainly on intergovernmental grants revenues), while total expenditures decreased by \$1,885,572 (mainly on direct benefits to citizens). Other financing uses (net) decrease by \$836,468.

**BUDGETARY HIGHLIGHTS**

**a) General Fund**

The original budget of the general fund for the fiscal year ended June 30, 2012 amounted to \$69,221,223. Actual revenues decreased final budget revenues by \$6,134,711. The total variance was primarily attributed to decrease on municipal license taxes of \$2,933,802, decrease in sales taxes of \$1,473,579, construction excise taxes decrease of \$1,178,931 and interest on deposits and investments increase of \$254,974.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2012 were \$63,086,512, which is 8.86 percent (\$6,134,711) less than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2012 were \$48,267,404, which is 27.05 percent (\$17,901,744) less than the budgeted expenditures. Furthermore, the total actual other financing uses (budgetary basis) of the general fund for the fiscal year ended June 30, 2012 were \$3,304,325.

The total variance in expenditures was principally due to a strong cost reduction initiative implemented by the Municipality during current fiscal year, which emphasized in reducing general and administrative costs while increasing direct services to citizens.

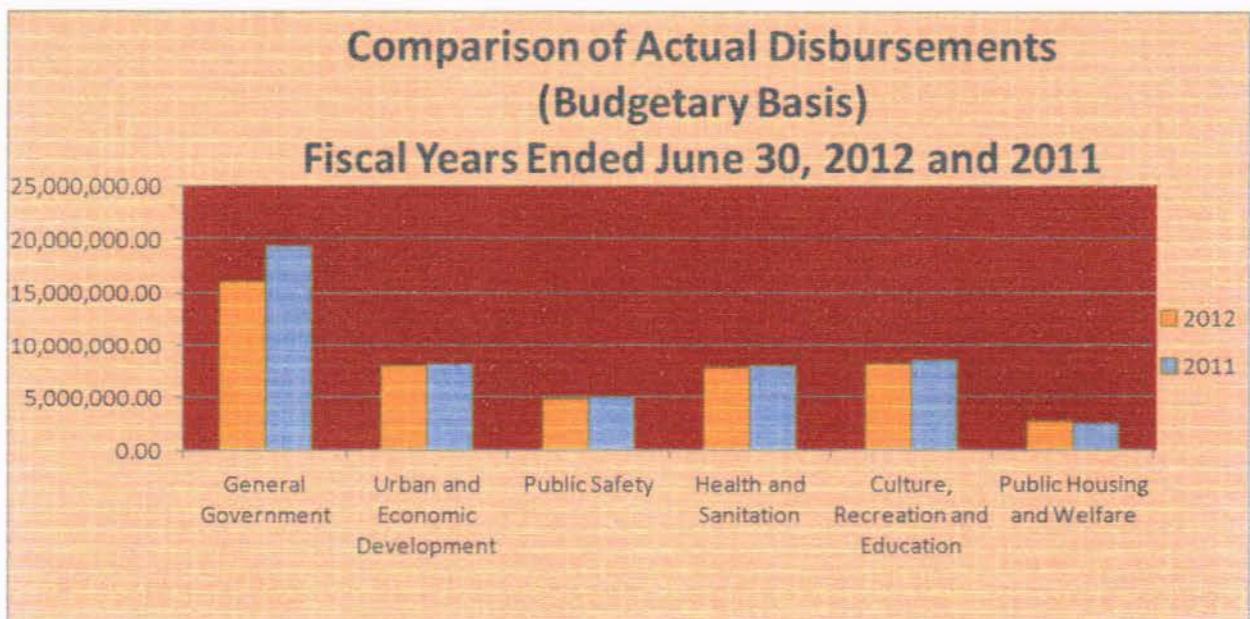
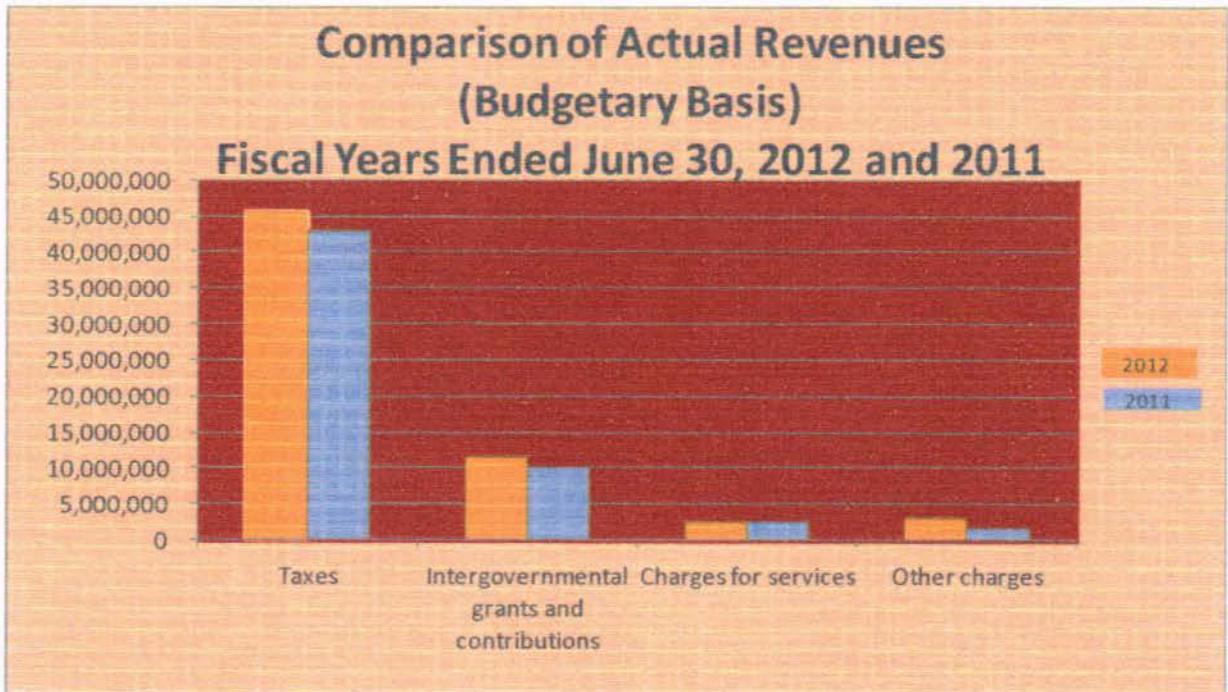
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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2012

**BUDGETARY HIGHLIGHTS (Continued)**

**a) General Fund (Continuation)**

The following tables present the actual revenues and expenditures (budgetary basis) of the GF for the fiscal year ended June 30, 2012:



**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Management's Discussion and Analysis  
 Fiscal Year Ended June 30, 2012

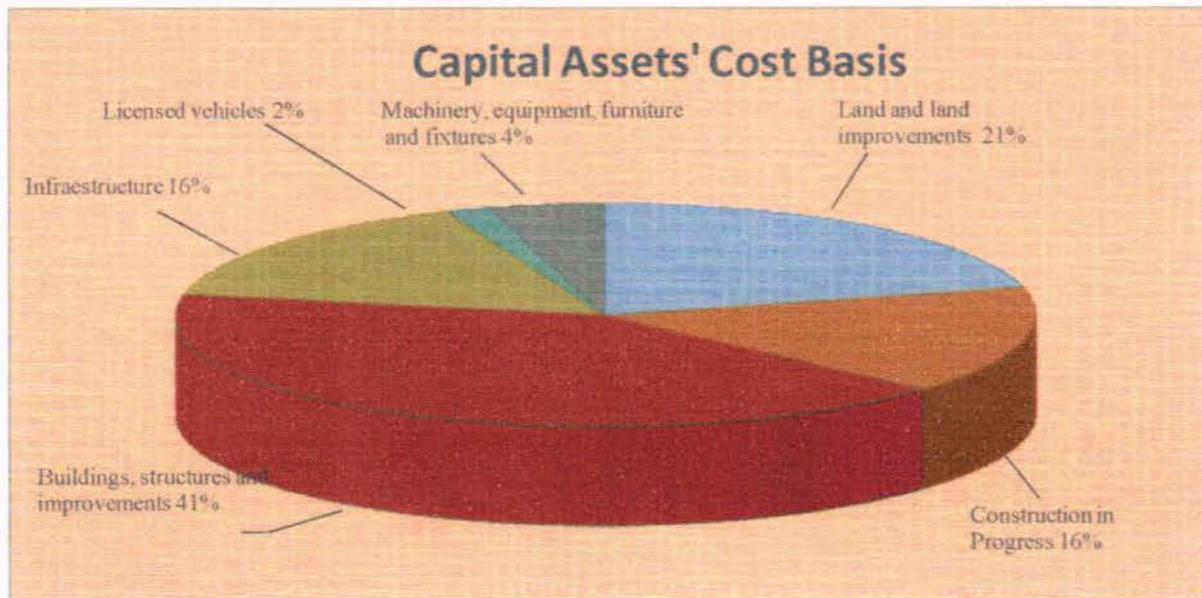
**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**a) Capital Assets**

The Municipality has invested \$172,419,149 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$66,872,206 at June 30, 2012. The total capital assets increased by \$4,594,275 during the current fiscal year mainly due to the current fiscal year's capital additions (\$8,002,111), which were partially offset by the depreciation and amortization expense (\$3,446,811). For detailed information, refer to Note 10.

Approximately 99.52 percent of the total capital additions made to capital assets during the fiscal year ended June 30, 2012 were related to construction in progress (\$8,002,111). The major capital additions for the fiscal year ended June 30, 2012 were the following:

El Italiano Bridge	\$ 415,134
Barrio Paris Children Park	586,128
Casa Grande Design and Restoration	300,928
El Guallo Community Bridge	150,520
Pedro Albizu Campos Square	191,797
Improvements to Toño Ramírez's Pathway	185,084
Sector Carrizosa Contention Wall	182,793
Improvements to Recreational Facilities Quebrada Grande	178,741
Casa Pilar Defillo Improvements and Design	166,000
Los Adventistas Pathway Contention Wall	164,375
Total major capital additions for the fiscal year ended June 30, 2012	<u>\$2,521,500</u>



**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

**b) Debt Administration**

The Municipality finances a significant portion of its construction activities through bond and note issuances and state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2012, the Municipality's total bonded debt amounted to \$132,459,001. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2012:

- The Municipality has also certain outstanding notes payable due the Municipal Revenue Collection Center (\$1,283,132). Such notes payable decreased by \$196,545 during the current fiscal year mainly due to the principal payment made during the same period.
- Bond payable increased by \$40,181,000 due to the issuance of a new bond. The refinancing was made through the issuance of a special obligation bond.

The total property assessed value the Municipality amounted to \$4,548,409,784 as of June 30, 2012. The Municipality's legal debt margin amounted to \$396,948,680 at the current fiscal year-end.

More information related to long-term obligations maybe obtained in Note 12.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The territory of Mayagüez covers an area of approximately 77 square miles. Mayagüez is the municipality with the highest population density in the Region, with a population density of 1,267.9 habitants per square mile, which is equivalent to 20 percent of the total population of the Region.

Mayagüez is characterized by being the economic integration center of the Region since it is considered the principal source of jobs and services of commercial, educational and health nature in the Region. From the industrial perspective, Mayagüez accounts for 10 percent of the manufacturing jobs, 22 percent of the finance-related jobs and 25 percent of the service-related jobs in the Region.

Of the total population of the Municipality, 51 percent or approximately 51,000 persons are considered to live under the poverty level. This rate is lower than the overall rate for the region (54 percent) but higher than the overall rate for Puerto Rico (48 percent). Approximately 20 percent of the population of the Municipality receives public financial assistance as their principal source of income.

The municipalities of Lajas, Cabo Rojo, Hormigueros, San Germán, Sabana Grande and Mayagüez constitute the employment market area (EMA) of Mayagüez, as defined by the Department of Labor and Human Resources of Puerto Rico. Of the total 87,500 jobs in this Region, Mayagüez participates in 80 percent of them. This figure is lower than the corresponding EMA's of the Ponce region (85 percent) and of the San Juan region (24 percent). However, 82 percent of the workers of the Municipality are residents of Mayagüez, while the corresponding percentage for Ponce and San Juan are 86 percent and 75 percent, respectively.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2012

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)**

The Municipality relies primarily on property, municipal license, and sales taxes, as well as, federal and state grants to carry out its governmental activities. Historically, property and municipal license taxes have been very predictable with increases or decreases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2011-2012 fiscal year. There were no significant changes between the budgets for fiscal year 2010-2011 and the budgets for fiscal year 2011-2012. The budgets of the GF and the DSF for the fiscal year 2011-2012 amounted to \$69,221,223 and \$10,391,670, respectively. These amounts represent a decrease of \$1,203,871 (1.70 percent) in the total budgeted revenues of the GF in comparison with the prior fiscal year.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Municipality of Mayagüez, Department of Finance and Budget, P. O. Box 945, Mayagüez, Puerto Rico, 00681.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Statement of Net Assets  
June 30, 2012

<b>Assets</b>		<u><b>Governmental Activities</b></u>
<b>Current Assets:</b>		
Cash in commercial banks		\$ 17,229,307
Accounts receivable, net of allowance for doubtful accounts of \$21,440,877:		
Taxes:		
Property	\$ 2,850,388	
Municipal license	3,517,573	
Sales	768,927	
Intergovernmental grants and contributions	2,913,433	
Others, net of allowance for doubtful accounts of \$20,170,782	863,726	
Total accounts receivable, net		10,914,047
<b>Restricted assets:</b>		
Cash in commercial banks	35,057,167	
Cash in fiscal agent	70,924,327	
Property taxes, net of allowance for doubtful accounts of \$10,491,031	3,135,698	
Current portion of mortgage loans and notes	150,356	
Accrued interest on deposits and investments	1,595	
Intergovernmental grants and contributions	1,483,476	
Total restricted assets		110,752,619
Total current assets		138,895,973
<b>Noncurrent Assets:</b>		
Restricted assets- mortgage loans and notes, excluding current portion net of allowance for doubtful accounts of \$2,184,663		570,624
<b>Capital assets, at cost:</b>		
Depreciable capital assets, net of reserve for impairments	140,284,079	
Nondepreciable capital assets	32,135,070	
Total capital assets, at cost	172,419,149	
Less: accumulated depreciation and amortization	(66,872,206)	
Total capital assets, net of accumulated depreciation and amortization		105,546,943
Deferred charges, net of accumulated amortization of \$412,579		540,274
Total noncurrent assets		106,657,841
Total assets		\$ 245,553,814

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Statement of Net Assets (concluded)  
June 30, 2012

