

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

**MUNICIPIO DE GUAYNABO
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guaynabo, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on Governmental Activities

As discussed in note 16 to the financial statements, management has not recorded the deferred outflows/inflows of resources, and net pension liability in governmental activities, and has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that deferred outflows/inflows of resources, and net pension liability attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits, which would increase the deferred outflows/inflows of resources, the liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure would affect the deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respect, the financial position of the governmental activities of the Municipality of Guaynabo, as of June 30, 2015, and the respective changes in the financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Guaynabo, as of June 30, 2015, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 12 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.

Management has omitted required supplementary information related to new pensions standards that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by the missing information.

San Juan, Puerto Rico
February 23, 2016

Ortiz, Rivera, Rivera & Co.

The stamp E194898 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Management's Discussion and Analysis

As management of the Municipality of Guaynabo, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2015. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- 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.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2015, the Municipality's governmental funds reported combined ending fund balances of 61.2 million.
- The Municipality net position increased by \$14,564,560.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,168,897,013 (89% percent of total municipality's assets). The capital assets increased by \$5,117,044 and Municipality's net investment in capital assets is \$903,198,013.
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$344,134,392 (92% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$24,856,174.
- The general fund had revenues of \$140.9 million in 2015. This represents a decrease of \$0.4 million from 2014 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$140.2 million in 2015, increased \$4.8 million from 2014. The net increase in fund balance for the general fund was \$0.7 million or 6.1 percent.
- The Municipality used from the credit line \$4,036,173 to finance public works, capital improvements and constructions of different projects.
- The Municipality not implemented GASB 68, Accounting and Financial Reporting for Pensions for fiscal year 2016. The Employees' Retirement System of Puerto Rico did not provide the data related to pension expense and obligation change attributable to the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2015

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and 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.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements.

However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2015

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

Notes to the Basic 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 basic financial statements begin in page 21 of this report.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires 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 modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's combined net position (excess of assets over liabilities) totaled \$865,397,556 at the end of 2015, compared to \$840,694,458 at the end of the previous year, resulted in significant increase by \$24.7 million.

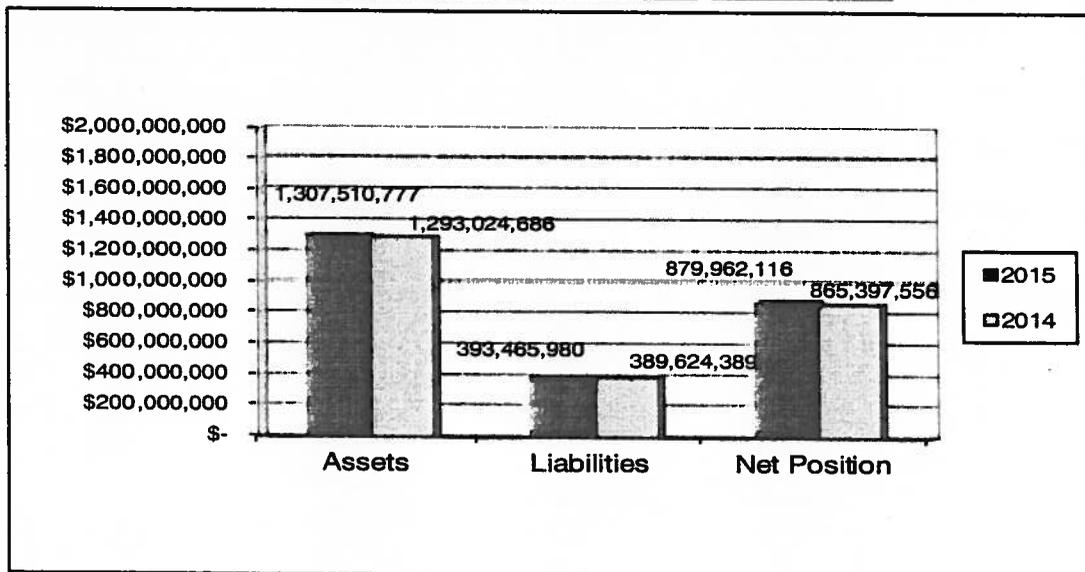
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Position	2015	2014	Change	%
Current assets	\$138,613,764	\$129,244,717	\$9,369,047	7%
Capital assets	1,168,897,013	1,163,779,969	5,117,044	-
Total assets	1,307,510,777	1,293,024,686	14,486,091	1%
Current liabilities	55,284,138	46,157,378	9,126,760	20%
Noncurrent liabilities	338,181,842	343,467,011	(5,285,169)	(2%)
Total liabilities	393,465,980	389,624,389	3,841,591	1%
Invested in capital assets, net of related debt	903,198,013	905,220,156	(2,022,143)	-
Restricted	49,349,288	42,408,205	6,941,083	16%
Unrestricted	(72,585,185)	(82,230,805)	9,645,620	(12%)
Total net position	\$879,962,116	\$865,397,556	\$14,564,560	2%



