

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

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MUNICIPALITY OF BAYAMÓN
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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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PART I - FINANCIAL SECTION



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Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón 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 accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013 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, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 3 and 14 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 of Bayamón's financial statements. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and 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 schedule of expenditures of federal awards* is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico
January 31, 2013

The stamp E41573 was added to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Bayamón's (the "Municipality") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activities, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Because the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 15).

HIGHLIGHTS

Financial Highlights

- The Municipality's net assets amounted to \$439.6 million at the close of the current fiscal year. This amount represents an increase of \$5.0 million (or 1.2%) from the previous year's net assets.
- As of June 30, 2012, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$4.2 million, a reduction of \$4.7 million in comparison with the prior year. About 12% of this total amount, \$0.5 million, is available for spending in future years.
- The Municipality's activities revenue increased \$1.3 million, not considering a loss on disposition of capital assets of \$14.1 million. The results of activities for both fiscal years 2011-12 and 2010-11 produced an increase in net assets of \$5.0 million and \$6.5 million, respectively.
- The total cost of the Municipality's programs amounted to \$190.3 million and \$201.5 million during fiscal year 2011-12 and 2010-11, respectively. This represented a decrease of \$11.2 million (or 5.6%).
- Loans principal payments were \$18.8 million during fiscal year 2011-12. Loan proceeds from new debt issued amounted to \$29.1 million during the same fiscal year. Other long-term liabilities amounted to \$15.6 million at June 30, 2012, for a total long-term debt of \$286.8 million as of same date, as compared to \$278.6 million in prior year.

Municipality Highlights

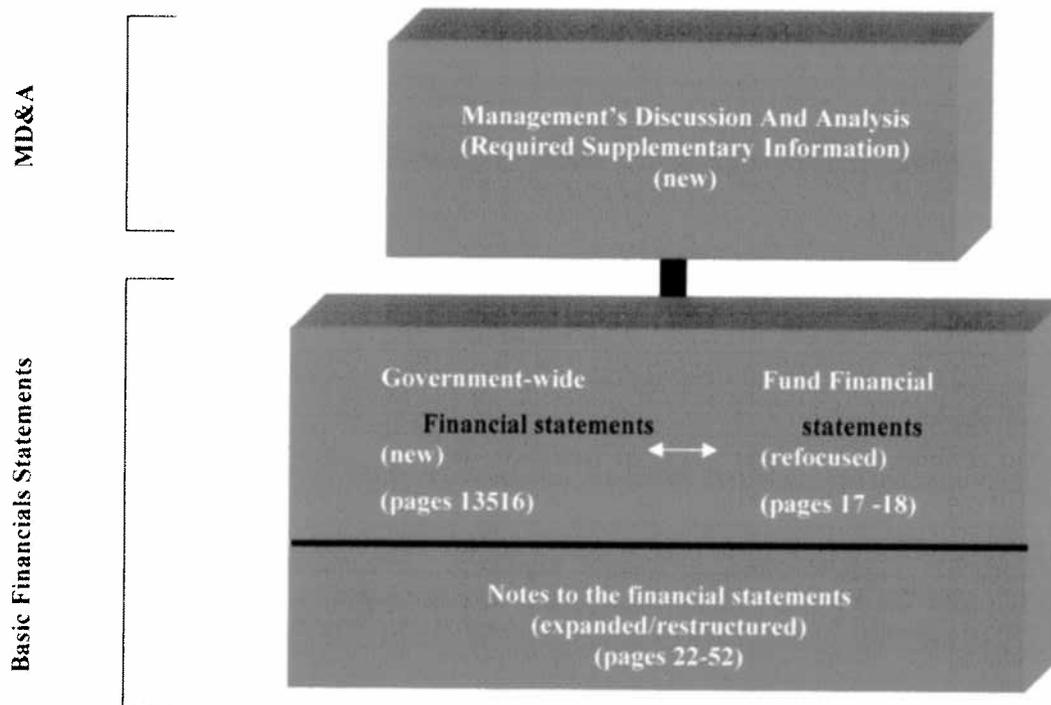
- During the current year the Municipality continued its initiative for the improvement of roads, bridges and other infrastructure projects all over the city at a cost of \$9.8 million.
- The Municipality continued its investment in sports and recreational facilities (active and passive). During the current year, the investment on these facilities amounted to \$13.5 million, including \$11.4 million in facilities whose construction was in progress at June 30, 2012.

- During the current year, the Municipality signed an agreement with a private corporation and commenced the construction of a residential complex in the downtown area. The Municipality contributed land with a cost value of \$13.9 million to this project which was included in the Municipality's plan for the remodeling of the downtown area.
- As of June 30, 2012, the Municipality had two additional projects under construction for the remodeling of the downtown area with an investment of \$5.0 million.
- During the year the Municipality acquired land (through purchases or donations) with a cost or value of \$4.5 million. As of June 30, 2012 the Municipality had land (developed and undeveloped) recorded on books with a cost or value of \$264.2 million.

USING THIS ANNUAL REPORT

In light of the fact that this annual report has a very different presentation from the pre-GASB Statement No. 34 model, the following graphic is provided for your review.

Figure 1
Required components of the Municipality's Annual Financial Report



The new financial statement's focus (implemented in 2001/2002) is on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Figure 2 below summarizes the major features of the Municipality's financial statements.

Figure 2

Major features of the Municipality's Governmental-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements
<i>Scope</i>	<i>The entire Municipality's Government</i>	<i>The activities of the Municipality</i>
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures and changes in fund balances.
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.
Type of inflow/outflow information	All revenues and expenses during the year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 7. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (see page 15), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the Municipality.

The Statement of Activities (see page 16) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax, sales and use tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, sales and use tax, state and federal contributions finance most of these services.

Fund Financial Statements

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 Governmental Major Fund (see pages 17-18) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the financial statements can be found starting on page 22.

Infrastructure Assets

Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) had not been reported nor depreciated in governmental financial statements. The new statement required that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the alternative method) which periodically (at least every third year), by category, measures and demonstrate its maintenance of locally established level of service standards, the government may record its cost of maintenance in lieu of depreciation. Because the Municipality is not planning to acquire, during a short period of time, an asset management system which a) would allow the election to use the alternative method, and b) will provide valuable management information, it elected to implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$439.6 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets compared to prior year.

Table 1
Summary of Net Assets
(In millions)

	<i>Governmental Activities</i>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$124.3	\$116.8
Capital assets	<u>661.4</u>	<u>665.0</u>
Total assets	<u>\$785.7</u>	<u>\$781.8</u>
Current and other liabilities	\$59.3	\$68.6
Long-term debt outstanding	<u>286.8</u>	<u>278.6</u>
Total liabilities	<u>\$346.1</u>	<u>\$347.2</u>
Net assets:		
Invested in capital assets, net of debt	\$396.7	\$414.2
Restricted	65.7	45.5
Unrestricted	<u>(22.8)</u>	<u>(25.1)</u>
Total net assets	<u>\$439.6</u>	<u>\$434.6</u>

For more detailed information see the Statement of Net Assets (page 15).

By far the largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net assets (15 percent) represents resources that are subject to external restrictions on how they may be used. As a result, the unrestricted balance of net assets reflected a negative balance of \$22.8 million as of the end of the current fiscal year.