**Liabilities and Net Assets**

	<u>Governmental Activities</u>
<b>Current Liabilities (due within one year):</b>	
Accounts payable and accrued liabilities, including intergovernmental payables of \$3,398,114	\$ 8,430,225
Unearned revenue - Municipal licence tax	10,371,240
Liabilities payables from restricted assets:	
Accounts payable and accrued liabilities, including accrued interest of \$6,588,908	\$ 11,192,830
Intergovernmental payables	5,979
Unearned revenue	9,823,330
Current portion of long-term obligations:	
Bonds payable	8,035,800
Notes payable	49,749
Obligations under capital leases	290,374
Compensated absences	3,153,616
Estimated liability for municipal solid waste landfill closure and postclosure care costs	98,972
Claim and judgments	77,511
Total liabilities payables from restricted assets:	<u>32,728,161</u>
Total current liabilities	<u>51,529,626</u>
<b>Restricted noncurrent liabilities, excluding current portion (due in more than one year):</b>	
Bonds payable	124,423,201
Notes payable	1,233,383
Obligations under capital leases	272,460
Compensated absences	3,741,137
Estimated liability for municipal solid waste landfill closure and postclosure care costs	3,266,076
Claim and judgments	9,392,847
Total noncurrent liabilities	<u>142,329,104</u>
Total liabilities	<u>193,858,730</u>
<b>Net Assets (liabilities):</b>	
Invested in capital assets, net of related debt	67,705,236
Restricted for:	
Debt Service	12,905,162
General Government	13,603,673
Urban and Economic Development	1,566,742
Public Housing and Welfare	910,531
Permanent Fund:	
Nonexpendable mortgage loans and notes	94,573
Other governmental activities	79,408
Total restricted net assets	<u>29,160,089</u>
Unrestricted net liabilities	<u>(45,170,241)</u>
Total net assets	<u>\$ 51,695,084</u>

Commitments and Contingencies (Note 15)

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Statement of Activities  
Fiscal Year Ended June 30, 2012

Function/programs	Program Revenues				Net (expenses) and changes in net assets
	Expenses	Charges for services	Program- specific operating grants and contributions	Program- specific capital grants and contributions	
Governmental Activities:					
General Government	\$ 27,330,203	865,375	-	-	\$ (26,464,828)
Public Safety	5,278,141	6,673	138,610	9,218	(5,123,640)
Urban and Economic Development	12,011,874	360,285	2,799,327	426,264	(8,425,998)
Health and Sanitation	13,278,358	2,236,620	-	2,150	(11,039,588)
Culture, Recreation and Education	20,181,773	43,956	10,022,183	-	(10,115,634)
Public Housing and Welfare	13,092,103	-	7,684,026	-	(5,408,077)
Interest on Long-term Obligations	5,698,564	-	-	-	(5,698,564)
Total Governmental Activities	<u>\$ 96,871,016</u>	<u>3,512,909</u>	<u>20,644,146</u>	<u>437,632</u>	<u>(72,276,329)</u>
General revenues					
Taxes:					
Property					26,169,449
Municipal license					14,293,215
Sales					10,686,497
Construction excise					3,314,709
Total taxes					<u>54,463,870</u>
Intergovernmental grants and contributions, not restricted to specified programs					11,772,040
Interest on deposits and investments					1,885,579
Miscellaneous					2,449,454
Total general revenues					<u>70,570,943</u>
Net change in net assets					(1,705,386)
Net assets at beginning of fiscal year					54,504,365
Prior year adjustment and reclassification					(1,103,895)
Net assets at beginning of fiscal year as restated					<u>53,400,470</u>
Net assets at end of year					<u>\$ 51,695,084</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Balance Sheet's- Governmental Fund  
 Fiscal Year Ended June 30, 2012

	Major Governmental Funds						Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Head Start Special Revenue Fund	Permanent Improvements Bonds Fund	Debt Service Fund	Other Governmental Funds	
<b>Assets</b>							
Cash in commercial banks	\$ 17,229,307	-	-	-	-	-	\$ 17,229,307
Account receivable, net of allowance for doubtful accounts of \$21,440,877:							
Taxes:							
Property	2,850,388	-	-	-	-	-	2,850,388
Municipal license	3,517,573	-	-	-	-	-	3,517,573
Sales	768,927	-	-	-	-	-	768,927
Intergovernmental grants and contributions	2,913,433	-	-	-	-	-	2,913,433
Other, net of allowance for doubtful accounts of \$20,170,782:	730,976	-	-	-	-	132,750	863,726
Restricted assets:							
Cash in commercial banks	-	7,029,927	57,935	23,003,613	-	4,965,692	35,057,167
Cash in fiscal agent	10,624,754	-	-	41,403,093	18,896,480	-	70,924,327
Property taxes receivable, net of allowance for doubtful accounts of \$10,491,031:	-	-	-	-	3,135,698	-	3,135,698
Mortgage loans and notes, net of allowance for doubtful accounts of \$2,184,663:	-	-	-	-	-	720,980	720,980
Accrued interest on deposits and investments	-	-	-	1,595	-	-	1,595
Intergovernmental grants and contributions	-	-	114,055	582,471	-	786,950	1,483,476
Due from other funds	2,375,212	-	-	-	2,603,043	720,755	5,699,010
Total assets	\$ 41,010,570	7,029,927	171,990	64,990,772	24,635,221	7,327,127	\$ 145,165,607
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 5,031,016	-	-	-	-	-	\$ 5,031,016
Intergovernmental payable and accrued liabilities	3,398,114	-	-	-	-	-	3,398,114
Deferred revenues	18,733,672	-	-	-	1,438,225	-	20,171,897
Liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	-	200	129,270	3,177,002	-	717,186	4,023,658
Intergovernmental payable and accrued liabilities	-	-	-	-	-	5,979	5,979
Due to other funds	3,031,651	-	36,472	598,323	-	2,032,564	5,699,010
Deferred revenues	-	6,959,983	-	880,211	-	1,983,134	9,823,328
Matured bonds due and payable	-	-	-	-	7,854,800	-	7,854,800
Matured interest due and payable	-	-	-	-	2,437,034	-	2,437,034
Total liabilities	30,194,453	6,960,183	165,742	4,655,536	11,730,059	4,738,863	58,444,836
<b>Fund balances</b>							
Nonspendable							
Advance and long term receivables	-	-	-	-	-	94,573	94,573
Total Nonspendable	-	-	-	-	-	94,573	94,573
Restricted for:							
Encumbrances	2,965,919	-	-	-	-	-	2,965,919
General Governments	10,624,754	-	-	-	-	13,000	10,637,754
Urban and Economics Developments	-	-	-	-	-	1,566,742	1,566,742
Public Housing and Welfare	-	-	-	-	-	910,531	910,531
Other Specified Purpose	-	69,744	6,248	-	-	3,418	79,410
Total restricted	13,590,673	69,744	6,248	-	-	2,493,691	16,160,356
Committed to:							
Debt Services	-	-	-	-	12,905,162	-	12,905,162
Permanent Improvements Bonds	-	-	-	60,335,236	-	-	60,335,236
Total committed	-	-	-	60,335,236	12,905,162	-	73,240,398
Unassigned	(2,774,556)	-	-	-	-	-	(2,774,556)
Total fund balances	10,816,117	69,744	6,248	60,335,236	12,905,162	2,588,264	86,720,771
Total liabilities and fund balances	\$ 41,010,570	7,029,927	171,990	64,990,772	24,635,221	7,327,127	\$ 145,165,607
Commitments and contingencies (Note 15)							

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Reconciliation of the Balance Sheets-Governmental Funds  
 To the Statements of Net Assets  
 June 30, 2012

The amounts of governmental activities reported in the statement of net assets and the balance sheet – governmental funds, are different for the following reasons:

Total fund balance reported in the balance sheet – governmental funds	\$ 86,720,769
Add (Deduct):	
Capital assets used in governmental activities are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds (See Note 10). This is the carrying amount of capital assets, net of accumulated depreciation and amortization at June 30, 2012.	105,546,943
Certain deferred revenues in the governmental funds are recognized as revenues in the statement of activities. This is the amount of revenues that are measurable but not available at June 30, 2012 (property taxes, municipal licenses, intergovernmental grants and contributions, charges for services and certain miscellaneous revenues) (See Note 11).	9,800,657
Debt issued by the Municipality has associated costs (debt issued costs) that are paid from current available financial resources in the governmental funds. However, these costs are deferred in the statement of net assets and reported net of accumulated amortization.	540,274
The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds at June 30, 2012. (See Note 12):	
Bonds payable and bonds anticipation notes	(124,423,201)
Notes payable	(1,283,132)
Obligation under capital leases	(562,834)
Compensated absences	(6,894,753)
Claims and judgments	(9,470,358)
Estimated liability for municipal solid waste landfill closure and post closure care costs	(3,365,048)
Accrued liabilities, including amounts due to other governments	(4,914,233)
Net assets – governmental activities, as reported in the statement of net assets	\$ 51,695,084

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Statements of Revenues, Expenditures and  
 Changes in Fund Balances – Governmental Funds  
 Fiscal Year Ended June 30, 2012

	Major Governmental Funds						Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Head Start Special Revenue Fund	Permanent Improvements Bonds Fund	Debt Service Fund	Other Governmental Funds	
<b>Revenues:</b>							
Taxes:							
Property	\$ 19,644,875	-	-	-	12,620,200	-	\$ 32,265,075
Municipal license	13,789,095	-	-	-	-	-	13,789,095
Sales	9,032,836	-	-	-	1,653,661	-	10,686,497
Construction excise	3,314,709	-	-	-	-	-	3,314,709
Charges for services	2,722,812	-	-	-	-	172,193	2,895,005
Intergovernmental grants and contributions:							
United States of America	-	-	8,641,530	-	-	10,790,292	19,431,822
Commonwealth of Puerto Rico	10,310,829	324,359	1,099,583	1,113,810	-	550,373	13,398,954
Interest on deposits and investments	942,963	3,610	49	918,447	14,523	5,987	1,885,579
Miscellaneous	2,219,648	-	-	1,026	-	228,781	2,449,455
Total revenues	61,977,767	327,969	9,741,162	2,033,283	14,288,384	11,747,626	100,116,191
<b>Expenditures:</b>							
Current:							
General Government	29,377,051	-	-	130,255	-	140,451	29,647,757
Urban and Economic Development	10,018,728	-	-	-	-	147,147	10,165,875
Public Safety	4,843,118	-	-	30,811	-	466,241	5,340,170
Health and Sanitation	11,527,967	-	-	100,070	-	-	11,628,037
Culture, Recreation and Education	8,332,034	-	10,781,758	-	-	290,359	19,404,151
Public Housing and Welfare	2,707,891	-	-	246,202	-	9,954,160	12,908,253
Debt service:							
Principal	427,822	-	-	-	8,199,800	-	8,627,622
Interest	137,663	-	-	-	4,494,909	-	4,632,572
Capital outlays:	246,235	324,359	-	7,061,647	-	408,845	8,041,086
Total expenditures	67,618,509	324,359	10,781,758	7,568,985	12,694,709	11,407,203	110,395,523
Excess (deficiency) of revenues over (under) expenditures	(5,640,742)	3,610	(1,040,596)	(5,535,702)	1,593,675	340,423	(10,279,332)
<b>Other financing sources (uses):</b>							
Issuance of debts	-	-	-	31,150,000	9,031,000	-	40,181,000
Transfers-in from other funds	12,293,261	-	1,040,645	29,797	2,904,724	177,861	16,446,288
Transfers-out to other funds	(4,173,752)	-	-	(907,586)	(10,942,695)	(422,255)	(16,446,288)
Total other financing sources (uses), net	8,119,509	-	1,040,645	30,272,211	993,029	(244,394)	40,181,000
<b>Net change in fund balance</b>	2,478,767	3,610	49	24,736,509	2,586,704	96,029	29,901,668
<b>Fund balance at beginning of fiscal year</b>	9,889,624	56,134	6,199	35,349,930	10,318,458	2,292,651	57,922,996
Prior year adjustment and reclassification	(1,552,274)	-	-	-	-	448,381	(1,103,893)
Reclassification of fund balances from Other non governmental funds to permanent improvements bonds funds							
	-	-	-	248,797	-	(248,797)	-
Total fund balance at beginning of year as restated	8,337,350	66,134	6,199	35,598,727	10,318,458	2,492,235	56,819,103
<b>Fund balance at end of fiscal year</b>	\$ 10,816,117	69,744	6,248	60,335,236	12,905,162	2,588,264	\$ 86,720,771

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Reconciliation of Statements of Revenues, Expenditures and Changes  
 In fund Balances – Governmental Funds to Statements of Activities  
 Fiscal Year Ended June 30, 2012

The amounts of governmental activities reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances are different for the following reasons:

Net change in fund balances reported in the statement of revenues, expenditures and changes in fund balances – governmental funds	\$29,901,668
Add (Deduct):	

The following revenues recorded in the statement of activities do not provide current financial resources; therefore, they are deferred in the governmental funds. This is the net change in deferred revenues of the following revenues items, which are measurable but not available at fiscal yearend:

Property taxes	(6,095,626)
Municipal license taxes	504,120
Intergovernmental grants and contributions	617,904
Charges for services	23,042

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. Capital outlay expenditures (\$8,041,086) exceeded depreciation and amortization expense (\$3,446,811) for the fiscal year ended June 30, 2012 by this amount.	4,594,275
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Repayment of principal of long-term obligations is reported as an expenditure in the governmental funds, however, the repayment reduces long-term liabilities in the statement of net assets. (See Note 12).	8,627,622
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Certain accrued interest expense reported in the statement of activities do not required the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	(1,065,992)
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Amortization of deferred charges reported in the statement of activities does not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.	(47,028)
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Some expenses reported in the statement of activities require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds.	1,415,629
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Proceeds from issuance of bonds provide current financial resources of governmental funds, but issuing such debts increases long-term liabilities in the statements of net assets	<u>(40,181,000)</u>
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Net decrease in net assets, as reported in statement of activities	<u>(\$1,705,386)</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Statements of Revenues, Expenditures – Budget and  
 Actual – Budgetary Basis – General Fund  
 Fiscal Year Ended June 30, 2012

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>(budgetary basis)</b>	<b>with final budget-over (under)</b>
			<b>(see note 1)</b>	
<b>Revenues:</b>				
Taxes:				
Property	\$ 19,646,291	19,646,291	19,646,291	\$ -
Municipal license	16,600,000	16,600,000	13,666,198	(2,933,802)
Sales	10,590,000	10,590,000	9,116,421	(1,473,579)
Construction excise	4,493,640	4,493,640	3,314,709	(1,178,931)
Charges for services	3,794,992	3,794,992	2,665,713	(1,129,279)
Intergovernmental grants and contributions	11,481,300	11,481,300	11,602,557	121,257
Interest on deposits and investments	600,000	600,000	854,974	254,974
Miscellaneous	2,015,000	2,015,000	2,219,649	204,649
Total revenues	<u>69,221,223</u>	<u>69,221,223</u>	<u>63,086,512</u>	<u>(6,134,711)</u>
<b>Expenditures:</b>				
Current:				
General government	24,583,251	26,739,189	16,043,116	(10,696,073)
Public Safety	6,760,967	5,236,056	4,805,748	(430,308)
Urban and economic development	9,439,538	9,286,219	7,963,672	(1,322,547)
Health and sanitation	11,163,144	11,004,168	7,763,042	(3,241,126)
Culture, recreation and education	10,136,632	9,996,439	8,257,677	(1,738,762)
Public housing and welfare	3,021,596	3,095,357	2,622,429	(472,928)
Debt service:				
Principal	427,822	427,822	427,822	-
Interest	137,663	137,663	137,663	-
Capital outlays	246,235	246,235	246,235	-
Total expenditures	<u>65,916,848</u>	<u>66,169,148</u>	<u>48,267,404</u>	<u>(17,901,744)</u>
<b>Excess of revenues(expenditures) over expenditures(revenues)</b>	<u>3,304,375</u>	<u>3,052,075</u>	<u>14,819,108</u>	<u>11,767,033</u>
<b>Other financing sources (uses):</b>				
Transfers-in from other funds	-	-	-	-
Transfers-out to other funds	(3,304,375)	(3,052,075)	(3,052,075)	-
Budgetary surplus of previous fiscal year	-	-	-	-
Total other financing sources (uses), net	<u>(3,304,375)</u>	<u>(3,052,075)</u>	<u>(3,052,075)</u>	<u>-</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ -</u>	<u>-</u>	<u>11,767,033</u>	<u>\$ 11,767,033</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Mayagüez (the Municipality) is a local municipal government constituted on July 29, 1760 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power of the Municipality is exercised by the Municipal Legislature, whose members are also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power in the Municipality.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban development, economic development and many other fiscal, general and administrative services.