Changes in Net Position

The Municipality's net position increased by \$14,564,560. This increase was due mainly to decreases in expenses during 2014-2015, particularly in line of Health and Sanitation, General Government and Economic Development.

Approximately 68.3 percent of the Municipality's total revenue came from taxes, while 18.4 percent resulted from grants and contributions, including federal aid. Charges for Services provided 4.4 percent of the total revenues. Interest earnings and miscellaneous provided 8.9 percent of the total revenues. The Municipality's expenses cover a range of services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

The largest expenses were for general government, economic development and health and sanitation. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

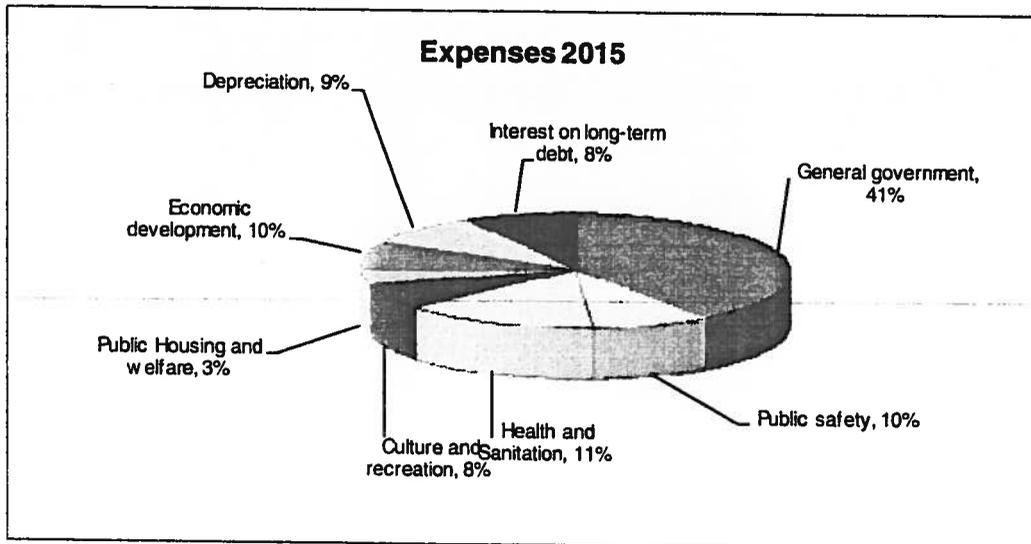
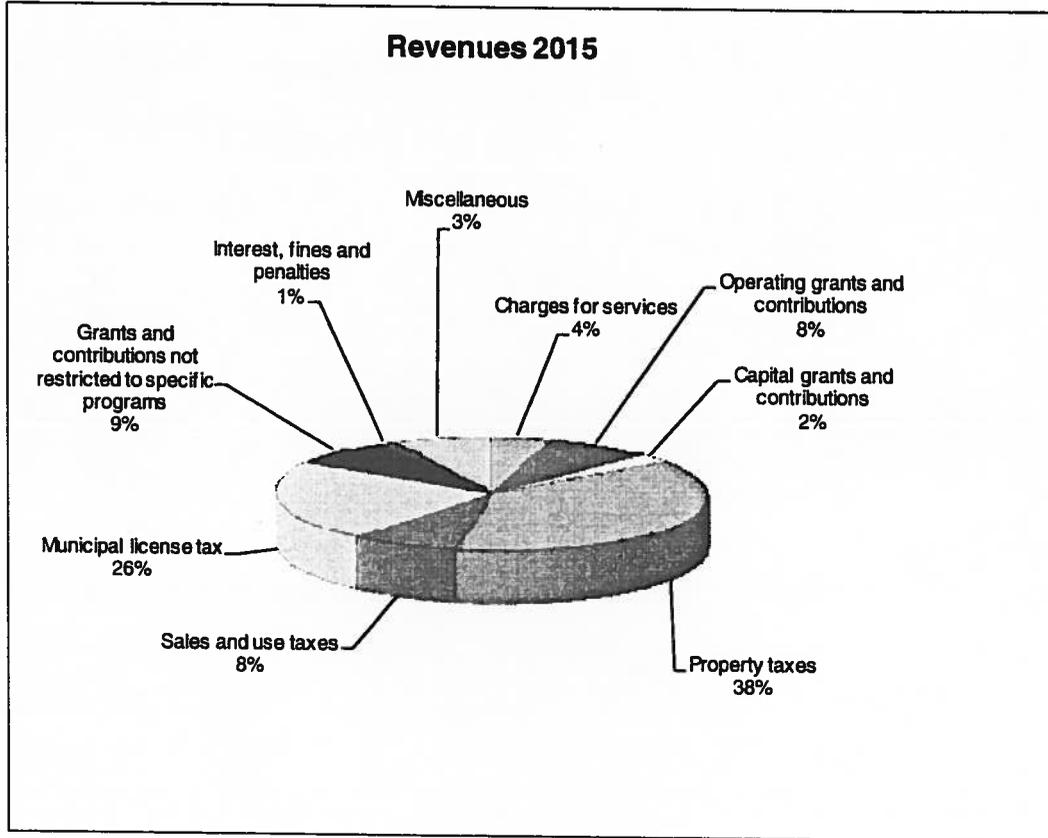
Condensed Statement of Activities	2015	2014	Change	%
Program revenues:				
Charges for services	\$8,464,257	\$8,836,211	(\$371,954)	(4%)
Operating grants and contributions	15,420,477	15,631,289	(210,812)	(1%)
Capital grants and contributions	5,144,619	4,540,190	604,429	13%
General revenues:				
Property taxes	72,627,824	72,866,775	(238,951)	-
Sales and use taxes	15,634,005	15,884,055	(250,050)	(2%)
Municipal license tax	43,641,565	49,115,548	(5,473,983)	(11%)
Grants and contributions not restricted to specific programs	14,879,818	17,370,437	(2,490,619)	(14%)
Interest, fines and penalties	2,771,930	2,301,253	470,677	20%
Gain (Loss) on retirement of Capital Assets	(5,871)	(17,351)	11,480	(66%)