The Municipality's net assets increased by \$5.0 million during the current fiscal year. Such increase was mainly due to the net effect of an increase in total assets (\$3.9 million) and a decrease in total liabilities (1.1 million).

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

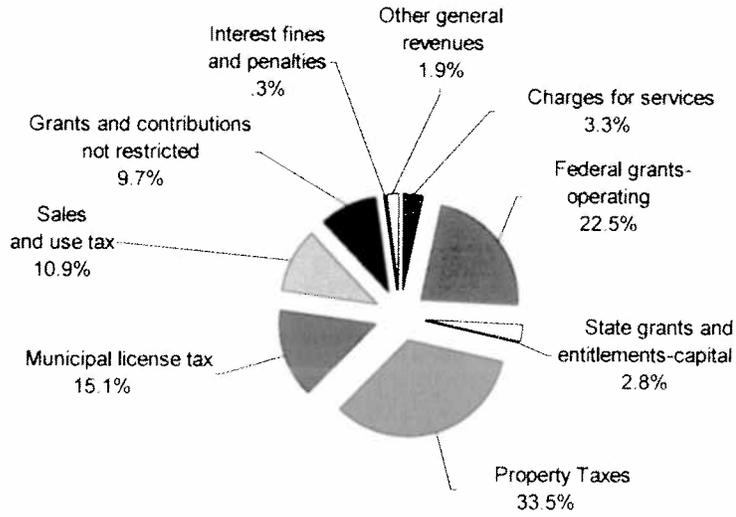
Table 2
Changes in Net Assets
(In millions)

	<i>Governmental Activities</i>	
	<u>2012</u>	<u>2011</u>
Revenues		
Program Revenues:		
Charges for services	\$6.9	\$7.6
Federal grants-operating	47.2	50.7
State grants and entitlements-capital	5.8	3.1
General Revenues:		
Property Taxes	70.2	67.2
Municipal license tax	31.6	31.0
Sales and use tax	22.8	23.3
Grants and contributions not restricted to specific programs	20.2	16.5
Interest fines and penalties	0.7	0.6
Other general revenues	4.0	8.1
Total Revenues	<u>\$209.4</u>	<u>\$208.1</u>
Expenses		
Program expenses:		
General Government	\$73.5	\$74.4
Public safety	11.9	11.0
Public Works	22.1	34.4
Culture	1.3	1.0
Recreation	8.7	7.6
Health and welfare	54.6	56.5
Education	8.3	6.2
Interest on long-term debt	9.9	10.4
Total Expenses	<u>\$190.3</u>	<u>\$201.5</u>
Excess (deficiency) before special items	19.1	\$6.6
Gain (Loss) on disposition of capital assets	(14.1)	(0.1)
Increase (decrease) in Net Assets	<u>\$5.0</u>	<u>\$6.5</u>

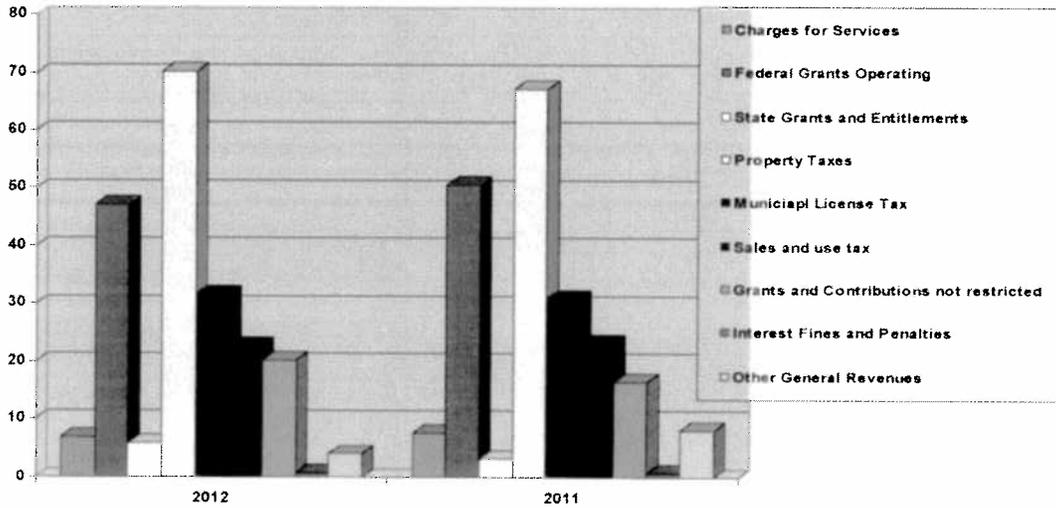
Revenues

Total revenues increased by \$1.3 million. Revenues controlled by the Municipality (property taxes, municipal license tax, and sale and use tax) increased \$3.1 million as a result of normal economic environment. On the other hand, program revenues decreased \$1.5 million and other revenues decreased in \$0.3 million.

Revenues by Source - Governmental Activities
2011-2012



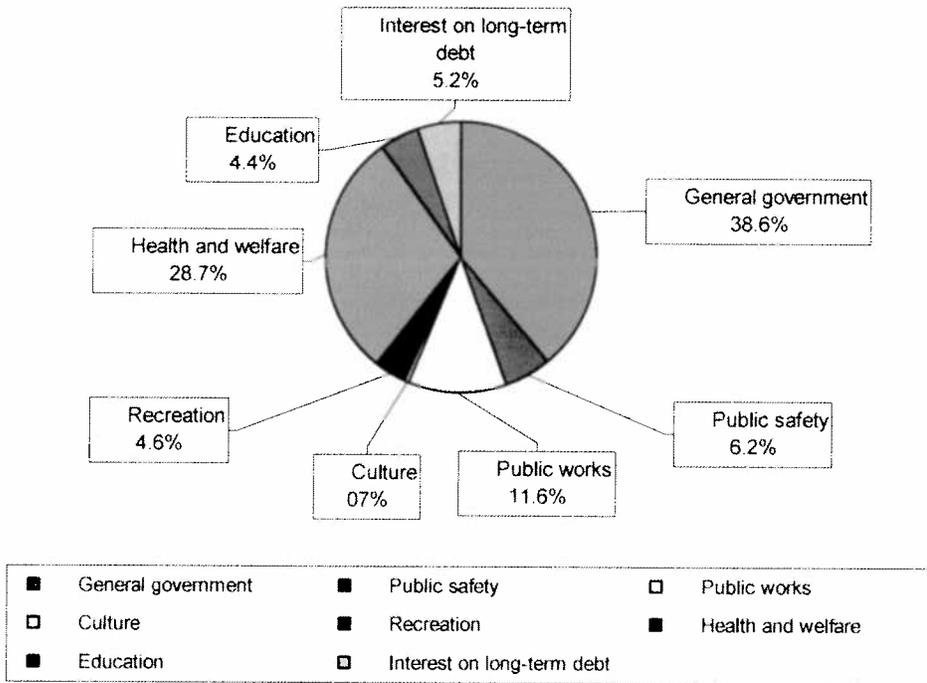
General and Program Revenues
Governmental Activities 2011-2012