**a) Financial Reporting Model**

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole and its various governmental funds as of and for the fiscal year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements and (4) required supplementary information (RSI).

RSI is information presented along with, but separate from, the Municipality's basic financial statements. RSI is composed of the following elements: (1) Management's Discussion and Analysis (MD&A) and (2) Schedule of Funding Progress – Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS).

*MD&A* is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2012, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) *Financial Reporting Model (Continuation)***

*The Schedule of Funding Progress – Employees’ Retirement System of the Government of Puerto Rico and Its Instrumentalities* provides a three-year trend information (using latest published data available) of the funding status of ERS, which is a multi-employer cost-sharing retirement system in which the Municipality is a participating employer. (See Note 13).

Other supplementary information presented in this report for purposes of additional analysis consist of: (1) combining and individual non-major governmental fund financial statements, (2) budgetary comparison schedule – debt service fund and (3) schedules of capital assets used in the operations of governmental funds, as listed in the accompanying table of contents.

**b) *Financial Reporting Entity***

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor and whose financial resources are under the legal custody and control of the Municipality’s Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality’s management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality’s basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization’s governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***b) Financial Reporting Entity (Continuation)***

According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2012.

***c) Government-wide Financial Statements***

The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) *Government-wide Financial Statements (Continuation)*

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity) and or net liabilities. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – This net asset category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by 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.

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 designations 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.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*c) Government-wide Financial Statements (Continuation)*

The Municipality has reported the following types of restricted net assets in the accompanying statement of net assets:

- (1) *Debt Service* – Represent net resources available to cover future debt service payments of bonds and notes payable.
- (2) *General Governments Activities* – Represent net resources available from certain federal and state grant, which have been set aside to cover different activities, related to general government activities. Also, represent net resources available for the payment of certain accounts payable and commitments under general government activities.
- (3) *Urban and Economics Developments Activities* – Represent net resources available from certain federal and state grant which have been set aside to cover different activities related to urban and economic developments. Generally, these are used to provide multipurpose services, construction or improvements of certain capital assets, other than accounted in permanent improvements bonds fund and partially subsidy qualified under urban and economic developments activities.
- (4) *Public Housing and Welfare Activities*- Represent net resources available from certain federal and state grant which have been set aside to cover different activities related to public housing and welfare. Generally, these are used to provide multipurpose services and donation, lower income rents and services to elderly community and other services to the citizens under public housing and welfare activities.
- (5) *Permanent Improvements Fund* – Represent net resources available to finance the acquisition, construction or improvement of major capital assets under contracts and other commitments.
- (6) *Mortgage Loans and Notes* – Represent net resources available from grants provided by the U.S. Department of Housing and Urban Development (HUD), which have been set aside to provide construction mortgage loans to private business enterprises doing business in the Municipality. (See Note 7).
- (7) *Other Governmental Activities* – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs. Also, represent net resources available for the payment of certain accounts payable and commitments approved by the Government Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth and fiscal agent of the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*c) Government-wide Financial Statements (Continuation)*

- **Unrestricted Net Assets** – these consist of net assets that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints that are imposed by managements, but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net assets or deficit changed during the fiscal year ended June 30, 2012, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) General Government, (2) Public Safety, (3) Urban and Economic Development, (4) Health and Sanitation, (5) Culture, Recreation and Education and (6) Public Housing and Welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*c) Government-wide Financial Statements (Continuation)*

**General Government:**

- Municipal Legislature
- Mayor's Office
- Department of Finance and Budget
- Department of Human Resources
- Department of Municipal Secretary
- Department of Legal Affairs
- Department of Internal Audit
- Department of Management of Information Systems
- Department of Administrative Services
- Department of Press and Communications

**Public Safety:**

- Department of Civil Defense
- Department of Municipal Police
- Department of Fire Control

**Urban and Economic Development:**

- Department of Planning and Development
- Department of Urban Development
- Department of Conservation and Ornate

**Health and Sanitation**

- Department of Health
- Department of Sanitation
- Department of Environmental Control

**Culture, Recreation and Education:**

- Department of Culture and Tourism
- Department of Recreation and Sports
- Department of education

**Public Housing and Welfare:**

- Department of Housing
- Office of Services to Citizens
- Department of Elderly Services and Day Care Center

The statement of activities demonstrates the degree to which *program revenues* offset *direct expenses* of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***c) Government-wide Financial Statements (Continuation)***

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants, who purchase, use or directly from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits and investments, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The *general government* function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality does not allocate general government (indirect) costs to other functions.

The effects of all interfund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*c) Government-wide Financial Statements (Continuation)*

The Municipality classifies all of its activities as *governmental activities* in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the GFFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*d) Governmental Fund Financial Statements*

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds.

These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*d) Governmental Fund Financial Statements (Continuation)*

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General Fund** – The general fund is the Municipality’s main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Special Revenue Funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital project funds). The two major special revenue funds are (1) state legislative joint resolution which is used to account for certain operating grants awarded by the legislative of the Commonwealth of Puerto Rico to subsidy certain operational and administrative activities by the Municipality and (2) head start fund which is used to account for grants received by the Municipality from health and human services to provide educational services to children in pre-school age. The non-major special revenue funds are described in the other supplementary information section of this statement.

**Debt Service Fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for 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/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, accrued legal claims and judgments and the estimated liability for municipal solid waste landfill closure and post-closure care costs) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are accounted for in the general fund as debt service – principal and debt service – interest expenditures.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) *Governmental Fund Financial Statements (Continuation)*

- **Permanent Improvements Bonds Fund** – Permanent improvements bonds fund is a major governmental fund, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets. Significant capital outlays financed from proceeds of general obligation, public improvements or special obligation bonds are also accounted in the permanent improvements bonds funds.

The use of the permanent improvements bonds fund has been reserved 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.

- **Permanent Funds** – Permanent funds are non-major governmental funds used to report resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the Municipality's operations, that is, for the benefit of the Municipality or its citizens.

The focus of the GFFS is on major governmental funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is considered a major governmental fund if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes, means all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the state legislative joint resolutions special revenue fund, (3) the head start special revenue fund, (4) permanent improvements bonds fund and (5) the debt service fund.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***d) Governmental Fund Financial Statements (Continuation)***

The state legislative joint resolutions special revenue fund is a major governmental fund used to account for financial resources derived from grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to: (1) partially subsidy certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services and donations to citizens and (3) finance the acquisition, construction or improvement of certain capital assets (not accounted for in capital project funds) approved by the Commonwealth's Legislature.

The head start special revenue fund is a major governmental fund used to account for financial resources derived from grants awarded each year by the Administration for Children and Families of the U.S. Department of Health and Human Services (DHHS) for the operation of comprehensive child development programs which serve children from birth to age 5, pregnant women and their families. These programs are child-focused programs and have the overall goal of increasing the school readiness of young children in low-income families. Amounts awarded by DHHS are restricted to provide a wide range of individualized services in the areas of education and early childhood development; medical, dental and mental health; nutrition; and parent involvement. Services under these programs are provided through service centers approved by DHHS.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the statement of revenues and expenditures – budget and actual – budgetary basis – general fund, (2) the reconciliation of the balance sheet – governmental funds to the statement of net assets and (3) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

***e) Measurement Focus and Basis of Accounting***

**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 and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite the same. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*e) Measurement Focus and Basis of Accounting (Continuation)*

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four 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.

In the case of derived tax revenue transactions, which result from assessments 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 nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license 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.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, 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.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. As discussed above, in these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *Measurement Focus and Basis of Accounting (Continuation)*

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues (See Note 11).

According to GASB No. 34, all general capital assets and the un-matured 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 and basis of accounting used in the preparation of the accompanying 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.

**Governmental Fund Financial Statements** – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered 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 considers most revenues available if collected within 90 days after June 30, 2012, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2011. (See Note 11).

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits and investments, charges for services and certain miscellaneous revenues. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues. (See Note 11).

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 and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*e) Measurement Focus and Basis of Accounting (Continuation)*

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred).

Interest on deposits and investments are recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

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. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34 and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds only reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest due on July 1 of the following fiscal year, which are recorded as governmental fund liabilities when resources are available in the debt service funds (generally, June 30).

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*e) Measurement Focus and Basis of Accounting (Continuation)*

- Obligations under capital leases, compensated absences, estimated liability for municipal solid waste landfill closure and post-closure care costs, amounts subject to accrued claims and judgments under litigation and other long-term obligations are recorded only when they mature (when payment is due).
- Other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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.

*f) Stewardship, Compliance and Accountability*

**Budgetary Control**

According to Act No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*f) Stewardship, Compliance and Accountability (Continuation)*

**Budgetary Control (Continuation)**

The Municipal Legislature has 10 business days, up to June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*f) Stewardship, Compliance and Accountability (Continuation)*

**Budgetary Accounting**

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required for settling claims and judgments against the Municipality and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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 accompanying statement of revenues and expenditures – budget and actual – budgetary basis – general fund, provides information about the general fund's original budget, its amendments and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2012. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2012, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund's budgetary basis and GAAP actual amounts is presented as follows:

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*f) Stewardship, Compliance and Accountability (Continuation)*

**Budgetary Accounting (Continuation)**

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 11,767,033
Timing differences:	
Add:	
Current year encumbrances recorded as expenditures for budgetary purposes	2,965,919
Deduct:	
Prior year encumbrances recorded as current year expenditures for GAAP purposes	(3,466,892)
Entity differences:	
Non-budgeted expenditures	(1,990,037)
Basis of accounting differences:	
Net decrease in property taxes receivable	(4,029,114)
Net decrease in municipal license taxes receivable	(390,470)
Net decrease in sales taxes receivable	(83,585)
Net increase in intergovernmental receivables	554,333
Net decrease in accrued interest receivable	(7,039)
Net increase in other receivables	143,711
Net decrease in due/advances from other funds	(897,519)
Net decrease in deferred revenue	5,246,538
Net increase in accounts payable and accrued liabilities	(390,186)
Net increase in due/advances to other funds	(109,176)
Net increase in intergovernmental payables and accrued liabilities	<u>(1,194,007)</u>
Excess of revenues and other financing sources over expenditures and other financing uses -general fund- GAAP basis	<u>\$ 8,119,509</u>

The Municipality does not legally adopt budgets for its major special revenue funds: (1) the state legislative joint resolutions special revenue fund and (2) the head start special revenue fund. The financial resources received by the state legislative joint resolutions special revenue fund and the head start special revenue fund are not subject to budgeting by the Municipality since the grants awarded each year by the respective grantors vary from year to year, the respective amounts are granted at the discretion of grantors and the Municipal Legislature is not required by Act No. 81 to approve budgets for those two major governmental funds.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*g) Unrestricted and Restricted Deposits*

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks and GDB and (3) cash and cash equivalents in commercial banks. Cash equivalents consist of certificates of deposit with original maturities of three months or less.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any excess is invested in certificates of deposit with commercial banks.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent in the general and debt service funds consists of property tax collections amounting to \$10,624,754 and \$18,896,480, respectively, which are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent in the general fund also consists of proceeds of bonds, amounting to \$8,021,711, which are restricted for the payment certain accounts payable and specific commitments, previously agreed with and approved by GDB. Cash in fiscal agent recorded in the major and non-major governmental funds consists of unspent proceeds of bonds and notes and the balance of interest and noninterest bearing accounts amounting to \$41,403,093, which is restricted for the acquisition, construction or improvement of major capital assets.

Restricted cash in commercial banks for the state legislative joint resolutions special revenue fund, head start special revenue fund and permanent improvement bond fund, amounting to \$7,029,927, \$57,935 and \$23,003,613 respectively, represent the balance of interest and noninterest-bearing accounts restricted to finance the operations of these state, federal and capital project funded programs. Restricted cash in commercial banks for other governmental funds, amounting to \$4,965,692, represents the balance of interest and noninterest bearing accounts restricted to: (1) finance the operations of all other federal and state funded programs (\$4,946,575) recorded in the non-major special revenue funds, (2) grant mortgage loans to private business enterprises under the Program for the Economic Development of Mayagüez (\$19,117). (See Note 7).

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*h) Unrestricted and Restricted Accounts and Notes Receivable*

Receivables consist of all revenues earned but not collected at June 30, 2012. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. At June 30, 2012 accounts receivable in the GFFS is principally composed as follows:

**General Fund** – Accounts receivable in the general fund consist principally of:

- Property taxes amounting to \$2,850,388, net of an allowance for uncollectible accounts of \$20,127,259. (See Note 4).
- Municipal license taxes amounting to \$3,517,573, net of an allowance for uncollectible accounts of \$1,313,618. (See Note 3).
- Sales taxes amounting to \$768,927. (See Note 5).
- Rent and utility charges, amounting to \$19,961,484, due from Advance Cardiology Center Corporation (ACCC), a private corporation in charge of the administration of the Ramón Emeterio Betances Medical Center (REBMC), a municipal hospital. This receivable is reserved with an allowance for uncollectible accounts of \$19,961,484 since its future collection is uncertain. (See Note 8).
- Due/advances from other funds amounted to \$2,375,212.
- Grants and contributions pursuant to state funded programs amounting to \$2,913,433.