Miscellaneous	14,482,503	6,454,841	8,027,662	124%
Total revenues	193,061,127	192,983,248	77,879	-
Expenses:				
General government	70,874,708	68,538,785	2,335,923	3%
Public safety	15,991,163	16,130,644	(139,481)	(1%)
Health and Sanitation	26,125,973	18,380,316	7,745,657	42%
Culture and recreation	12,492,759	13,004,213	(511,454)	(4%)
Public Housing and welfare	7,342,836	5,787,767	1,555,069	27%
Economic development	13,926,661	17,282,106	(3,355,445)	(19%)
Depreciation	16,393,059	15,978,192	414,867	3%
Interest on long-term debt	15,349,408	13,178,127	2,171,281	16%
Total expenses	178,496,567	168,280,150	10,216,417	6%
Change in net assets	14,564,560	24,703,098	(10,138,538)	(41%)
Net assets, beginning of year	865,397,556	840,694,458	24,703,098	3%
Net assets, end of year	<u>\$879,962,116</u>	<u>\$865,397,556</u>	<u>\$14,564,560</u>	<u>2%</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$61,232,070, an increase of \$7,665,047 in comparison with the prior year. There are reservations of fund balance amounting to \$65,944,007. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$19,738,560), 2) to pay debt service (\$15,164,267), 3) to pay for capital projects (\$29,072,289) and 4) for other purposes (\$1,968,891).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2015, the general fund has a fund balance of \$11,882,782.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary statement of the General Fund shows the original budget, final budget and actual revenues, expenditures for the fiscal year. Differences between the original and amended budget were not significant.