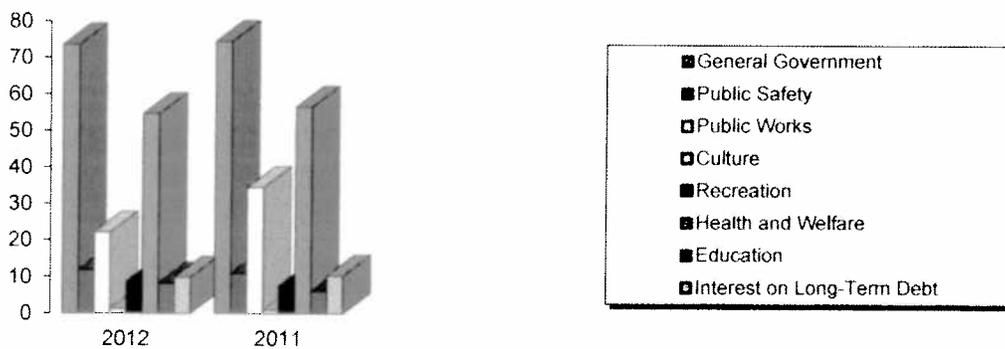
Expenses

Total cost of all programs and services decreased by \$11.2 million, mainly due to a decreases in public works expenditures of \$12.3 million and education expenses of \$2.5 million, which for the most part, reflects budget controls.

**Expenses by Source - Governmental Activities
2011-2012**



**Program Expenses
Governmental Activities 2011-12**



THE MUNICIPALITY'S FUNDS

Governmental Fund

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 17 and 18) reported a combined fund balance of \$73.4 million which is 23.6% higher than the beginning of the year (\$59.4 million). This increase was the net result of increases in the Debt Service Fund balance (\$6.2 million), the Capital Project Fund balance (\$14.1 million) and Other Governmental Fund balance (\$0.2 million) net of decreases in the General Fund balance (\$4.7 million) and HUD and HHS Programs balances (\$1.7 million). The Capital Project Fund reflects loan proceeds as financing sources and capital expenditures (which are reflected in the current financial resource-based Fund Financial Statements) as a spending of a portion of available fund balances at the beginning of the year (see page 18).

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$13.0 million (see page 56 for budget to actual comparisons), including \$5.1 million reprogrammed from prior years fund balance. The current year operations resulted in \$2.3 million of excess revenues over expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the Municipality had \$661.4 million invested in a variety of capital assets, as reflected in the following table, which represents a net decrease (additions less retirements and depreciation) of \$3.6 million or 1% from the end of last year.

Table 3
Capital Assets at Year-end
(Net of Depreciation, in millions)

	<i>Governmental Activities</i>	
	2012	2011
Land	\$264.2	\$276.4
Construction in progress	23.8	9.8
Artwork	2.7	2.3
Buildings and improvements	244.8	248.5
Furniture and fixture	.6	.7
Vehicles and equipment	10.1	10.1
Infraestructure	<u>115.2</u>	<u>117.2</u>
Totals	<u>\$661.4</u>	<u>\$665.0</u>

Table 4
Change in Capital Assets
(in millions)

	<i>Governmental Activities</i>
Beginning balance	\$665.0
Additions	37.3
Retirements	
CWIP	(3.3)
Other	(17.1)
Depreciation	(20.9)
Retirements *	<u>0.4</u>
Ending balance	<u>\$661.4</u>

* Reduction in accumulated depreciation related to retirements

The retirements in the construction work-in-progress is equally reflected as an addition to Capital Assets. This year's major additions included (in millions):

Roads, bridges and other infrastructure improvements	\$9.8
Sports & recreational facilities (active and passive)	13.5
Rehabilitation of Downtown Area	5.0
Land	4.5

Debt Outstanding

As of year-end, the Municipality had \$286.8 million in debt (bonds, notes and other long-term debts) outstanding compared to \$278.6 million last year, an increase of 2.9% (considering new borrowing and debt retirement).

Table 5
Outstanding Debt at Year-end
(In millions)

	<i>Governmental Activities</i>	
	<u>2012</u>	<u>2011</u>
General obligation bonds and notes	\$271.2	\$260.8
Due to CRIM		1.5
Due to AAA	.5	1.1
Claims and judgements	1.6	1.6
Compensated absences	<u>13.5</u>	<u>13.6</u>
Totals	<u>\$286.8</u>	<u>\$278.6</u>

New bonds in the amount of \$28.2 million were issued during the year. This amount will finance improvements to roads and other infrastructure, improvements to "Parque de las Ciencias" and to the Onofre Carballeira Sport Complex, among other capital projects. A credit line of \$3.1 million represents advances from the Government Development Bank guaranteed with certificates of deposit. The proceeds of these advances were mainly used to expropriate properties for the development of the downtown area. A note payable with a balance due of \$1.4 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. Another note payable with a balance due of \$1.9 million represents a financing agreement with CRIM to finance delinquent property tax accounts sold to private investors. Finally, a note payable with a

balance due of \$24.8 million to the U.S. Department of Housing and Urban Development is due in August 2024.

The Municipality levies an annual special tax of 2.25% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality plus the balance of the special ad valorem taxes in the debt service fund. The outstanding general obligation debt of the Municipality amounted to \$239.9 million and is below legal limitation.

More detailed information about the Municipality's long-term debts is presented in note 14 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenues are: property taxes, municipal license taxes, sales and use taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2013 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The population in Puerto Rico decreased during the ten-year period from 2000 to 2010. The Municipality decrease in population averaged 7.1% during the same period. The average family income of families in the Municipality has been one of the highest of any of the municipalities of Puerto Rico and during the period from 2000 to 2011 the average family income in the Municipality was comparable to that of Puerto Rico. The Municipality has one of the lowest unemployment rates of any of the municipalities in Puerto Rico. During the years 2009, 2010 and 2011 the unemployment rate of the Municipality averaged 14.6% as compared to 16% in Puerto Rico.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2012-13. Amounts available for appropriations (revenues) in the General Fund Budget are \$120.9 million, which is \$0.7 million lower than the budget for fiscal year 2011-12. Municipal license taxes and other local taxes and charges for services, licenses and permits are expected to provide the revenues necessary to finance programs we currently offer. Budgeted expenditures are expected to be exceeded by budgeted revenues.