**Debt Service Fund** – Accounts receivable in the debt service fund are composed principally of:

- Property taxes amounting to \$3,135,698, net of an allowance for uncollectible accounts of \$10,491,031, as established by law
- Amounts due from the general fund amounting to \$2,603,043, which are restricted for the payment of the Municipality's debt service. (See Notes 4 and 9).

**Other Governmental Funds** – Accounts receivable in other governmental funds consist of:

- Grants and contributions in the head start special revenue fund, permanent improvements bonds fund, and other non-major governmental funds amounting to \$114,055, \$582,471, and \$728,133 respectively, pursuant to federal and state funded programs. (See Note 6).
- Due from other funds in other non-major governmental funds amounted to \$720,755. (See Note 9).

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*h) Unrestricted and Restricted Accounts and Notes Receivable (Continuation)*

**Other Governmental Funds (Continuation)**

- Mortgage loans and notes receivable, amounted to \$720,980, from private entities under the non-major program for the Economic Development of Mayagüez, sponsored by the Municipality. (See Note 7).

Activities among governmental 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), as applicable. All other outstanding balances between funds are reported as "due to/from other funds."

*i) Other Current Assets*

Other current assets consist of prepaid rent and insurance costs. Generally, inventories are capitalized (consumption method) and stated at cost using the first-in, first-out method (FIFO) in the GWFS. Inventories and prepaid expenses in the GFFS are generally recorded as expenditures (purchase method) when purchased (paid) rather than capitalized as an asset.

*j) Investments*

Investments consist of certificates of deposit with original maturities exceeding three months, but not exceeding one year. Investments are held in commercial banks and are recorded at cost, which approximates fair value.

*k) Deferred Charges*

Deferred charges in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*1) Capital Assets*

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition, construction or improvement and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2002 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

As more fully described in note 14, during the prior fiscal, year, the Municipality implemented the new accounting standards issued by GASB No. 34 for which the Municipality partially made the retroactive application of the new capitalization requirements to its general infrastructure assets at June 30, 2003. The Municipality reported all networks of infrastructure assets for which information was available at the end of the prior fiscal year.

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases, which is depreciated over the shorter of its estimated useful life or the lease term.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*l) Capital Assets (Continuation)*

The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Motor vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20
Machinery and equipment under capital leases	3 to 5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

The Municipality has adopted GASB No. 42, *Accounting for impairment of capital assets and for insurance recoveries*. This statement establishes accounting and financial reporting standard for impairment of capital assets.

*m) Deferred Revenues*

In the GFFS, deferred revenue arises when one of the following situations occur:

- 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 and collected within 90 days (60 days for property taxes) 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.
- 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.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*n) Compensated Absences*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2012 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 60 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition, upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only when matured (when payment is due), for example, because of employee resignations or retirements.

*o) Long-term Debt*

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds payable, notes payable, bond anticipation notes, obligations under capital leases, accrued compensated absences, estimated liability for municipal solid waste landfill closure and post-closure care costs and accrued legal claims and judgments.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*o) Long-term Debt (Continuation)*

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due on July 1 of the following fiscal year are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

In the GWFS debt, issuance costs are reported as deferred charges, which are amortized under the straight-line method over the life of the debt, while in the GFFS such costs are recognized as expenditures during the current period.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables, issued by the Accounting Principles Board (APB No. 21)*. According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

*p) Municipal Solid Waste Landfill Closure and Post-closure Care Costs*

Municipal solid waste landfill closure and post-closure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill. In the government-wide statement of net assets, this liability is recognized under the accrual basis of accounting over the useful life of the landfill, even though such costs will only be incurred near or after the close of the landfill.

The estimates of closing and post-closing costs include: (1) the cost of equipment and/or facilities that will be acquired near the time the landfill stops accepting waste or after for the purposes of post-closure care and monitoring, (2) the cost of applying the final cover and (3) the cost of post-closure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services had been obtained during the current period) allocated in the accompanying statement of net assets based on the landfill capacity used through June 30, 2012. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*p) Municipal Solid Waste Landfill Closure and Post-closure Care Costs (Continuation)*

Any changes in the estimated total current costs that occur before the landfill stops accepting solid waste are reported in the period of the changes and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the landfill has no effect in the factors used to calculate the accrued liability for the closure and post-closure costs of the original landfill. In this case, a separate calculation of the closure and post-closure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current costs for landfill closure and post-closure care costs may also occur after the date that the landfill stops accepting solid waste. These changes may include changes due to inflation (or deflation), changes in technology, changes in closure and post-closure care requirements, corrections of errors in estimation and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, municipal solid waste landfill closure and post-closure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

*q) Leases*

The Municipality classifies its lease agreements either as operating or capital leases according to Statement No.13, *Accounting for Leases*, issued by FASB (FASB No. 13). Capital lease agreements are generally non-cancelable and involve substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease. According to FASB No. 13, the Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*q) Leases (Continuation)*

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause have been recorded as capital leases in the accompanying GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the GFFS

*r) Accounting for Pension Costs*

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth 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 defined 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 Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*s) Risk Management*

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico. (See Note 4).

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (FSE, by its Spanish acronyms), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered because of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability and drivers' insurance coverage for its employees through various insurance programs administered by the

Commonwealth's Department of Labor and Human Resources (DTRH, by its Spanish acronyms). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered because of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DTRH on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2012. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) *Reservations of Fund Balances*

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 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 based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as non-spendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ***Non-spendable*** - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- ***Restricted*** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Municipality ordinances). Enabling legislation authorizes the Municipality to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Municipality can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- ***Committed*** - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the State or Municipal legislature. Those committed amounts cannot be used for any other purpose unless the State or Municipal legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the State or Municipal Legislature, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*t) Reservations of Fund Balances (Continuation)*

- **Assigned** - Amounts in the assigned fund balance classification are intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the State or Municipal legislature or a Municipality official delegated that authority by Municipality Charter or ordinance.
- **Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental 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.

The Municipality applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

At June 30, 2011, the accompanying fund financial statements reported fund balances as non-spendable, restricted, committed and unassigned.

*u) Interfund Activities*

The Municipality has the following types of reciprocal and nonreciprocal interfund activities recorded among governmental funds in the accompanying GFFS:

- **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*u) Interfund Activities (Continuation)*

- *Interfund reimbursements* – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

*v) Use of Estimates*

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

*w) Future Adoption of Accounting Pronouncements*

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

- GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This statement is effective for periods beginning after June 30, 2012;
- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. This statement is effective for periods beginning after December 31, 2012;
- GASB Statement No. 61, The Financial Reporting Entity; Omnibus-an amendment of GASB Statement No. 14 and No. 34. This statement is effective for periods beginning after June 30, 2013;
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement is effective for periods beginning after December 31, 2012;
- GASB Statement No. 63, Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. This statement is effective for periods beginning after December 31, 2012;
- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53). This statement is effective for periods beginning after June 30, 2013;

The Authority's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Authority's basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**2) DEPOSITS AND INVESTMENTS**

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.

On July 1, 2004, 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 interest bearing accounts generating interest 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. 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.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**2) DEPOSITS AND INVESTMENTS (Continued)**

- **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.

At June 30, 2012, the total deposits are as follows:

	Major governmental funds						Total governmental funds
	General fund	State legislative joint resolution special revenue fund	Head start special revenue fund	improvements bonds special revenue fund	Debt service fund	Other governmental funds	
<b>Unrestricted:</b>							
Cash in commercial banks	\$ 17,229,307	-	-	-	-	-	\$ 17,229,307
Total unrestricted deposits	17,229,307	-	-	-	-	-	17,229,307
<b>Restricted (note 1):</b>							
Cash in commercial banks	-	7,029,927	57,935	23,003,613	-	4,965,692	35,057,167
Cash in GDBG, as fiscal	10,624,754	-	-	41,403,093	18,896,480	-	70,924,327
Total restricted deposits	10,624,754	7,029,927	57,935	64,406,706	18,896,480	4,965,692	105,981,494
Total carrying amount of deposits	\$ 27,854,061	7,029,927	57,935	64,406,706	18,896,480	4,965,692	\$ 123,210,801

**3) MUNICIPAL LICENSE TAXES**

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Mayagüez. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2012, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax amount due.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**3) MUNICIPAL LICENSE TAXES (Continued)**

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (see note 11). Total municipal license tax receivable, net of an allowance for uncollectible accounts of \$1,313,618, amounted to \$3,517,573 at June 30, 2012. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$10,371,242 at June 30, 2012. (See note 11).

**4) PROPERTY TAXES**

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$150,000 (at 1957 market prices).

CRIM bills and collects property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds to the Municipality based on the initial estimated collection amounts for the fiscal year. 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 the property tax amounts actually collected from taxpayers during the fiscal year. This settlement has to be completed on a preliminary basis no later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an intergovernmental receivable is recorded at June 30 in the Municipality's basic financial statements. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30. For the fiscal year ended June 30, 2012, the property tax collections not exceeded the advances remitted by CRIM by \$1,174,538, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. (See note 6).

Personal property taxes collected from tangible personal property are levied based on assessed values of personal property assets owned by the taxpayer at January 1 (the lien date) which are reported through a personal property tax return filed on May 15. The total personal property tax rate in force at June 30, 2012 was .803 percent (of which taxpayers pay .783 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes collected during fiscal year 2012 were levied based on assessed value as of January 1, 2007, the lien date. The assessed values was established by the CRIM based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2011 was .1003 percent (of which .983 percent is paid by taxpayers and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy). Real property taxes are payable annually or semi-annually. The first payment is due July 1 and the remainder payable by January 1.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**4) PROPERTY TAXES (Continued)**

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$150,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively).

According to Act No. 81, included within the total personal and real property tax rates of .803 percent and .1003 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the Commonwealth's debt service fund, for the payment of the general long-term debt of the Commonwealth.

In addition, included within the total personal and real property tax rates of .803 percent and .1003 percent, respectively, there is a portion of the tax rate of 3.00 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

Furthermore, included within the total personal and real property tax rates of .803 percent and .1003 percent, respectively, there is a portion of the tax rates that is recorded in the Municipality's general fund, of which a portion is restricted for the payment of: (1) the insurance premiums acquired through the Department of Treasury, (2) the principal and interest on the Municipality's 1996 serial bonds of \$400,000, (3) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM (see note 12) and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Traditional Lottery System of the Commonwealth (the Traditional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Traditional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the *Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly*) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the *Municipal Equalization Fund* held by CRIM to cover operating expenses and permanent improvements of the municipalities.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**4) PROPERTY TAXES (Continued)**

- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the *Municipal Equalization Fund*, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

The composition of property taxes receivable and the related deferred revenue is as follows at June 30, 2012:

	<b>General fund</b>	<b>Debt service fund</b>	<b>Total</b>
Gross property taxes receivable	\$ 22,977,647	13,626,729	\$ 36,604,376
Less:			
Allowance for uncollectible accounts	(20,127,259)	(10,491,031)	(30,618,290)
Net property taxes receivable	<u>2,850,388</u>	<u>3,135,698</u>	<u>5,986,086</u>
Deferred (unavailable) property tax revenues in GFFS (Note 11)	<u>\$ 2,678,572</u>	<u>1,438,225</u>	<u>\$ 4,116,797</u>

**5) MUNICIPAL SALES TAXES**

On June 30, 2007, the Municipal Legislature of the Municipality of Mayagüez approved the Ordinance No. 35 (2005-2006) establishing a citizenship contribution of 1% over all business or personal transactions related to sale of goods and/or services made on the Municipalities boundaries. This Ordinance was effective in July 1, 2006 and the resources collected due to this tax implantation would be use in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

On July 4, 2006, the Governor of Puerto Rico signed into law the Taxpayer Justice Act (Act No.117, H.B. 2193). The new law imposes a municipal sales tax at a rate of 1.5% (effective July 1, 2006) and the Commonwealth sales tax at the rate of 5.5%, with an effective date of November 15, 2006. Due this day, the Commonwealth of Puerto Rico eliminated the excise tax of 6.6% on some imports (taxes on cigarettes, liquor, and cars are still in effects) and implemented the sales and use tax ("sales tax") system.

Immediately the aforementioned Ordinance No. 35 was emended to change the rate from 1% to 1.5% and comply with the law signed by the Governor. Accordingly, with this law, the municipal sales tax is administered at the local level, and the Commonwealth sales tax is administered through the Puerto Rico Treasury Department. As a consequence, separate registration and filing forms are required to retailers.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**5) MUNICIPAL SALES TAXES (Continued)**

Any person/corporation doing business or making retail sales are required to register with each municipality involved in commercial transactions and in the Puerto Rican Treasury to obtain a Retailer's Registration Certificate, exemption certificates, and tax returns forms. The retailers are required to file and send monthly sales tax returns by the 10th day following the month in which the tax was collected.

In addition, on July 29, 2007, the Governor of Puerto Rico signed into Law an amendment of Act No. 117, H.B. 2193 known as Act No. 80. The most significant two amendments were first, to uniform the tax rate at 7% of which the municipalities will collect 1% and the Puerto Rico Treasury Department the other 6%. Of this 6%, .05% belongs to the municipality and it is distributed in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The second significant change was the establishment of Local Commercial Rule and the elimination of source and nexus rules to impose the sale and use tax. These funds are administered by the Government Development Bank for Puerto Rico. Finally, the Law restricts the use of this funds by the municipalities to certain specific activities.

During fiscal year 2011-2012, the Municipality of Mayagüez earned the amount of \$10,686,497 related to this citizenship contribution.

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**6) INTERGOVERNMENTAL RECEIVABLES AND PAYABLES**

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows at June 30, 2012:

	Major Funds	Other Governmental Funds	Totals Governmental Funds	Statement of Net Assets
<i>Intergovernmental receivables:</i>				
Grants and contributions:				
U.S. Department of Health and Human Services:				
Head Start Special Revenue Fund	\$ 114,055	-	\$ 114,055	\$ 114,055
Healthy Marriage	-	52,974	52,974	52,974
U.S. Department of Justice:				
Traffic Enforcements	-	45,908	45,908	45,908
Justice and Prevention Program Fund	-	31,827	31,827	31,827
Athletic Policeman Team	-	26,990	26,990	26,990
U.S. Department of Housing and Urban Development (HUD):				
Hopwa	-	8,846	8,846	8,846
HOME Program	-	161,433	161,433	161,433
CDBG Program Fund	-	329,295	329,295	329,295
Office of the Governor of Puerto Rico:				
Rio Cañas Special Community Fund	105,000	-	105,000	105,000
Quebrada Grande Special Community Fund	59,858	-	59,858	59,858
Rio Hondo Special Community Fund	37,526	-	37,526	37,526
AmeriCorps (GOALS)	-	122,092	122,092	122,092
Acuerdo Intag Com Especial La Chorra	27,974	-	27,974	27,974
Rosario Special Community Fund	352,113	-	352,113	352,113
Puerto Rico Department of Labor - State Salary Incentive Fund	-	7,585	7,585	7,585
Puerto Rico Health Department - General Fund	2,165,332	-	2,165,332	2,165,332
Puerto Rico Treasury Department - General Fund	378,292	-	378,292	378,292
Puerto Rico Vocational Rehabilitation Administration - General Fund	369,809	-	369,809	369,809
Total intergovernmental receivables	<u>\$ 3,609,959</u>	<u>786,950</u>	<u>\$ 4,396,909</u>	<u>\$ 4,396,909</u>
<i>Intergovernmental payables:</i>				
Excess of property tax advances over collections				
CRIM - general fund 2010	\$ 1,174,538	-	\$ 1,174,538	\$ 1,174,538
Payroll withholdings (general fund):				
Department of Health Public Medical Plan	269,296	-	269,296	269,296
Department of Work and Human Resources	9,851	-	9,851	9,851
Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities				
Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities (COLA Acts)	247,578	-	247,578	247,578
Utilities (general fund):				
Puerto Rico Aqueduct and Sewer Authority	764,833	-	764,833	764,833
Puerto Rico Electric Power Authority	10,274	-	10,274	10,274
Miscellaneous:				
Puerto Rico General Services Administration	5,020	-	5,020	5,020
U.S. Department of Housing and Urban Development (HUD):				
CDBG Program Fund	-	5,979	5,979	5,979
Total intergovernmental payables	<u>\$ 3,398,114</u>	<u>5,979</u>	<u>\$ 3,404,093</u>	<u>\$ 3,404,093</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**7) MORTGAGE LOANS RECEIVABLE**

The Municipality administers the Program for the Economic Development of Mayagüez for purposes of granting loans to private business enterprises to promote and enhance the industrial development, commercial activity and the creation of new employment opportunities in low-income communities in Mayagüez (the Program).

Under the Program, the Municipality has given mortgage loans to various real estate developers doing business in Mayagüez. These loans are funded with grants received by the Municipality from HUD, which is accounted for in the Mayagüez economic development fund, a non-major permanent fund.

The proceeds of these loans have been used by real estate developers to perform construction activities directed to enhance the economic activity in the Mayagüez area. These loans are repaid in installments of principal and interest through periods ranging from three to twenty years and are guaranteed with first liens on the related properties.

These loans bear interest at rates that fluctuate between 2.00 percent and 8.00 percent. Interest income on the aforementioned mortgage loans may be used by the Municipality to grant additional loans and for purposes that support certain qualifying municipal programs or activities that are for the benefit of the Municipality and its citizens. Interest income on such loans amounted to \$11,027 for the fiscal year ended June 30, 2012.

At June 30, 2012, the total outstanding loan balances amounted to:

	<b>Mayagüez Economic Development Fund</b>
Total loan mortgage receivable	\$ 2,905,642
Less:	
Allowance for uncollectible accounts	<u>(2,184,662)</u>
Net mortgage loans receivable	720,980
Less:	
Current portion of mortgage loan receivable	<u>(150,356)</u>
Net mortgage loans receivable excluding current portion	<u>\$ 570,624</u>

The total outstanding loan balances are offset by a reservation of fund balance of \$720,980 in the accompanying GFFS, to indicate the portion of the loans that does not constitute available financial resources at June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**8) MUNICIPAL HEALTH FACILITIES**

The Municipality has two municipal hospitals, San Antonio Hospital (SAH) and Ramón Emeterio Betances Medical Center (REBMC). In August 1998, the Municipality entered into an administration agreement with Hospital San Antonio, Inc. (HSAI), a private corporation, for the administration of the operations of SAH. The agreement expired on August 28, 2003, however, on August 29, 2003, the Municipality renewed of the agreement with HSAI for an additional period of 25 years.

Pursuant to the terms and conditions of the renewed agreement between HSAI and the Municipality, HSAI leased all land, buildings, equipment and all other personal and real property related to the operations of SAH, which are owned by the Municipality. The agreement provides that HSAI shall pay the following to the Municipality:

- Annual rent charges of \$250,000 for the use of the leased property. The rent is payable in monthly installments of \$20,833 from September 1, 2003 through August 31, 2028. The rent charges under this contract shall be increased by 10 percent every 5 years.
- Past due rent charges carried over from the previous contract, amounted to \$485,805. Such amount, which should be paid in 300 monthly installments of \$1,619, commenced on September 1, 2003.

At June 30, 2012, the rent receivable from HSAI amounted to \$571,379, which is recorded in the statement of net assets and the general fund within other receivables. Deferred revenue amounting to \$315,118 has been recorded in the general fund at June 30, 2012 since the rent receivable from HSAI is not considered a current available financial resource at fiscal year-end.

In October 2000, The Municipality acquired the facilities of REBMC. As part of the acquisition, on October 1, 2000, the Municipality entered into an administration agreement of REBMC with Advance Cardiology Center Corporation (ACCC), a private corporation. The agreement provides for semiannual rental payments of \$450,000 to be made to the Municipality on each April and October. However, although the Municipality has been performing strong and continuous collection efforts, no collections had been received, since the inception of the agreement through June 30, 2004.

During 2002 the Municipality condoned \$900,000 of past due rent charges related to the first year of operations of ACCC in REBMC and agreed to renegotiate the past due rent and other charges through a payment plan by which ACCC would pay the rent charges related to the period between October 1, 2001 to date. At June 30, 2012, an accounts receivable from ACCC, amounting to \$19,961,484 has been recorded in the accompanying basic financial statements within other receivables. Such receivable includes a receivable of \$15,191,484 for utilities related to the Municipality REBMC's facilities, which were paid by the Municipality, however, ACCC and other subtenants of REBMC's facilities are contractually required to reimburse such amounts as incurred. Because of the uncertainty of its collection, the receivable from ACCC has been reserved with an allowance for uncollectible accounts of \$19,961,484 at June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**8) MUNICIPAL HEALTH FACILITIES (Continued)**

During fiscal year 2009-2010, the Municipality terminated the lease it had with Advanced Cardiology Center Corporation (ACCC), for breach of contract in the payment of rent and utilities.

During fiscal year 2009-2010, the Municipality entered into negotiations with a new company to manage and operate the Ramón Emeterio Betances Medical Center on the same terms and conditions of the previous contract.

The rental commitments included in the administration agreements with HSAI and ACCC have been accounted for as operating leases in the accompanying basic financial statements since such agreements: (1) allow the Municipality to terminate the leases at any time, (2) do not include bargain purchase options, (3) do not transfer the ownership of the leased assets at the end of the respective lease terms and (4) limit the use of the leased assets for the purposes indicated in the agreements and only within the facilities of SAH and REBMC.

The assets subject to these agreements are accounted for as capital assets and are depreciated in the accompanying GWFS. Such capital assets consist of the following:

Land and land improvements	\$ 760,294
Buildings, structures and improvements	14,361,937
Machinery and equipment	4,975,933
Licensed vehicles	343,727
Total capital assets in municipal health facilities, at cost	<u>20,441,891</u>
Less: accumulated depreciation and amortization	<u>( 10,952,749)</u>
Total capital assets in municipal health facilities, net	<u>\$ 9,489,142</u>

Rental income related to the municipal health facilities referred to above amounted to \$1,066,667 for the fiscal year ended June 30, 2012. Rental income has been recorded within charges for services in the accompanying basic financial statements.

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**9) INTERFUND TRANSACTIONS**

The composition of interfund balances and transfers at June 30, 2012 and for the fiscal year then ended, is as follows:

Due to:	Due from:				
	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Permanent Improvements Bonds Fund	Nonmajor Special Revenue Funds	
Major Funds:					
General Fund	\$ -	2,603,043	-	428,608	\$ 3,031,651
Head Start Special Revenue Fund	36,472	-	-	-	36,472
Permanent Improvements Bonds Fund	598,323	-	-	-	598,323
Nonmajor Funds:					
Permanent Fund	810,000	-	-	70,000	880,000
Special Revenue Funds	930,417	-	-	222,147	1,152,564
Total	<u>\$2,375,212</u>	<u>2,603,043</u>	<u>-</u>	<u>720,755</u>	<u>\$ 5,699,010</u>

Transfer to:	Transfers from:				
	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Permanent Improvements Bonds Fund	Nonmajor Special Revenue Funds	
Major Funds:					
General Fund	\$ 20,725	10,942,695	907,586	422,255	\$ 12,293,261
Head Start Special Revenue Fund	1,040,645	-	-	-	1,040,645
Permanent Improvements Bonds Fund	29,797	-	-	-	29,797
Debt Service Fund	2,904,724	-	-	-	2,904,724
Nonmajor Funds:					
Special Revenue Funds	177,861	-	-	-	177,861
Total	<u>\$ 4,173,752</u>	<u>10,942,695</u>	<u>907,586</u>	<u>422,255</u>	<u>\$ 16,446,288</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**9) INTERFUND TRANSACTIONS (Continued)**

The principal purposes of interfund receivables and payables are:

- Recognize in the debt service fund the amounts due from the general fund to cover the principal and interest payments on certain bonds, amounting to \$2,603,043. These payments are due on July 1, 2012.
- Recognize in the general fund the outstanding balance of the short-term loans granted to the Mayagüez economic development fund (\$810,000) to provide mortgage loans to private entities under the Program for the Economic Development of Mayagüez. (See Note 7).
- Recognize in the general fund the outstanding balance of the loans granted to non-major special revenue funds (\$930,417) to cover temporarily the payroll and other operating costs of several federally and state funded programs.

The principal purposes of interfund transfers are to:

- Make routinely transfer of interest income, amounting to \$11,695, from the debt service fund to the general fund, as permitted by law. This interest income is generated by the debt service fund's deposits and is transferred on a quarterly basis to the general fund.
- Make routinely transfer of resources, amounting to \$2,904,724, from the general fund to the debt service fund to cover the principal and interest payments on certain bonds. These debt service payments are made in January and July.
- Make routinely transfer of matching contributions, amounting to \$1,040,645, from the general fund to the head start special revenue fund.
- Make routinely transfer of interest income amounting to \$29,797, from the capital project funds to the general fund. This interest income is generated by certain capital project fund's deposits and is transferred on a monthly basis, as permitted by law.
- Make transfer of fund from an operational loan to cover come expenses during the year. Those expenses were incurred in general fund, amounting \$ 9,031,000, and exceed of cash and debt services not use to paid bonds issues (\$1,900,000).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers, which are considered by management to be fully realizable at June 30, 2012.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**10) CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2012.

	<u>Balance at beginning of fiscal year,</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassifications</u>	<u>Balance at end of year</u>
Governmental activities					
Cost basis:					
Capital assets, not being depreciated/amortized:					
Land	\$ 15,237,509	-	-	373,817	\$ 15,611,326
Construction in progress	18,542,139	8,041,086	(38,975)	(10,020,506)	16,523,744
Total capital assets, not being depreciated/amortized	<u>33,779,648</u>	<u>8,041,086</u>	<u>(38,975)</u>	<u>(9,646,689)</u>	<u>32,135,070</u>
Capital assets, being depreciated/amortized:					
Land improvements	8,210,581	-	-	3,063,781	11,274,362
Buildings, structures, and improvements	59,805,831	-	-	3,101,409	62,907,240
Infrastructure	32,963,525	-	-	3,052,445	36,015,970
Other machinery and equipment, and furniture and fixtures	16,343,927	-	-	167,717	16,511,644
Machinery and equipment under capital leases	1,101,524	-	-	-	1,101,524
Licensed vehicles	12,212,002	-	-	261,337	12,473,339
Total capital assets, being depreciated/amortized	<u>130,637,390</u>	<u>-</u>	<u>-</u>	<u>9,646,689</u>	<u>140,284,079</u>
Total cost basis of capital assets	<u>164,417,038</u>	<u>8,041,086</u>	<u>(38,975)</u>	<u>-</u>	<u>172,419,149</u>
Less: accumulated depreciation and amortization:					
Land improvements	4,319,365	269,661	-	-	4,589,026
Buildings, structures, and improvements	17,957,223	1,257,074	-	-	19,214,297
Infrastructure	18,760,083	570,430	-	-	19,330,513
Other machinery and equipment, and furniture and fixtures	11,728,579	671,076	-	-	12,399,655
Machinery and equipment under capital leases	440,612	220,305	-	-	660,917
Licensed vehicles	10,219,533	458,265	-	-	10,677,798
Total accumulated depreciation and amortization	<u>63,425,395</u>	<u>3,446,811</u>	<u>-</u>	<u>-</u>	<u>66,872,206</u>
Net capital assets	<u>\$ 100,991,643</u>	<u>4,594,275</u>	<u>(38,975)</u>	<u>-</u>	<u>\$ 105,546,943</u>

Depreciation and amortization expense for the fiscal year ended June 30, 2012 was charged to functions/programs as follows:

Governmental activities	
General government	\$ 400,082
Public Safety	312,679
Economic and urban development	1,588,492
Health and sanitation	420,246
Public housing and welfare	34,329
Culture, recreation, and education	690,983
Total depreciation and amortization expense	<u>\$ 3,446,811</u>

At June 30, 2012, the estimated aggregate replacement cost of the Municipality's capital assets amounted to approximately \$270.00 million.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**11) DEFERRED REVENUES**

At June 30, 2012, deferred revenues recorded in the GWFS and the GFFS are as follows:

Due/advances to:	Major Governmental Funds							Statement of Net Assets
	General Fund	State Legislative Joint Resolution Special Revenue Fund	Head Start Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds	
<i>Measurable but not available revenues:</i>								
Property taxes	\$ 2,678,572	-	-	1,438,225	-	-	4,116,797	\$ -
Municipal licenses	2,397,836	-	-	-	-	-	2,397,836	-
Rent and other charges	2,907,732	-	-	-	-	-	2,907,732	-
Intergovernmental grants and contributions	378,292	-	-	-	-	-	378,292	-
Total measurable but not available revenue	8,362,432	-	-	1,438,225	-	-	9,800,657	-
<i>Unearned revenues:</i>								
Municipal licenses	10,371,242	-	-	-	-	-	10,371,242	10,371,242
Intergovernmental grants and contributions:								
Commonwealth of Puerto Rico	-	6,959,983	-	-	880,211	-	7,840,194	7,840,194
U.S. Department of Health and Human Services	-	-	-	-	-	-	-	-
Other governmental agencies	-	-	-	-	-	1,833,154	1,833,154	1,833,154
Total unearned revenues	10,371,242	6,959,983	-	-	880,211	1,833,154	20,044,590	20,044,590
Total deferred revenues	\$ 18,733,674	6,959,983	-	1,438,225	880,211	1,833,154	29,845,247	\$ 20,044,590

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**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS**

The general long-term debt activity for the fiscal year ended June 30, 2012 is as follows:

	Balance at June 30, 2011	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2012	Balance due within one year
Bonds payable	\$ 99,653,000	40,181,000	(7,375,000)	132,459,000	\$ 8,215,800
Notes payable:					
CRIM	1,479,677	-	(196,545)	1,283,132	49,749
Obligation under capital leases	794,113	-	(231,279)	562,834	290,374
Estimated liability for municipal solid waste landfill closure and postclosure care costs	2,112,955	1,351,065	(98,972)	3,365,048	98,972
Compensated absences	6,814,947	4,001,089	(3,921,283)	6,894,753	3,153,616
Claims and judgments	8,969,363	654,995	(154,000)	9,470,358	77,511
Total	<u>\$ 119,824,055</u>	<u>46,188,149</u>	<u>(11,977,079)</u>	<u>154,035,125</u>	<u>\$ 11,886,022</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, claims and judgments, obligations under capital leases and any other long-term liabilities other than bonds.