If those estimates are realized, the Municipality's budgetary General Fund balance is expected to be the same or to increase modestly by the close of fiscal year 2012-13.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 3rd floor of the City Hall, State Road #2, P. O. Box 1588, Bayamón, Puerto Rico 00956-61.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

	Governmental Activities
Cash and cash equivalents (Note 2)	\$ 32,082,110
Cash with fiscal agent (Note 2)	61,789,804
Certificates of deposit (Notes 2 and 4)	6,585,148
Accounts receivables:	
Municipal license taxes (Note 6)	313,047
Sales and use taxes (Note 7)	1,637,701
Rent, licenses, and permits	943,954
Other	3,022,038
Deferred charges	1,055,114
Due from other agencies (Note 8)	15,301,845
Inventories (Note 2)	1,594,464
Capital assets, net (Note 10)	661,346,467
 Total assets	 \$ 785,671,692

LIABILITIES AND NET ASSETS

Liabilities

Account payable and accrued liabilities	\$ 6,822,887
Due to other agencies (Note 11)	14,915,565
Deferred revenues (Note 12):	
Municipal license tax	25,293,235
Federal government	137,631
Accrued interest	12,132,045
Noncurrent liabilities (Note 14):	
Due within one year	21,428,491
Due in more than one year	265,362,430
Total liabilities	346,092,284

Net Assets

Investment in capital assets, net of related debt	396,677,967
Restricted for:	
Debt service	37,077,924
Capital projects	28,629,571
Unrestricted	(22,806,054)
 Total net assets	 \$ 439,579,408

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 73,495,072	\$ -	\$ -	\$ (66,591,952)
Public safety	11,914,187	-	-	(11,914,187)
Public works	22,101,340	-	5,797,411	(16,303,929)
Culture	1,334,937	-	-	(1,334,937)
Recreation	8,701,333	-	-	(8,701,333)
Health and welfare	54,539,040	47,200,909	-	(7,338,131)
Education	8,291,958	-	-	(8,291,958)
Interest on long-term debt	9,899,777	-	-	(9,899,777)
Total	<u>\$ 190,277,644</u>	<u>\$ 6,903,120</u>	<u>\$ 5,797,411</u>	<u>(130,376,204)</u>
General revenues:				
Property taxes (Note 5)				70,216,155
Municipal license tax (Note 6)				31,521,740
Sales and use taxes (Note 7)				22,809,591
Grants and contributions not restricted to specific programs				20,151,508
Interest, fines and penalties				709,511
Miscellaneous				3,996,917
Loss on disposition of capital assets				(14,064,222)
Total general revenues				<u>135,341,200</u>
Change in net assets				<u>4,964,996</u>
Net assets at beginning of year				<u>434,614,412</u>
Net assets at end of year				<u>\$ 439,579,408</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2012**

<u>Assets</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 2)	\$ 21,270,299	\$ 1,718,257	\$ 1,013,863	\$ -	\$ 6,263,361	\$ 1,816,330	\$ 32,082,110
Cash with fiscal agent (Note 2)				36,803,888	24,778,778	207,138	61,789,804
Certificates of deposits (Notes 2 and 4)	6,539,459	45,689					6,585,148
Accounts receivable							
Municipal license taxes (Note 6)	313,047						313,047
Sales and use taxes (Note 7)	1,637,701						1,637,701
Rent, licenses, and permits	943,954						943,954
Other		299,538					299,538
Due from other agencies (Note 8)	14,859,323			274,036		168,486	15,301,845
Due from other funds (Note 9)	2,969,016						2,969,016
Inventories (Note 2)	1,594,464						1,594,464
Total assets	\$ 50,127,263	\$ 2,063,484	\$ 1,013,863	\$ 37,077,924	\$ 31,042,139	\$ 2,191,954	\$ 123,516,627

The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>Liabilities and Fund Balance</u>	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
Liabilities							
Account payable and accrued liabilities	\$ 5,758,942	\$ 564,683	\$ 306,656	\$ -	\$ -	\$ 192,606	\$ 6,822,887
Due to other funds (Note 9)			556,448		2,412,568		2,969,016
Due to other agencies (Note 11)	14,895,119					20,446	14,915,565
Deferred revenues: (Note 12)							
Municipal license tax	25,293,235	33,644					25,293,235
Federal government						103,987	137,631
Total liabilities	<u>45,947,296</u>	<u>598,327</u>	<u>863,104</u>	<u>-</u>	<u>2,412,568</u>	<u>317,039</u>	<u>50,138,334</u>
Commitments and Contingencies (Notes 20 and 21)							
Fund Balances (Note 15)							
Nonspendable	1,594,464						1,594,464
Restricted		1,465,157	150,759	37,077,924	28,629,571	1,874,915	69,198,326
Assigned	2,058,749						2,058,749
Unassigned	526,754						526,754
Total fund balances	<u>4,179,967</u>	<u>1,465,157</u>	<u>150,759</u>	<u>37,077,924</u>	<u>28,629,571</u>	<u>1,874,915</u>	<u>73,378,293</u>
Total liabilities and fund balances	<u>\$ 50,127,263</u>	<u>\$ 2,063,484</u>	<u>\$ 1,013,863</u>	<u>\$ 37,077,924</u>	<u>\$ 31,042,139</u>	<u>\$ 2,191,954</u>	<u>\$ 123,516,627</u>

The accompanying notes are an integral part of these basic financial statements.
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total fund balances - governmental funds \$ 73,378,293

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 661,346,467
- Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:
 - Accounts receivable - other 2,722,500
 - Deferred charges 1,055,114
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (298,922,966)

Net assets of governmental activities \$ 439,579,408

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General	Housing and Urban Development Programs	Health and Human Services Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 5)	\$ 48,076,501			\$ 22,139,654	\$ -	\$ -	\$ 70,216,155
Municipal license taxes (Note 6)	31,521,740						31,521,740
Sales and use taxes (Note 7)	18,401,495			4,408,096			22,809,591
Licenses and permits	4,234,259						4,234,259
Charges for service and rents	2,668,861						2,668,861
Intergovernmental revenues (Note 13)			17,020,109			5,391,220	47,200,909
Federal grants and contributions	20,151,508	24,789,580					25,948,919
State contributions	684,103	117		25,291			709,511
Interest, fines, and penalties	3,917,200	79,717					3,996,917
Other revenues	129,655,667	24,869,414	17,020,109	26,573,041	5,797,411	5,391,220	209,306,862
Total revenues							
EXPENDITURES							
Current							
General government	69,944,173						69,944,173
Public safety	11,286,250					525,391	11,811,641
Public works	25,819,001	2,268,817					28,087,818
Culture	1,082,058						1,082,058
Recreation	3,969,006						3,969,006
Health and welfare	14,193,410	20,156,568	18,224,723			1,313,115	53,887,816
Education	4,589,208				16,859,077	3,370,729	7,959,937
Capital outlays							16,859,077
Debt service							
Principal retirement		1,550,000		19,373,304			20,923,304
Interest and other		1,387,247		8,512,530			9,899,777
Total expenditures	130,883,106	25,362,632	18,224,723	27,885,834	16,859,077	5,208,235	224,424,607
Excess (deficiency) of revenues over (under) expenditures	(1,227,439)	(493,218)	(1,204,614)	(1,312,793)	(11,061,666)	181,985	(15,117,745)
OTHER FINANCING SOURCES (USES)							
Proceeds from credit line							
Loan proceeds					932,979		932,979
Transfers in	17,487			7,503,479	28,180,000		28,180,000
Transfers out	(3,503,479)			(17,487)	(4,000,000)		7,520,966
Total other financing sources (uses)	(3,485,992)			7,485,982	25,112,979		(7,520,966)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(4,713,431)	(493,218)	(1,204,614)	6,173,199	14,051,313	181,985	13,995,234
FUND BALANCE AT BEGINNING OF YEAR	8,893,398	1,968,375	1,355,373	30,904,725	14,578,258	1,692,830	59,363,059
FUND BALANCE AT END OF YEAR	\$ 4,179,967	\$ 1,465,157	\$ 150,759	\$ 37,077,924	\$ 28,629,571	\$ 1,874,915	\$ 73,378,293

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds \$ 13,995,234

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

- 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 and reported as depreciation expense. 33,990,740
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (20,854,130)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (29,112,979)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 20,923,304
- Governmental funds report the effect of issuance costs where debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (113,882)
- Governmental funds report proceeds received in the disposal of assets. In the statement of activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of disposal assets. (14,064,222)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 200,931

Changes in net assets of governmental activities \$ 4,964,996

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. ORGANIZATION

The Municipality of Bayamón, Puerto Rico, (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health, and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies:

a. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The 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 Municipality is not financially accountable but 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 accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

financial benefits to, or impose specific financial burdens on, the Municipality.