**a) Debt Limitation**

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2012 amounted to \$4,548,409,784, as a factor of temporary changes to the Municipal Financing Law by Law Number 7, of March 9, 2011, which multiplied by 10 the present assessed value. This will allow the Municipality to borrow from the Government Development Bank in order to take care of its fiscal needs. The Municipality's available legal debt margin amounted to \$396,948,680.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*b) Bonds Payable*

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds and bond anticipation notes.

As described in Note 4, the Municipality levies an annual additional special tax of 2.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2012:

	<u>Outstanding balance</u>
<b><u>General Obligation Bonds:</u></b>	
1995 serial bonds, original issue amount of \$229,000, used in major capital improvements activities, due in annual principal installments ranging from \$12,000 to \$17,000 plus interest due in annual installments at 5.12 percent through January 1, 2020.	\$ 116,000
1997 serial bonds, original issue amount of \$675,000, used in major capital improvements activities, due in annual principal installments ranging from \$30,000 to \$60,000 plus interest due in semiannual installments at variable rates not to exceed 6.56 percent (6.04 percent at June 30, 2012) through July 1, 2021.	425,000
1998 serial bonds, original issue amount of \$1,645,000, used in major capital improvements activities, due in annual principal installments ranging from \$115,000 to \$160,000 plus interest due in semiannual installments at variable rates not to exceed 6.34 percent (6.04 percent at June 30, 2012) through July 1, 2016.	680,000
2001 serial bonds, original issue amount of \$9,950,000, used for acquisition of REBMC and several capital improvements, due in annual principal installments ranging from \$310,000 to \$805,000 plus interest due in semiannual installments at variable rates not to exceed 6.69 percent (6.25 percent at June 30, 2012) through July 1, 2026.	7,760,000

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*b) Bonds Payable*

	<u>Outstanding balance</u>
<b><u>General Obligation Bonds:</u></b>	
1999 serial bonds, original issue amount of \$930,000, used for the acquisition of certain land parcels, due in annual principal installments ranging from \$35,000 to \$80,000 plus interest due in semiannual installments at variable rates not to exceed 5.60 percent (4.50 percent at June 30, 2012) through July 1, 2024.	680,000
1999 serial bonds, original issue amount of \$205,000, used for acquisition of certain land parcels and certain construction activities, due in annual principal installments ranging from \$5,000 to \$15,000 plus interest due in semiannual installments at variable rates not to exceed 5.60 percent (4.50 percent at June 30, 2012) through July 1, 2024.	145,000
1995 serial bonds, original issue amount of \$1,360,000, used for construction activities, due in annual principal installments ranging from \$38,000 to \$93,000 plus interest due in annual installments at fix rate of 5.12 percent through January 1, 2031.	1,169,000
1999 serial bonds, original issue amount of \$4,060,000, used for major construction activities, due in annual principal installments ranging from \$415,000 to \$445,000 plus interest due in semiannual installments at variable rates not to exceed 4.61 percent (4.50 percent at June 30, 2012) through July 1, 2013.	860,000
1999 serial bonds, original issue amount of \$1,310,000, used for acquisition of certain land parcels, due in annual principal installments ranging from \$45,000 to \$115,000 plus interest due in semiannual installments at variable rates not to exceed 5.60 percent (4.50 percent at June 30, 2012) through July 1, 2024.	955,000
1998 serial bonds, original issue amount of \$3,525,000, used for several capital improvements, due in annual principal installments of \$395,000 plus interest due in semiannual installments at variable rates not to exceed 6.04 percent through July 1, 2012.	395,000
2004 serial bonds, original issue amount of \$7,945,000, used for construction and major capital improvements activities and for the payment to various suppliers, due in annual principal installments ranging from \$245,000 to \$540,000 plus interest due in semiannually installments at variable rates not to exceed 5.02 percent (4.73 percent at June 30, 2012) through July 1, 2028.	6,355,000

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

12) LONG-TERM OBLIGATIONS (Continued)

b) Bonds Payable

	<u>Outstanding balance</u>
<b><u>General Obligation Bonds:</u></b>	
2006 serial bonds, original issue amount of \$12,610,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$515,000 to \$1,030,000 plus interest due in semiannually installments at variable rates not to exceed 7.00 percent (5.78 percent at June 30, 2012) through July 1, 2025.	10,415,000
2007 serial bonds, original issue amount of \$2,345,000, used for acquisition of certain land parcels, due in annual principal installments ranging from \$60,000 to \$170,000 plus interest due in semiannual installments at variable rates not to exceed 7.50 percent (6.28 percent at June 30, 2012) through July 1, 2031.	2,090,000
1995 serial bonds, original issue amount of \$1,500,000, used for major capital improvements, due in annual principal installments ranging from \$85,000 to \$136,000 plus interest due in semiannual installments at fix rate of 4.75 percent through January 1, 2023.	1,197,000
2009 serial bonds, original issue amount of \$15,685,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$485,000 to \$1,210,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (4.50 percent at June 30, 2012) through July 1, 2029.	14,375,000
2010 serial bonds, original issue amount of \$7,960,000 used for construction and major capital improvements activities due in annual principal installments ranging from \$230,000 to \$580,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (3.63 percent at June 30, 2012) through July 1, 2031.	7,540,000
2010 serial bonds, original issue amount of \$5,830,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$645,000 to \$925,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2017.	4,670,000
2012 serial bonds, original issue amount of \$8,030,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$125,000 to \$675,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2036.	8,030,000

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*b) Bonds Payable*

	<u>Outstanding balance</u>
<b><u>General Obligation Bonds:</u></b>	
2012 serial bonds, original issue amount of \$21,100,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$485,000 to \$1,925,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2031.	21,100,000
2012 serial bonds, original issue amount of \$10,050,000, used for construction and major capital improvements activities due in annual principal installments ranging from \$310,000 to \$995,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2028.	10,050,000
<b>Total General Obligation Bonds</b>	<u>99,007,000</u>
<b><u>Special Obligations Bonds:</u></b>	
1996 serial bonds, original issue amount of \$400,000, used for the payment of certain operating expenses, due in annual principal installments ranging from \$25,000 to \$40,000 plus interest due in annual installments at 5.00 percent through July 1, 2016.	155,000
1997 serial bonds, original issue amount of \$7,510,000, used for the payment of certain operating expenses, due in annual principal installments ranging from \$480,000 to \$715,000 plus interest due in semiannual installments at variable rates not to exceed 7.50 percent (1.38 percent at June 30, 2012) through July 1, 2017.	3,535,000
2010 serial bonds, original issue amount of \$10,040,000, used for the payment of certain operating expenses, due in annual principal installments ranging from \$1,230,000 to \$1,765,000 plus interest due in semiannual installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2017.	8,900,000
2005 serial bonds, original issue amount of \$3,965,000, used for the payment of certain operating expenses, due in annual principal installments ranging from \$560,000 to \$590,000 plus interest due in semiannual installments at variable rates not to exceed 6.00 percent (1.63 percent at June 30, 2012) through July 1, 2013.	1,150,000

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*b) Bonds Payable*

	<u>Outstanding balance</u>
<b><u>Special Obligations Bonds:</u></b>	
2011 serial bonds, original issue amount of \$3,085,000, used for capital improvements due in annual principal installments ranging from \$125,000 to 330,00 plus interest due in semiannual installments at variable rates not to exceed 7.50 percent (6.00 percent at June 30, 2012) through July 1, 2025.	2,965,000
2012 serial bonds, original issue amount of \$1,001,000, used for capital improvements due in annual principal installments ranging from \$39,800 to 102,800 plus interest due in semiannual installments at variable rates not to exceed 7.00 percent (6.00 percent at June 30, 2012) through July 1, 2026.	1,001,000
<b>Total Special Obligations Bonds</b>	<u>17,706,000</u>
<b><u>Public Improvements Bonds:</u></b>	
1994 serial bonds, original issue amount of \$1,170,000, used for major capital improvements, due in annual principal installments ranging from \$60,000 to \$110,000 plus interest due in semiannual installments at variable rates not to exceed 6.63 percent (6.28 percent at June 30, 2012) through July 1, 2019.	665,000
2003 serial bonds, original issue amount of \$3,510,000, used for major capital improvements due in annual principal installments ranging from \$110,000 to \$235,000 plus interest due in semiannually installments at variable rates not to exceed 5.02 percent (4.73 percent at June 30, 2012) through July 1, 2028.	2,805,000
1994 serial bonds, original issue amount of \$3,300,000, used for major capital improvements, due in annual principal installments ranging from \$226,000 to \$298,000 plus interest due in semiannual installments at fix rate of 5.00 percent through January 1, 2019.	1,826,000
2009 serial bonds, original issue amount of \$3,570,000, used for major capital improvements due in annual principal installments ranging from \$375,000 to \$475,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (1.63 percent at June 30, 2012) through July 1, 2017.	2,550,000
2009 serial bonds, original issue amount of \$8,995,000, used for major capital improvements due in annual principal installments ranging from \$405,000 to \$850,000 plus interest due in semiannually installments at variable rates not to exceed 7.50 percent (4.50 percent at June 30, 2012) through July 1, 2024.	7,900,000

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*b) Bonds Payable*

	<b>Outstanding balance</b>
<b>Total public improvements bonds</b>	<u>15,746,000</u>
<b>Total bonds payable</b>	<u>\$132,459,000</u>

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

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

<b>Fiscal year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 8,215,000	6,588,908	\$ 14,804,708
2014	8,336,000	8,479,432	16,816,032
2015	7,777,600	7,932,849	15,710,449
2016	8,279,800	7,377,040	15,656,840
2017	8,888,200	6,774,727	15,662,927
2018-2022	33,169,300	26,130,740	59,300,040
2023-2027	33,866,700	14,629,813	48,496,513
2028-2032	21,000,000	4,504,756	25,504,756
2033-2037	2,925,000	581,437	3,506,437
Total	<u>\$ 132,459,000</u>	<u>82,999,702</u>	<u>\$215,458,702</u>

At June 30, 2012, accrued interest payable on bonds amounted to \$6,588,908.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*c) Notes Payable to CRIM*

The Municipality had the following notes payables to CRIM at June 30, 2012:

- **Public Act No. 42** – The Commonwealth’s Pubic Act No. 42 of January 26, 2000 (Act No. 42) was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement authorized CRIM to finance a debt that the municipalities of Puerto Rico had with such entity, which arose from the difference between the yearly final settlements of property tax advances made by CRIM to the municipalities and the actual property tax collections received by CRIM from taxpayers through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth are assigned through Act No. 42 to repay such note. The increase in this subsidy was the result of Public Act No. 238 of August 15, 1999.

In addition, on December 16, 2002 the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$686,237 of excess of property tax advances from fiscal years 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each fiscal year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB (6.19 percent at June 30, 2012) but not exceeding 8.00 percent. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal and accrued interest balances of this note amounted to \$583,203 and \$18,053, respectively, at June 30, 2012.

The principal and interest maturities are as follows:

<b>Fiscal year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 14,731	35,861	\$ 50,592
2014	15,656	34,936	50,592
2015	16,640	33,952	50,592
2016	17,686	32,906	50,592
2017	18,797	31,796	50,593
2018-2022	113,254	139,705	252,959
2023-2027	153,596	99,364	252,960
2028-2032	208,306	45,353	253,659
2033	24,537	759	25,296
Total	<u>\$ 583,203</u>	<u>454,632</u>	<u>\$ 1,037,835</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*c) Notes Payable to CRIM (Continuation)*

- **Public Act No. 146** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Public Act No. 146 of October 11, 2001, as amended (Act No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was \$875,441, for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest. Accordingly, the municipality commenced paying principal and interest at 6.22% in September 2007. Principal payments are made in March of each year and interest in March and September. Which last payment is due in March 2032. Interest payments on this financing agreement are accounted for in the general fund.

The outstanding principal of the note payable to CRIM amounted to \$700,353 at June 30, 2012. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2013	\$ 35,018	43,562	\$ 78,580
2014	35,018	41,384	76,402
2015	35,018	39,206	74,224
2016	35,018	37,028	72,046
2017	35,018	34,850	69,868
2018-2022	175,090	141,576	316,666
2023-2027	175,090	87,124	262,214
2028-2032	175,083	32,671	207,754
Total	<u>\$700,353</u>	<u>457,401</u>	<u>\$1,157,754</u>

- **Operating leases** – The Municipality leases building and office facilities under operating lease agreements with third parties. These lease agreements generally contain fiscal funding clauses and/or cancellation clauses that make the continuation of the agreements subject to future appropriations. Management has concluded that the likelihood of invoking the cancellation provisions is remote; therefore, the remaining terms of these leases will extend beyond one fiscal year. Total costs for such leases (minimum lease payments) were \$1,037,749 for the fiscal year ended June 30, 2012.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
 Notes to Basic Financial Statements  
 Fiscal Year Ended June 30, 2012

12) LONG-TERM OBLIGATIONS (Continued)

d) Lease Obligations

- The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30,	Amount
2013	\$ 1,037,749
2014	1,037,749
2015	1,037,749
2016	1,037,749
2017	1,037,749
2018-2022	5,188,745
2023-2027	5,188,745
2028-2032	5,188,745
Total	\$ 20,754,980

- Capitalized Leases** - The Municipality is obligated under capital leases with third parties that expire through 2012 for the acquisition of machinery and equipment. At June 30, 2012, the capitalized costs and the related accumulated amortization of the leased machinery and equipment amounted to \$1,101,524 and \$660,914, respectively, which are accounted for as capital assets in the accompanying statement of net assets. Amortization charges applicable to capital leases and included within depreciation expense amounted to \$220,305 for the fiscal year ended June 30, 2012. The present value of the future minimum capital lease payments reported in the accompanying statement of net assets is as follows:

Fiscal year ending June 30,	Amount
2013	\$ 318,541
2014	261,946
2015	21,701
<b>Total future minimum lease payments</b>	602,188
<b>Less: amount representing future interest at 7% rates</b>	(39,354)
<b>Present value of minimum lease payments</b>	562,834
<b>Less:</b>	
<b>Current portion of obligation under capital leases</b>	(290,374)
<b>Obligation under capital leases, excluding current portion</b>	\$ 272,460

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**12) LONG-TERM OBLIGATIONS (Continued)**

*e) Municipal Solid Waste Landfill Closure and Post closure Care Costs*

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has performed a study of the activities that need to be implemented at the Municipality's solid waste 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 recorded an estimated liability of \$3,365,048 in the accompanying GWFS, using current costs allocated, based on the actual landfill capacity used at June 30, 2012. The portion of the estimated current costs to be incurred in future years is approximately \$494,860, which has not been recorded yet in the accompanying GWFS. Actual costs may be different to the recorded estimated liability due to inflation, changes in technology, or changes in laws and regulations. At June 30, 2012, the Municipality's solid waste landfill is still operating and its remaining estimated useful life is approximately 4.5 years. Approximately 90 percent of the Municipality's total capacity has been used at June 30, 2012.