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

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.

b. Government - Wide and Governmental Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The effects of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

During fiscal year ended June 30, 2011, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The Municipality reports the following major governmental funds:

- General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- Health and Human Services Programs (HHS Programs)

This fund account for revenue sources to provide essential human services such as health insurance for elderly and low-income people, improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of the outbreak of infectious disease and immunization services.

- Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

- Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

d. Cash and Cash Equivalents, Cash with Fiscal Agent, and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

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

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

e. Interfund Receivables and Payables

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

f. Deferred Charges

Deferred charges in the accompanying Statement of Net Assets consist of bond issuance costs, net of accumulated amortization of \$1 million. 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

as expenditures, whether or not withheld from the actual debt proceeds received.

g. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

The carrying value of inventories are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2012 since they are not expected to be converted to cash after the current fiscal year-end.

h. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

i. Fund Balances

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54) during fiscal year 2011, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

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

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

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

j. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(the "CRIM") for the year ended June 30, 2012 amounted to approximately \$1.3 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.6 million for workers' compensation insurance covering all municipal employees.

k. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

l. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Statement Number	Statement Name	Adoption Required in Fiscal Year
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections - 2012- an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

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

m. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

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3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$299 million difference is as follows:

Bonds payable	\$ 239,868,500
Notes payable	28,145,507
Compensated absences	13,523,323
Accrued interest payable	12,132,045
Credit line	3,142,563
Claims and judgments	1,632,876
Due to Puerto Rico Aqueduct and Sewer Authority	<u>478,152</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 298,922,966</u>

4. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$24.1 million that are restricted principally for capital projects and the \$36.8 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

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The Municipality maintains its deposits in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

5. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 9.08% for real property and 7.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property – municipal	2.25%	2.25%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>9.08%</u>	<u>7.08%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

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The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2011-12, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2012, the amount collected by CRIM exceeded the amount advanced by CRIM from taxpayers and charges for the same period by approximately

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\$216,000. Such amount is presented as due from agencies in the accompanying financial statements. (See Note 8).

6. MUNICIPAL LICENSE TAXES

Municipal license taxes receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2012. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Bayamón, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Bayamón, are as follows:

Financial institutions	=	1.5%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$27 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

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- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$14,643,376
Other governmental funds	274,036
Municipal Revenues Collection Center (Debt Service Fund)	168,486
Municipal Revenues Collection Center (General Fund)	<u>215,947</u>
Total	<u>\$15,301,845</u>

9. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2012, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital project	\$ 2,412,568
General	HHS Programs	<u>556,448</u>
Total		<u>\$ 2,969,016</u>

The balance of approximately \$2.4 million due to the general fund from the capital project fund represents advances for capital improvements that will be reimbursed through the loans.

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All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	Capital Project	\$ 4,000,000
Debt Service	General	3,503,479
General	Debt Service	<u>17,487</u>
Total		<u>\$ 7,520,966</u>

The transfer of \$4 million from the capital project to the debt service fund represents the payment of the credit line through a bond issuance.

The transfer from the general fund to the debt service fund of approximately \$3.5 million represents monies transferred to cover debt service payments as become due.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 276,355,888	\$ 4,478,706	\$ 16,646,773	\$ 264,187,819
Construction in progress	9,834,140	17,253,704	3,323,310	23,764,534
Art work	2,296,450	394,240		2,690,690
Total capital assets, not being depreciated	<u>288,486,476</u>	<u>22,126,650</u>	<u>19,970,083</u>	<u>290,643,043</u>
Capital assets, being depreciated:				
Buildings and building improvements	323,636,163	3,776,436	216,550	327,196,049
Furniture and fixtures	2,329,083	1,500	50,505	2,280,078
Vehicles and equipment	32,602,664	2,324,331	232,907	34,694,088
Infrastructure	167,688,600	9,085,133		176,773,733
Total capital assets, being depreciated	<u>526,256,510</u>	<u>15,187,400</u>	<u>499,962</u>	<u>540,943,948</u>
Less accumulated depreciation for:				
Buildings and building improvements	75,165,155	7,299,311	63,341	82,401,125
Furniture and fixtures	1,671,993	130,027	99,125	1,702,895
Vehicles and equipment	22,453,795	2,341,150	197,547	24,597,398
Infrastructure	50,455,464	11,083,642		61,539,106
Total accumulated depreciation	<u>149,746,407</u>	<u>20,854,130</u>	<u>360,013</u>	<u>170,240,524</u>
Total capital assets, being depreciated, net	<u>376,510,103</u>	<u>(5,666,730)</u>	<u>139,949</u>	<u>370,703,424</u>
Governmental activities capital assets, net	<u>\$ 664,996,579</u>	<u>\$ 16,459,920</u>	<u>\$ 20,110,032</u>	<u>\$ 661,346,467</u>

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

Public work	\$ 11,145,185
Recreation	4,732,327
General government	3,637,948
Health and welfare	651,224
Education	332,021
Culture	252,879
Public safety	<u>102,546</u>
Total	<u>\$ 20,854,130</u>

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Due to other agencies at June 30, 2012 are as follows:

Puerto Rico Electric Power Authority	\$14,643,376
Puerto Rico Aqueduct and Sewer Authority	134,049
Retirement System Administration	103,455
Puerto Rico General Services Administration	14,239
Other governmental funds	<u>20,446</u>
Total	<u>\$14,915,565</u>

12. DEFERRED REVENUES

a. Municipal License Taxes

The deferred revenues of approximately \$25.3 million in the general fund related to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant.

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

14. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2012 are as follows:

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a. Legal Debt Margin

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement.

b. Bonds

\$7,135,000 series of 1995, payable in annual installments of \$165,000 to \$715,000 until July 1, 2014, interest ranging from 4.7% to 6.8%.	\$ 1,975,000
\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2009, interest ranging from 6.1% to 8.2%.	9,615,000
\$2,595,000 series of 1999, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest ranging from 4.8% to 6.5%.	1,835,000
\$16,535,000 series of 1998, payable in annual installments of \$440,000 to \$1,640,000 until July 1, 2015, interest ranging from 4.8% to 6.7%.	5,850,000
\$17,275,000 series of 1999, payable in annual installments of \$590,000 to \$1,760,000 until July 1, 2015, interest ranging from 2.7% to 7.8%.	6,330,000
\$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2004, interest ranging from 2.7% to 7.8%.	1,240,000
\$22,820,000 series of 2001, payable in annual installments of \$750,000 to \$2,385,000 until July 1, 2016, interest ranging from 2.8% to 6.13%.	10,290,000

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\$2,765,000 series of 2001, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	\$ 2,135,000
\$11,945,000 series of 2001, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	9,230,000
\$2,015,000 series of 2002, payable in annual installments of \$75,000 to \$220,000 until July 1, 2016, interest ranging from 2.7% to 5%.	940,000
\$12,060,000 series of 2002, payable in annual installments of \$265,000 to \$1,135,000 until July 1, 2021, interest ranging from 2.7% to 5.39%.	8,245,000
\$10,050,000 series of 2005, payable in annual installments of \$210,000 to \$685,000 until July 1, 2029, interest ranging from 3.28% to 5%.	8,340,000
\$1,490,000 series of 2005, payable in annual installments of \$120,000 to \$185,000 until July 1, 2014, interest ranging from 4.37% to 4.73%.	525,000
\$905,000 series of 2005, payable in annual installments of \$15,000 to \$60,000 until July 1, 2029, interest ranging from 1.53% to 7.25%.	755,000
\$6,935,000 series of 2005, payable in annual installments of \$145,000 to \$470,000 until July 1, 2029, interest ranging from 4.17% to 5%.	5,750,000
\$19,066,000 series of 2005, payable in annual installments of \$360,000 to \$1,386,000 until July 1, 2029, interest ranging from 3.75% to 5.31%.	16,031,000
\$4,140,000 series of 2005, payable in annual installments of \$80,000 to \$300,000 until July 1, 2029, interest ranging from 4.17% to 5.31%.	3,475,000

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\$4,825,000 series of 2006, payable in annual installments of \$95,000 to \$345,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	\$ 4,175,000
\$7,270,000 series of 2006, payable in annual installments of \$120,000 to \$560,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	6,410,000
\$9,327,500 series of 2007, payable in annual installments of \$365,000 to \$700,000 until July 1, 2031, interest ranging from 2.93% to 5.62%.	8,372,500
\$10,670,000 series of 2008, payable in annual installments of \$405,000 to \$1,125,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	8,845,000
\$1,390,000 series of 2008, payable in annual installments of \$20,000 to \$120,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	1,300,000
\$1,510,000 series of 2008, payable in annual installments of \$20,000 to \$130,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	1,410,000
\$2,125,000 series of 2008, payable in annual installments of \$240,000 to \$375,000 until July 1, 2014, interest ranging from 1.53% to 7.5%.	1,045,000
\$1,410,000 series of 2008, payable in annual installments of \$160,000 to \$250,000 until July 1, 2014, interest ranging from 1.53% to 7.5%.	695,000
\$6,030,000 series of 2008, payable in annual installments of \$490,000 to \$880,000 until July 1, 2017, interest ranging from 1.53% to 7.5%.	4,445,000
\$10,710,000 series of 2008, payable in annual installments of \$155,000 to \$915,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	10,205,000

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\$18,790,000 series of 2008, payable in annual installments of \$430,000 to \$1,715,000 until July 1, 2028, interest ranging from 1.53% to 7.5%.	\$ 17,395,000
\$2,515,000 series of 2008, payable in annual installments of \$35,000 to \$215,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	2,390,000
\$9,580,000 series of 2009, payable in annual installments of \$670,000 to \$1,300,000 until July 1, 2018, interest ranging from 1.53% to 7.5%.	7,395,000
\$7,030,000 series of 2009, payable in annual installments of \$495,000 to \$955,000 until July 1, 2018, interest ranging from 1.53% to 7.5%.	5,425,000
\$8,110,000 series of 2010 payable in annual installments of \$115,000 to \$875,000 until July 1, 2026, interest ranging from 4.40% to 7.25%.	7,875,000
\$8,040,000 series of 2012 payable in annual installments of \$5,000 to \$900,000 until July 1, 2033, interest ranging from 6.0% to 7.5%.	8,035,000
\$10,540,000 series of 2012 payable in annual installments of \$180,000 to \$815,000 until July 1, 2035, interest ranging from 6.0% to 6.5%.	10,360,000
\$2,315,000 series of 2012 payable in annual installments of \$160,000 to \$315,000 until July 1, 2020, interest ranging from 6.0% to 7.5%.	2,155,000
\$11,240,000 series of 2012, payable in annual installments of \$1,275,000 to \$1,975,000 until July 1, 2018, interest ranging from 6.0% to 7.5%.	11,240,000
\$8,040,000 series of 2012, payable in annual installments of \$500,000 to \$2,040,000 until July 1, 2026, interest ranging from 6.0% to 7.5%.	8,040,000

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\$20,095,000 series of 2012, payable in annual installments of \$1,200,000 to \$4,595,000 until July 1, 2026, interest ranging from 6.0% to 7.5%.

\$ 20,095,000

Total bonds payable

\$ 239,868,500

The annual debt services requirements for the bonds payable are as follows:

	<i>Bonds</i>	
	Principal	Interest
2013	\$ 14,990,000	\$ 10,528,291
2014	16,100,000	13,190,220
2015	17,310,000	12,218,451
2016	16,975,000	11,689,108
2017	18,710,000	11,186,351
2018-2022	52,150,000	39,868,733
2023-2027	66,720,000	22,565,303
2028-2032	30,783,500	6,511,471
2033-2037	6,130,000	612,452
	\$ 239,868,500	\$ 128,370,380

c. Credit Line

Credit line of \$3.1 million represents advances from the Government Development Bank for Puerto Rico guaranteed with certificates of deposits with interest at .14% over the interest rate paid in the certificates of deposits. The proceeds of these advances will be used to expropriate properties for the development of the town and the construction of a docking plant.

d. Note Payable - CRIM (Law 42)

Note payable of \$1.4 million represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$123,417 plus interest rate of 6.25%.

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The annual debt service requirements for the note payable at June 30, 2012, are as follows:

	<u><i>Note Payable - CRIM (Law 42)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 37,046	\$ 88,561
2014	39,374	86,370
2015	41,848	84,042
2016	44,478	78,939
2017	47,272	76,144
2018-2022	284,828	332,258
2023-2027	386,281	230,801
2028-2032	523,879	93,206
	<u>\$ 1,405,006</u>	<u>\$ 1,070,321</u>

e. Note Payable - CRIM (Law 146)

On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$2,425,627, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032.

As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

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	<u><i>Note Payable - CRIM (Law 146)</i></u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 97,025	\$ 129,172
2014	97,025	124,418
2015	97,025	119,516
2016	97,025	114,462
2017	97,025	206,276
2018-2022	485,125	947,358
2023-2027	485,125	790,512
2028-2032	485,127	607,703
	<u>\$ 1,940,502</u>	<u>\$ 3,039,417</u>

g. Notes Payable - Section 108

Notes payable of \$24.8 million due to the U.S. Department of Housing and Urban Development, payable in annual aggregate principal installments ranging from \$1,300,000 to \$2,000,000, plus interest, which fluctuates from 1.16% to 2.88%. The note payable is due in August 2024.