*f) Compensated Absences*

At June 30, 2012, the liability for compensated absences is composed as follows:

	<b>Due within one year</b>	<b>Due after one year</b>	<b>Total</b>
Vacations	\$2,341,637	822,654	\$ 3,164,291
Sick leave	811,979	2,918,483	3,730,462
Total	\$3,153,616	3,741,137	\$6,894,753

**13) EMPLOYEES' RETIREMENT SYSTEMS**

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as *System 2000*, to cover employees joining ERS on or after January 1, 2000.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
 Notes to Basic Financial Statements  
 Fiscal Year Ended June 30, 2012

**13) EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (10.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the Commonwealth has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees.

The contribution requirement to ERS is established by law and is not actuarially determined.

These contributions are as follows:

Municipality and other employers	10.275 percent of applicable payroll
Employees: Coordination plan	5.775 percent of gross salary up to \$6,600 per year, plus 8.275 percent gross salary in excess of \$6,600
Supplementation plan	8.275 percent of gross salary. This is the only choice available to policemen, firemen and majors

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**13) EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

Effective January 27, 2000, participant contributions were increased to 9% of their compensation, as provided by Act No. 45 of 2000. The Commonwealth, as sponsor, matches the participants' contributions at a rate of 8.5% of the applicable payroll.

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2004.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2004.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2004.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective September 14, 2007, an increase in the amount granted on personal loans to participating employees from \$5,000 to \$15,000 and the term of payments from three years to seven years maximum.

The required contribution(s) rate in accordance with the funding policy, in dollars or as a percentage of the current year (Fiscal Year 2011-2012) covered payroll and any changes for or during the current year (describe):

Employer Contribution: 10.275% of Gross Salary

Required contribution in dollars:

<u>YEAR</u>	<u>ERS and System 2000</u>	<u>Actual contribution in dollars</u>
2010-2011	\$ 998,981	\$ 98,981
2009-2010	1,074,283	1,074,283
2008-2009	1,074,809	1,074,809

At June 30, 2012, the balance due to ERS amounted to \$1,164,302.

Under GASB Statement No. 50, Pension Disclosures, the note disclosures for pension plans of governmental entities have been expanded. However, the methods of measurement and recognition have not changed and remain defined by Statements No. 25 and No. 27.

The changes required on pension disclosures have the intention of align the reporting requirements for pension plans with the requirements for other post employment benefits (OPEB). As noted previously, the Municipality of Mayagüez does not offer its employees any other postemployment benefits plan, apart from the aforementioned Employee's Retirement System.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**14) FUND BALANCES (DEFICIT)**

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

	Major Governmental Funds						Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Head Start Special Revenue Fund	Permanent Improvements Bonds Fund	Debt Service Fund	Other Governmental Funds	
<b>Fund Balances:</b>							
Nonspendable							
Advance and long term receivables	\$ -	-	-	-	-	94,573	\$ 94,573
Total Nonspendable	-	-	-	-	-	94,573	94,573
Restricted for:							
Encumbrances	2,965,919						2,965,919
General Governments	10,624,754	-	-	-	-	13,000	10,637,754
Urban and Economics Developments	-	-	-	-	-	1,566,742	1,566,742
Public Housing and Welfare	-	-	-	-	-	910,531	910,531
Other Specified Purpose	-	69,744	6,248	-	-	3,416	79,408
Total restricted	13,590,673	69,744	6,248	-	-	2,493,689	16,160,354
Committed to:							
Debt Services	-	-	-	-	12,905,162	-	12,905,162
Permanent Improvements Bonds	-	-	-	60,335,236	-	-	60,335,236
Total committed	-	-	-	60,335,236	12,905,162	-	73,240,398
Total assigned	-	-	-	-	-	-	-
Unassigned	(2,774,556)	-	-	-	-	-	(2,774,556)
Total fund balances	\$ 10,816,117	69,744	6,248	60,335,236	12,905,162	2,588,262	\$ 86,720,769

**15) COMMITMENTS AND CONTINGENCIES**

**a) Commitments**

The Municipality has several outstanding or planned non-cancelable construction projects amounting to \$89,612,185 at June 30, 2012 of which, \$18,175,552 has been incurred and \$71,436,633 remains outstanding to incur through the end of each project. These projects are evidenced by contractual commitments with contractors and are generally accounted for in the permanent improvements bonds fund.

The Municipality has reported, outstanding encumbrances amounting to \$2,391,871 in the general fund at June 30, 2012. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current fiscal year's budget during a lapse period that extends into the next fiscal year.

COMMONWEALTH OF PUERTO RICO  
 AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ  
 Notes to Basic Financial Statements  
 Fiscal Year Ended June 30, 2012

15) COMMITMENTS AND CONTINGENCIES (Continued)

*b) Contingencies*

1. **Legal Claims** - The Municipality is defendant in various claims and legal proceedings pertaining to matters incidental to the performance of routine governmental operations amounting to approximately \$48.7 million of which \$7 millions are related to a law suit filed by Advance Cardiology Center requesting compensation for the alleged loss of private investors that the plaintiff has experienced as a result of the municipality's actions. The municipality filed a counterclaim seeking the eviction of Advanced Cardiology Center from the premises as well as the collection of \$19,961,484 in unpaid rent and utilities. Under Public Act No. 104 of June 25, 1995, as amended, persons are allowed to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Public Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation as well as assume the payment for any judgment that may be entered against them. However, there is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, the Municipality has reported liabilities amounting to \$9,470,358 for awarded and anticipated unfavorable judgments at June 30, 2012 of which \$2,000,000 are related with the gross volume of business tax claim described in part 3 of this note and \$4,100,363 related with questionable costs of the HOME and CDBG federal programs described in the following paragraph. This amount was included within long-term obligations in the accompanying statement of net assets 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 its legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition nor the results of operations of the Municipality. In addition, management believes that the ultimate liability in excess of amounts recorded in the accompanying statement of net assets, if any, would not be material to the basic financial statements taken as a whole.

The claim and judgments activity for the fiscal year ended June 30, 2012 is as follows:

	Balance at June 30, 2011	Additions	Payments or deductions	Balance at June 30, 2012	Balance due within one year
Claims and judgments	\$ 8,969,363	654,995	(154,000)	\$ 9,470,358	77,511
Total	\$ 8,969,363	654,995	(154,000)	\$ 9,470,358	77,511

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**15) COMMITMENTS AND CONTINGENCIES (Continued)**

*b) Contingencies*

2. **Federal Grants** -The Municipality receives financial assistance from the federal Government of the United States of America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance because of these audits may become liabilities of the Municipality. The *"Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133"* for the fiscal year ended June 30, 2012, disclosed various instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. Additionally, the municipality of Mayagüez has unresolved monitoring findings from reviews conducted by the U.S. Department of Housing and Urban Development Program, the Community Development Block Grant (CDBG) and the Emergency Shelter Grant (ESG) programs. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors, if any. Conversely, the accompanying basic financial statements include provisions for possible disallowed cost arising from the Single Audit and the review conducted by the U.S. Department of Housing and Urban Development.
3. **Municipal Gross Volume of Business Tax** – During fiscal year 2004-2005, the Commonwealth Court System reviewed de Municipality of Hormigueros legal suit against the Municipality of Mayagüez. The Municipality of Hormigueros is claiming the right to impose and collect the gross volume of business tax for certain business located at the Mayagüez Mall, because it is alleged that is located in the boundaries of both municipalities: Mayagüez and Hormigueros. Such legal suit also request for the reimbursement the year 1997 to present from the Municipality of Mayagüez.

On August 2005, the Court requested additional information before concluding the final sentence. Information is requested to the Municipal Property Tax Bureau, the Commonwealth Planning Board and evidence about collections performed either by the Property Tax Bureau regarding property taxes and the Municipality of Mayagüez related to business volume tax sale collected from year 1997 to the present. The legal claim amounts to \$2.5 million, which is included.
4. **Treasury Department of Puerto Rico** – During fiscal year 2011-2012, the Treasury Department of Puerto Rico established a claim against the Municipality of Mayagüez for income tax withheld to employees, amounting \$1,021,000, which included principal, interest and surcharges. The Municipality presented evidence that the debt claimed is paid since the year 2000. To present, this claim is active and its currently in a process of revision and negotiation.

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**16) PRIOR-PERIOD ADJUSTMENT AND RECLASSIFICATION**

During the current fiscal year, the Municipality corrected certain accounting entries not reported in the prior fiscal year's GFFS. As a result, the Municipality recorded retroactively the following prior - period adjustments:

- Final liquidation of Revenues Collection Center (CRIM) was not recorded by the Municipality in the General Fund as liabilities on intergovernmental payables of \$1,552,274 in the prior fiscal year due to late notification received from CRIM .
- Revenues on Lower Income Housing Assistant Fund was recorded as Deferral Revenues by \$448,379 in the prior fiscal year.
- Reclassification of Fund Balances from Other non-mayor governmental fund to Permanent improvements funds by \$248,797 due to the application of the GASB 54.

The following schedule reconciles the fund balances, as previously reported by the Municipality, to the beginning fund balances, as restated.

	Fund balances at the beginning of fiscal year, as previously reported	Reclassifications and prior year adjustments	Fund balances at beginning of fiscal year, as restated
<i>Major Governmental Funds:</i>			
General Fund	\$ 9,889,624	(1,552,274)	\$ 8,337,350
State Legislative Joint Resolutions Special Revenue Fund	66,134	-	66,134
Head Start	6,199	-	6,199
Permanent Improvements Bonds	35,349,930	248,797	35,598,727
Debt Service Fund	10,318,458	-	10,318,458
	<u>55,630,345</u>	<u>(1,303,477)</u>	<u>54,326,868</u>
<i>Other Governmental Funds:</i>			
Other Non-mayor Governmental Funds	1,979,586	(248,797)	1,730,789
Lower Income Housing Assistant Fund	313,065	448,379	761,444
Total Other Non-mayor Governmental Funds	<u>2,292,651</u>	<u>199,582</u>	<u>2,492,233</u>
Total Governmental Funds	<u>\$ 57,922,996</u>	<u>(1,103,895)</u>	<u>\$ 56,819,101</u>

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2012

**16) PRIOR- PERIOD ADJUSTMENT AND RECLASSIFICATION (Continued)**

The following schedules reconciles the total net assets balance at June 30, 2011 as previously reported by the Municipality, to the beginning net assets, as restated in the accompanying GWFS:

Net assets at beginning of fiscal year as previously reported	Unrecorded property tax revenues	Net assets at beginning of fiscal year as restated
\$ 54,504,365	(1,103,893)	\$ 53,400,472

**17) SUBSEQUENT EVENTS**

On December 7, 2012, the Municipal Legislature approved the Municipal Act Number 32 Series 2012-2013 increasing the property tax rate by .75% from 9.83% to 10.58% on the real property tax and from 7.83% to 8.58% on the personal property tax. This increase is effective on January 1, 2013 and it is applicable only to the debt service tax portion.

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**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

**INDEPENDENT AUDITORS' 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 Mayagüez  
Mayagüez, 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 Mayagüez of the Commonwealth of Puerto Rico (the Municipality)**, as of and for the fiscal year ended June 30, 2012, which collectively comprise the **Autonomous Municipality of Mayagüez** basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

**INDEPENDENT AUDITORS' 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**

(Continuation)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Municipality's in a separate letter dated December 27, 2012.

This report is intended solely for the information and use of the management, municipal legislature, federal awarding agencies, state funding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 28, 2012  
San Juan, Puerto Rico

Stamp No. 2672770 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

*Nieves Velazquez & Co., P.S.C.*





**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A 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 Mayagüez  
Mayagüez, Puerto Rico

**Compliance**

We have audited the compliance of the **Autonomous Municipality of Mayagüez of the Commonwealth of Puerto Rico (The Municipality)** with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. **The Municipality's** major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **the Municipality's** management. Our responsibility is to express an opinion on **the Municipality's** compliance based on our audit.

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

In our opinion, **the Municipality** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-III-1 and 12-III-2.

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

**Internal Control Over Compliance**

Management of **the Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **the Municipality's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our 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 **the Municipality's** over compliance. Accordingly, we do not express an opinion on the effectiveness of **the Municipality's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies 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 12-111-1 and 12-111-2.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**The Municipality's** responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit **the Municipality's** responses and, accordingly, we express no opinion on the responses.

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

This report is intended for the information of the management, municipal legislature, federal awarding agencies, state funding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

December 28, 2012  
San Juan, Puerto Rico

Stamp No. 2672772 of the Puerto Rico  
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was affixed to the record copy of this report.