	<u><i>Note Payable - Section 108</i></u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,750,000	\$ 1,306,500
2014	1,775,000	1,217,989
2015	1,775,000	1,126,974
2016	2,000,000	1,027,688
2017	2,000,000	919,928
2018-2022	11,425,000	2,531,954
2023-2027	4,075,000	341,347
	<u>\$ 24,800,000</u>	<u>\$ 8,472,380</u>

As described in Note 6, the Municipality levies an annual special tax of 2.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 224,453,500	\$ 28,180,000	\$ 12,765,000	\$ 239,868,500	\$ 14,990,000
Credit line	6,209,584	932,979	4,000,000	3,142,563	3,142,563
Note payable - CRIM (Law 146)	2,037,527		97,025	1,940,502	97,025
Note payable - CRIM (LIMS)	332,733		332,733	-	-
Note payable - CRIM (Law 42)	1,439,862		34,857	1,405,005	37,046
Note payable - HUD	26,350,000		1,550,000	24,800,000	1,750,000
Total long-term debt	<u>260,823,206</u>	<u>29,112,979</u>	<u>18,779,615</u>	<u>271,156,570</u>	<u>20,016,634</u>
Advances from CRIM	1,506,153		1,506,153	-	-
Due to Puerto Rico Aqueduct and Sewer Authority	1,115,688		637,536	478,152	-
Claims and judgements	1,632,876			1,632,876	-
Compensated absences	13,548,663	1,389,163	1,414,503	13,523,323	1,411,857
Total other liabilities	<u>17,803,380</u>	<u>1,389,163</u>	<u>3,558,192</u>	<u>15,634,351</u>	<u>1,411,857</u>
Total noncurrent liabilities	<u>\$ 278,626,586</u>	<u>\$ 30,502,142</u>	<u>\$ 22,337,807</u>	<u>\$ 286,790,921</u>	<u>\$ 21,428,491</u>

15. FUND BALANCES

As of June 30, 2012, fund balances are comprised of the following:

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:							
Inventory	\$ 1,594,464	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,594,464
Restricted:							
Public works		537,030				34,987	572,017
Health and welfare		928,127	150,759			1,839,928	2,918,814
Capital outlays					28,629,571		28,629,571
Debt service				37,077,924			37,077,924
Assigned:							
General government	1,145,550						1,145,550
Public safety	206,945						206,945
Public works	383,298						383,298
Culture	56,681						56,681
Recreation	111,378						111,378
Health and welfare	26,342						26,342
Education	148,557						148,557
Unassigned	526,754						526,754
	<u>\$ 4,179,967</u>	<u>\$ 1,465,157</u>	<u>\$ 150,759</u>	<u>\$ 37,077,924</u>	<u>\$ 28,629,571</u>	<u>\$ 1,874,915</u>	<u>\$ 73,378,293</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

16. NET ASSETS

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated depreciation.	\$ 661,346,467
Outstanding balance on capital related debt	<u>(264,668,500)</u>
Total invested in capital assets, net of related debt	<u>\$ 396,677,967</u>

17. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (10.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 10.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012 was approximately \$1.3 million. The Municipality's payroll for employees covered by ERS was approximately \$12.7 million. The Municipality total payroll for all employees was approximately \$49 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

18. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

19. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2012 was approximately \$750,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under non cancellable operational leases, with periods not longer than one year.

20. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$28.6 million.

22. SUBSEQUENT EVENTS

On July 9, 2012, the Government Development Bank for Puerto Rico (GDB) approved the issuance of a line of credit for \$15.8 million to the Municipality for infrastructure projects. The interest will be variable prime plus 1.50% with a minimum of 6% annual and the maturity date is July 1, 2017.

On July 10, 2012, GDB approved the issuance of a loan of \$3,220,000 to the Municipality for the payment of a line of credit of \$10 million. The interest will be variable prime plus 1.50% with a minimum of 6% annual and the maturity date is July 1, 2027.

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through January 31, 2013, the date the financial statements were available to be issued.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget-</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>Positive</u> <u>(Negative)</u>
REVENUES				
Property taxes	\$ 48,076,501	\$ 48,076,501	\$ 48,076,501	\$ -
Municipal license taxes	32,300,000	32,405,285	30,993,632	(1,411,653)
Sales and use taxes	17,000,000	18,142,244	18,164,246	22,002
Licences and permits	2,060,000	4,275,907	4,267,022	(8,885)
Charges for services and rent	2,379,470	2,811,712	2,523,301	(288,411)
Intergovernmental revenues:				
State contributions	19,213,810	19,213,810	19,079,252	(134,558)
Interest, fines, and penalties	370,000	682,774	709,561	26,787
Other revenues	161,989	3,884,001	3,917,200	33,199
Total of revenues	<u>121,561,770</u>	<u>129,492,234</u>	<u>127,730,715</u>	<u>(1,761,519)</u>
EXPENDITURES				
Current:				
General government	61,065,712	67,644,446	65,808,234	1,836,212
Public safety	10,519,106	13,014,058	11,493,195	1,520,863
Public works	27,024,099	30,599,594	30,286,390	313,204
Culture	797,187	1,147,563	1,138,739	8,824
Recreation	3,872,708	4,134,196	4,047,891	86,305
Health and welfare	14,876,470	14,605,867	14,468,345	137,522
Education	3,406,488	3,446,510	3,342,006	104,504
Total of expenditures	<u>121,561,770</u>	<u>134,592,234</u>	<u>130,584,800</u>	<u>4,007,434</u>
OTHER FINANCING SOURCES				
Reprogramming funds	-	5,100,000	5,100,000	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,245,915</u>	<u>\$ 2,245,915</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 127,730,715
Differences - budget to GAAP:				
Actual revenues considered revenues for financial reporting purposes but not inflows for budget purposes (net change in receivables)				1,924,952
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 129,655,667</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 130,584,800
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				2,151,725
Net change in accounts payable				205,330
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(2,058,749)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 130,883,106</u>

See note to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of certain appropriations within the budget known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e. , purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2012 representing the original budget.

PART III – SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)			
Community Development Block Grant Entitlement Grants	14 218		\$ 5,206,064
Neighborhood Stabilization Program	14 256		1,832,130
Emergency Shelter Grant Program	14 231		157,756
Home Investment Partnership Program	14 239		1,629,246
Homelessness Prevention and Rapid-Re-Housing Program (Recovery Act Funded)	14 257		791,548
Section 8 - Moderate Rehabilitation Phase 5	14 249		252,228
Section 8 - Housing Choice Vouchers	14 871		15,493,660
Subtotal U S Department of HUD			<u>25,362,632</u>
U.S. Department of Health and Human Services (HHS)			
Head Start Program	93 600		13,709,419
Pass through Oficina de la Procuradora de las Personas de Edad Avanzada:			
Special Programs for the Aging - Title III, Part C - Nutrition Services	93 045		141,010
Pass through the Municipality of San Juan:			
HIV Emergency Relief Projects Grants	93 914		1,731,669
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Title III	93 918		786,663
Pass through State of Office of the Governor - Office of Economic Opportunity; then Office of Human Development:			
Community Service Block Grant	93 569	N/A	828,989
Pass through Administration of Families and Children:			
Child Care and Development Block Grant	93 575	N/A	1,026,973
Subtotal U S Department of HHS			<u>18,224,723</u>
U.S. Department of Labor			
Passed through the Labor Development Administration/Workforce Investment Act Cluster:			
Workforce Investment Act - Adult	17 258		1,468,922
Workforce Investment Act - Youth	17 259		1,462,234
Workforce Investment Act - Dislocated	17 278		439,573
Subtotal U.S. Department of Labor			<u>3,370,729</u>
U.S. Department of Transportation			
Federal Transit Formula Grant (Urbanized Area Formula Program)	20 507		276,117
Subtotal U S Department of Transportation			<u>276,117</u>
U.S. Department of Homeland Security			
Pass-through the Office of Management and Budget - Governors Authorized Representative:			
Public Assistance Grant Program	97 036		98,137
Subtotal U S Department of Homeland Security			<u>98,137</u>
U.S. Department of Agriculture			
Pass-through Education Department			
Child and Adult Care Food Program	10 558	N/A	1,313,115
Subtotal U S Department of Agriculture			<u>1,313,115</u>
TOTAL			<u>\$ 48,645,453</u>

See the notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Bayamón's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	\$ <u>48,645,453</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$ 25,362,632
Health and Human Services Programs	18,224,723
Federal expenditures included in other governmental funds	<u>5,058,098</u>
Total	\$ <u>48,645,453</u>

3. LOAN OUTSTANDING

At June 30, 2012, the Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance was \$24,800,000.



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**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
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated January 31, 2013. 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 of Bayamón's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Bayamón'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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

San Juan, Puerto Rico
January 31, 2013

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**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**

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

Compliance

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

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

In our opinion, the Municipality of Bayamón, complied in all material respects, with the 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 as questioned costs as items 12-1 through 12-4.

Internal Control over Compliance

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

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

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

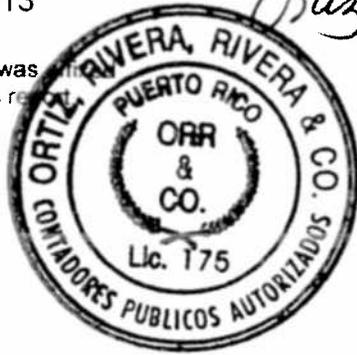
Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico
January 31, 2013

Ortiz, Rivera & Co.

The stamp E41575 was
to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.256	Neighborhood Stabilization Program (Recovery Act Funded)
14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)
14.871	Section 8 – Housing Choice Vouchers
93.569	Community Services Block Grant Program

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
93.600	Head Start Program
93.914	HIV Emergency Relief Projects Grants
17.258	Workforce Investment Act - Adult Program
17.259	Workforce Investment Act - Youth Program
17.260	Workforce Investment Act - Dislocated Program

Dollar threshold used to distinguish between type A and Type B programs:
\$1,459,364

Audited qualified as low-risk auditee? X Yes No

II. FINANCIAL STATEMENTS FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

a. Work Investment Act & Work Investment Act - CFDA No. 17.258, 17.259, 17.260

• **Condition 12-1 – Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effect

The continued occurrences of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Questioned Costs

None

b. Community Services Block Grant – CFDA No. 93.569

• **Condition 12-2 - Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effect

The continued occurrences of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Questioned Costs

None

c. Child and Adult Care Food Program – CFDA No. 10.558

• Condition 12-3 – Cash Management

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 92.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effect

The continued occurrences of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Questioned Costs

None

d. Community Development Block Grant Program – CFDA No. 14.218

• **Condition 12-4 – Cash Management**

The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.

Criteria

The 24CFR 85.20 (b) (7) established that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursement for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Effects

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulation. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

During the current examination, follow up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COST (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Workforce Investment Act Cluster CFDA No. 17.258, 17.259 and 17.260	Condition 10-1 The Program is not in compliance with the procedures established by the CDORH to minimize the time elapsing between the transfer of funds from the pass through entity and their disbursements. In addition, bank balance exceeded the 1% limitation over the deposits made by the CDORH during the year.	Condition still prevails.
Head Start CFDA No. 93.600	Condition 10-2 The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.	Condition was corrected.
Community Development Block Grant Program	Condition 10-3 The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.	Condition still prevails.
Workforce Investment Act Cluster CFDA No. 17.258, 17.259 and 17.260	Condition 11-1 The Program is not in compliance with the procedures established by the CDORH to minimize the time elapsing between the transfer of funds from the pass through entity and their disbursements. In addition, bank balance exceeded the 1% limitation over the deposits made by the CDORH during the year.	Condition still prevails.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COST (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Homelessness Prevention and Rapid Re-Housing Program Recovery Act Funded - CFDA No. 14.257	Condition 11-2 - Cash Management The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.	Condition still prevails.
Homelessness Prevention and Rapid Re-Housing Program Recovery Act Funded - CFDA No. 14.257	Condition 11-3 - Reporting The Municipality did not comply with the requirement of maintaining the records to be evaluated by auditors. During our examination the Municipality did not provided quarterly and annual reports, neither filling date evidence in order to be evaluated by the auditors.	Condition still prevails.
Energy Efficiency and Conservation Block Grant – CFDA No. 81.128	Condition 11-4 - Reporting The Municipality did not comply with the requirement of preparing and filling its financial reports on a timely basis. During our examination of the Financial Reports, we noted that the Municipality did not send on time the quarterly and/or close our reports for various periods.	Condition was corrected.
Energy Efficiency and Conservation Block Grant – CFDA. No. 81.128	Condition 11-5 - Reporting The Municipality did not comply with the requirement of maintaining the records to be evaluated by auditors. During our examination the Municipality did not provided the Monthly Progress or Performance Report; neither filling date evidence in order to be evaluated by the auditors.	Condition was corrected.

CORRECTIVE ACTION PLAN

CORRECTIVE ACTION PLAN

January 31, 2013

Cognizant or Oversight Agency for Audit:

Municipality of Bayamón respectfully submits the following corrective action plan for the year ended June 30, 2012

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2012

The findings from the June 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS

Finding 12-1 – Workforce Investment Act Cluster – CFDA No. 17.258, 17.259, and 17.260

Reportable condition: See condition 12-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Management Response:

The Municipality has a procedure to request funds for immediate needs. We made progress in the process to improve our payments and cash process, and we will continue making all changes needed in order to comply with the recommendations.

Finding 12-2 - Community Services Block Grant – CFDA No. 93.569

Reportable Condition: See condition 12-2

Recommendation:

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Management response:

As we mention in finding 12-1, the Municipality has a procedure to request funds for immediate needs. We made progress in our effort to improve our payments and cash process in order to comply with the recommendations and we will continue doing so in order to fully comply.

Finding 12-3 - Child and Adult Care Food Program – CFDA No. 10.558

Reportable Condition: See condition 12-3

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Management response:

The Municipality has a procedure to request funds for immediate needs. We made progress in our effort to improve our payments and cash process in order to comply with the recommendations and we will continue doing so in order to fully comply.

Finding 12-4 - Community Development Block Grant Program – CFDA No. 14.218

Reportable condition: See condition 12-4

Recommendation:

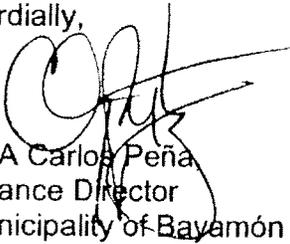
The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulation. Federal funds should only be requested when they are going to be disbursing immediately after receipt.

Management response:

The Municipality has a procedure to request funds for immediate needs. We made progress in our effort to improve our payments and cash process in order to comply with the recommendations and we will continue doing so in order to fully comply.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call CPA Carlos Peña, Finance Director, at (787) 785-6360.

Cordially,



CPA Carlos Peña
Finance Director
Municipality of Bayamón