*Nieves Velazquez & Co., P.S.C.*



**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

<i><u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u></i>	<i><u>Federal CFDA Number (Note 2)</u></i>	<i><u>Pass-through Entity Identifying Number (Note 3)</u></i>	<i><u>Federal Expenditures (Notes 1 and 4)</u></i>
<b><u>U.S. Department of Housing &amp; Urban Development (HUD)</u></b>			
Direct Programs:			
Home Investment Partnership Program (HIPP)	14.239	N/A	\$ 1,699,269
Community Development Block Grants – Entitlement Grants (CDBG)	14.218	N/A	2,473,239
Community Development Block Grants – Entitlement Grants (CDBG-R) - ARRA	14.253	N/A	132,706
Section 8 – Housing Choice Voucher	14.871	N/A	4,484,469
Housing Opportunities for Persons with AIDS	14.241	N/A	57,883
Lower Income Housing Assistance Program:			
Emergency Shelter Grants Program (ESGP)	14.231	N/A	131,164
Homelessness Prevention and Rapid Re-Housing Program (HPRP) - ARRA	14.257	N/A	<u>486,033</u>
Total U.S. Department of Housing & Urban Development			<u>9,464,763</u>
<b><u>U.S. Department of Health and Human Services (HHS)</u></b>			
Direct Program:			
Head Start	93.600	N/A	7,916,113
Promoting Safe and Stable Families	93.556	N/A	440,499
Passed-through the P.R. Governor Office:			
Special Programs for the Aging Title III-Part B & C	93.044	N/A	<u>364,538</u>
Total U.S. Department of Health and Human Services			<u>8,721,150</u>
<b><u>U.S. Department of Transportation (DOT)</u></b>			
Direct Programs:			
Federal Transit Capital Investment Grants (FTCIG)	20.500	PR89-29-0616-526-F	8,305
Capital Assistance Program for Elderly Persons and Persons with Disability	20.513	PR-90-X273-00	<u>63,998</u>
Total U.S. Department of Transportation			<u>72,303</u>
<b>Sub-total</b>			<b><u>18,258,216</u></b>

Continued-

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012  
(Continuation)**

<i><u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u></i>	<i><u>Federal CFDA Number (Note 2)</u></i>	<i><u>Pass-through Entity Identifying Number (Note 3)</u></i>	<i><u>Federal Expenditures (Notes 1 and 4)</u></i>
<b>Sub-total carried forward</b>			<b><u>\$18,258,216</u></b>
<b><u>U.S. Department of Agriculture (USDA)</u></b>			
Passed-through the Puerto Rico Department of Education:			
Child and Adult Care Food Program (CACFP)	10.558	CCC-051	<u>725,417</u>
Total U.S. Department of Agriculture			<u>725,417</u>
<b><u>U.S. Department of Homeland Security (DHS)</u></b>			
Direct Program:			
Homeland Security Grant Program (HSGP)	97.067	N/A	<u>116,223</u>
Total U.S. Department of Homeland Security			<u>116,223</u>
<b><u>U.S. Department of Energy (DOE)</u></b>			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA	81.128	N/A	<u>239,207</u>
Total U.S. Department of Energy			<u>239,207</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$19,339,063</u></b>

See notes to the Schedule of Federal Financial Awards.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

**2. FEDERAL CFDA NUMBER**

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

**3. PASS-THROUGH ENTITY IDENTIFYING**

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/A are not applicable or not available.

**4. RECONCILING OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE FUNDS STATEMENT**

Amounts included in the accompanying schedule agree with the amounts included in the basic financial statements as follows:

<u><i>Fund</i></u>	<u><i>Federal Assistance</i></u>	<u><i>Other Assistance</i></u>	<u><i>Financial Statements</i></u>
Head Start	\$ 7,916,113	2,865,645	10,781,758
Other Governmental Funds (including transfer out)	<u>11,422,950</u>	<u>406,508</u>	<u>11,829,458</u>
<b>Totals</b>	<b><u>\$19,339,063</u></b>	<b><u>3,272,153</u></b>	<b><u>22,611,216</u></b>

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**Section I. Summary of Audit Results**

**Part I. Financial Statements**

1. Type of audit reports issued: **Unqualified**
2. Internal control over financial reporting:
  - ❖ Material weakness (es) identified?  Yes  No
  - Significant deficiency (ies) identified?  Yes  None reported
3. Noncompliance material to financial statement noted?  Yes  No

**Part II. Federal Awards**

1. Internal control over major programs:
  - ❖ Material weakness (es) identified?  Yes  No
  - Significant deficiency (ies) identified?  Yes  None reported
2. Type of auditors reports issued on compliance for major programs: **Unqualified**
3. Any audit findings disclosed that are required to be reported in accordance with 510(a) of OMB Circular A-133?  Yes  No

4. Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number (s)</u>
Home Investment Partnership Program (HIPP)	14.239
Program (HPRP) – ARRA	14.257
Section 8 – Housing Choice Voucher	14.871
Head Start	93.600

5. Dollar threshold used to distinguish between Type A and Type B programs \$580,172
6. Auditee qualified as low-risk auditee?  Yes  No

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Section II. Financial Statement Findings

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
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There were no financial statement findings.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**Section III. Federal Award Findings and Questioned Costs**

<u>Major Programs</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
HOME & HPRP	12-III-1	<p><b><u>Cash Management</u></b></p> <p><u>Criteria and Condition</u></p> <p>The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. During our audit of the cash received and disbursements of the HOME, and HPRP federal programs, we noted disbursements averaging 17 days in a sample test of 12 disbursements for the HOME program and in a sample test of 5 items the delay was between 8 to 28 days for the HPRP program. This finding is repeated from prior year.</p> <p><u>Cause</u></p> <p>The Program officials indicated that all disbursement supporting documents were completed and submitted on time to the Finance Department but, due to the complexity and approvals of the transactions and the new accounting system recently installed the payments were issued late.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with the Circular OMB-102 cash management requirement.</p> <p><u>Recommendations</u></p> <p>We recommend the Municipality officials to obtain all necessary documents approval on time and the new accounting system complexities be resolved in order to release the funds within the time requirement.</p> <p><u>Management Comments</u></p> <p>We, the federal program personnel, prepare and submit all necessary information to the Finance Department for payment however, the delay is mainly due to complexities of the new accounting systems installed according to the program officials.</p>	—

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Section III. Federal Award Findings and Questioned Costs

<u>Major Programs</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
SECTION 8	12-III-2	<u>Eligibility</u>  <u>Criteria and Condition</u>  The Municipality must maintain appropriate applicant records with necessary information, documentation, and releases for the PHA to verify income eligibility (24CFR, Sections 5.230, 5.609 and 982.516). During our test of 25 participants, we found two cases where the Section 8 application form was in blank except for the signature and date. Such forms were completed after our test was concluded.  <u>Cause</u>  The Municipality officials overlooked that those two forms were incomplete.  <u>Effect</u>  The Municipality is not in compliance with 24 CFR, Sections 5.230, 5.606 and 982.516 and there may be that the participants do not qualify to receive the program benefits.  <u>Recommendation</u>  Municipal officials should make sure that all participants records are completed before they are admitted to the program. Therefore, all participant records should be revised to ascertain completion of all required information. Also the Section 8 Application should be completed by the participant and not by the program personnel.  <u>Management Comments</u>  We agree with the finding however, the forms were immediately completed by the program personnel. The participants are pre-qualified and once all the requirements are met the Section 8 Application is completed.	—

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2011	CDBG and HPRP	11-III-1	<u>Cash Management</u>  The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. During our examination of the cash received and disbursements of the CDBG and HPRP Federal Program, we noted disbursements elapsing between 8 to 19 days for the CDBG program and 20 to 24 days for the HPRP program. This finding is repeated from prior year.	Finding repeated in the current year. (See Finding 12-111-1).
	HOME	II-III-2	<u>Allowable Costs/Cost Principles</u>  During the period from June through November 2010, the Office of Inspector General for Audit of the U.S. Department of Housing and Urban Development performed an in-depth audit of the Municipality's Home Investment Partnership Program (HOME) and determined that the Municipality disbursed more than \$4.7 million for two activities that did not meet HOME Program objectives, \$2.6 million for an additional activity for which it could not support its compliance with HOME program objectives, and \$908,000 for funds to be assigned to better use. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME program objectives were met. The OIG report is dated April 8, 2011. An amount of \$4.1 million is questioned.	According to a letter dated December 11, 2012, the finding has not been cleared yet. Municipality officials and Regional HUD office still working to clear it.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
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06/30/2011	HOME	11-III-3	<u>Period of Availability of Federal Funds</u>	
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The OMB Circular A-133, establishes federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. The period to obligate the award is 24 months and the period to expense is 5 years. During our Test of Availability of Federal Funds we found the following exceptions:

According to the program officials all funds not obligated nor expensed were reprogrammed for year 2011-2012.

1. For several awards the amount was not obligated within 24 months period.

Grant Year	Fiscal Year	Amount Granted	Amount Not Obligated
M-08-MC-7-20206	2008-2009	\$1,104,744.44	\$180,614.40
M-07-MC-7-20206	2007-2008	1,139,937.00	85,943.99
M-06-MC-7-20206	2006-2007	369,723.00	91,947.66
M-05-MC-7-20206	2005-2006	1,221,414.00	21,596.53
		Total	<u>\$380,102.58</u>

2. For the award M-05-MC-720206, fiscal year 05-06, for amount granted of \$1,211,414, the amount of \$21,596.53 was not expensed within the 5 years period.

CDBG	11-III-4	<u>Program Income Funds</u>	
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Circular A-102, Common Rule Requires that the recording of program income is properly recorded in the accounting records and the use of the program income was in accordance with program requirement. Also it requires that federal cash transactions are recorded and reported quarterly in FS-272. Our overall test of the annual income per the accounting records disclosed a difference of \$38,759 over the amount reported in the FS-272.

The current year test disclosed no difference.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2010	CDBG	10-III-1	<u>Cash Management</u>  The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. During our examination of the cash received and disbursements of the CDBG Federal Program, we noted that a disbursement elapsing between 9 to 83 days for the CDBG program. This finding is repeated from prior year.	Finding repeated in the current year. (See Finding 12-111-1).
	CDBG	10-III-2	<u>Earmarking</u>  Corrected in 2011.	
	HOME	10-III-3	<u>Period of Availability of Federal Funds</u>  The OMB Circular A-133, establishes federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. The period to obligate the award is 24 months and the period to expense is 5 years. During our Test of Availability of Federal Funds we found the following exceptions:  1. For the award M-07-MC-720206 (Fiscal Year 07-08) for \$1,139,937.00 approved, the amount of \$162,825.57 was not obligated within 24 months period. 2. For the award M-06-Mc-720206 (Fiscal Year 06-07) for \$369,723.00 approved, the amount of \$91,947.66 was not obligated within 24 months period. 3. For the award M-05-MC-720206 (Fiscal Year 05-06) for \$1,665,602.00 approved, the amount of \$21,740.53 was not obligated within 24 months period.	According to the program officials all funds not obligated nor expensed were reprogrammed for year 2011-2012.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2009	HOME	09-III-1	<u>Cash Management</u>  The program was in compliance in 2011.	
	HOME	09-III-2	<u>Allowable Costs/Cost Principles</u>  The OMB Circular A-87, Attachment A, Part C-2 requires the program expends the moneys in an allowable activities and the related costs. General principles for Determining Allowable Costs under Part C-2, basic guidelines for reasonable costs, states that the costs should be reasonable in its nature and amount and it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made. During our Test of Eligibility, we noted a case where the real property acquired by the participant amounted to \$90,000 but, the available appraisal was for \$70,000, which we believe is unreasonable and therefore the excess of \$20,000 over the appraised amount is questioned.	Finding still prevails. See Prior Year Finding II-III-2.
06/30/2009	HOME	09-III-3	<u>Period of Availability of Federal Funds</u>  The OMB Circular 133, establishes federal awards may specify a time period during which the non-federal entity may use the Federal Funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. The period to obligate the award is 24 months and the period to expended is 5 years. During our Test of Availability of Funds we found that for the award M-06-Mc-720206 (Fiscal Year 06-07) for \$369,723 approved, the amount of \$91,947.66 was not obligated within 24 months period. For the award M-03-MC-720206 (Fiscal Year 03-04) for \$1,281,958 approved, the amount of \$15,234.98 was not expended within 5 years period.	According to the program officials all funds not obligated no expensed were reprogrammed for the year 2011-2012.
	Head Start	09-III-4	<u>Special Test and Provisions</u> Finding corrected in 2011	

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	CDBG & HOME	08-III-1	<u>Cash Management</u>  The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the Treasury and the disbursement of funds by grantee. During our examination of the cash received and disbursements of the CDBG and HOME federal programs, we noted disbursements elapsing between 7 to 49 days for the CDBG program and between 17 to 71 days for the HOME program. This finding is repeated from prior year.	Finding still prevails. See Current Year Finding 12-III-1
	HOME	08-III-2	<u>Sub-recipient Monitoring</u>  The OMB Circular A-133, Part 4-III, Compliance Requirement M requires that the auditor determine if the local government (participant) is entering into written agreements with sub-recipients which contain the provisions in 24 CFR, Section 92.504. Also, the local government must conduct reviews and audits of the sub-recipients as may be necessary or proper to determine whether the sub-recipient has committed and expended the HOME funds as required by 24 CFR, Section 92.500 and has met HOME program requirements particularly as they relate to eligible activities, income targeting allow ability and matching contribution requirements 24 CFR, Section 92.201.  The Municipality entered into a written agreement with the sub-recipient (developer) but is not reviewing nor auditing the sub-recipient's performance and, consequently, granting the sub-recipient the opportunity to avoid compliance with program procedures and requirements. This finding is repeated from prior year audit.	Finding still prevails. See Prior Year Finding 11-III-2. Municipality's Officials indicated that another developer has been hired to complete the project within 18 months. It has not been completed yet. The sub-recipient has been monitored.

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2007	CDBG & HOME	07-III-1	<u>Cash Management</u>  The Cash Management General Requirement of Circular OMB 102 requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. During our examination of the cash received and disbursements of the CDBG and HOME federal programs, we noted disbursements elapsing between 1 to 49 days for the CDBG program and 103 days for the HOME program.	Finding still prevails. See Current Year Finding 12-III-1.
	HOME	07-III-2	<u>Sub-recipient Monitoring</u>  The OMB Circular A-133, Part 4-III, Compliance Requirement M requires that the auditor determine if the local government (participant) is entering into written agreements with sub-recipients which contain the provisions in 24 CFR, Section 92.504. Also, the local government must conduct reviews and audits of the sub-recipients as may be necessary or proper to determine whether the sub-recipient has committed and expended the HOME funds as required by 24 CFR, Section 92.500 and has met HOME program requirements particularly as they relate to eligible activities, income targeting allow ability and matching contribution requirements 24 CFR, Section 92.201.  The Municipality entered into a written agreement with the sub-recipient (developer) but is not reviewing nor auditing the sub-recipient's performance and, consequently, granting the sub-recipient the opportunity to avoid compliance with program procedures and requirements.	Finding still prevails. See Prior Year Comment on Finding 08-III-2

COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF MAYAGÜEZ

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2012

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2007	HOME	07-III-3	<u>Activities and Costs Allowed or Un-allowed</u>  The OMB Circular A-133, Part 3, Compliance Request A & B, requires that program expend the moneys in allowable activities. However, we were informed that the sub grantee did not have any construction during the fiscal year 2006-2007, because the short financing of the project has been suspended for approximately 18 months. Nonetheless, payments amounting to \$109,860 to a windows supplier were made which most of them have not been installed and are maintained in a warehouse. Also, payment amounting to \$48,600 and \$19,500 were made for professional and administrative services, respectively.	Finding still prevails. The Corrective Action Plan was submitted with letter dated March 26, 2008 but, no reply has been received. Also see Prior Year Findings 11-III-2 and 11-III-3.