The revenues from municipal licenses taxes decrease this year again. Actual revenues for the year were lesser than budgeted amounts by \$5,668,059, due to the economic factor.

On the expenditure side, all departments were under budget by \$1.2 million. Again, the recession impacted the development activity with budgeted spending being deferred.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2015, amounts to \$1,380,898,488 net of accumulated depreciation of

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

\$212,001,475, leaving a net book value of \$1,168,897,013. These investments in capital assets include land, buildings, improvements, vehicles, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Net Capital Assets Activity for the year ended June 30, 2015 increased by \$5,117,044 in compare with June 30, 2014. Depreciation charges for the year totaled \$16,393,059.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has \$29,072,289 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

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

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity".

Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity"). As a significant fact, during the fiscal year 2014-2015 the Municipality's total debt increase by \$0.7 million in compare with prior year.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2015

on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on sales, property and municipal taxes as well as federal grants to carry out the governmental activities. The Municipality's major source of revenue is property tax revenue. Property tax revenue increased 3%.

Economy Impact - The Municipality's revenues and expenditures were implemented with a conservative approach to reflect the economic conditions that are expected to continue through 2015.

Those factors were considered when preparing the Municipality's budget for the 2015-2015 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2nd floor of the Guaynabo City Hall, Guaynabo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF NET POSITION
JUNE 30, 2015**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 53,837,482
Cash with fiscal agent (Notes 2 and 5)	66,454,911
Accounts receivable:	
Property taxes (Note 6)	572,537
Municipal license taxes (Note 7)	6,745,654
Construction excise taxes	1,755,478
Rent, licenses, and permits	3,801,939
Interests	117,724
Sales and use taxes (Note 8)	1,212,853
Due from other agencies (Note 9)	2,536,227
Inventories (Note 2)	1,485,415
Capital assets, net of accumulated depreciation (Note 11)	<u>1,168,897,013</u>
 Total assets	 <u>1,307,417,233</u>
 <u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Liabilities	
Accounts payable and accrued liabilities	5,066,653
Due to other agencies (Note 12)	5,277,333
General obligations:	
Bonds	14,079,000
Interest	6,692,334
Noncurrent liabilities (Note 15):	
Due within one year	23,709,276
Due in more than one year	320,425,116
Claims and judgements	445,963
Accrued interest	17,756,726
Total liabilities	<u>393,452,401</u>
 Deferred Inflows of Resources (Note 13)	
Unearned revenues from:	
Municipal license taxes	33,874,873
Federal government	207,808
Total deferred inflows of resources	<u>34,082,681</u>
 Net Position	
Investment in capital assets, net of related debt	903,198,013
Restricted for:	
Debt service	15,164,267
Capital projects	34,165,056
Unrestricted	(72,585,185)
Total net position	<u>\$ 879,942,151</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
General government	\$ 70,874,767	\$ 8,464,317	-	\$ (62,410,450)
Public safety	15,991,163		327,446	(15,663,717)
Public housing and welfare	7,362,802		4,208,876	(3,153,926)
Culture and education	12,492,759		10,884,155	(1,608,604)
Health and sanitation	26,125,973			(26,125,973)
Depreciation	16,393,059			(16,393,059)
Economic development	13,926,661			(8,782,042)
Interest on long-term debt	15,349,408		5,144,619	(15,349,408)
Total primary government	\$ 178,516,592	\$ 8,464,317	\$ 15,420,477	\$ (149,487,179)
General revenues:				
Property taxes (Note 6)				72,627,824
Sales and use taxes (Note 8)				15,634,005
Municipal license taxes (Note 7)				43,641,565
Grants and contributions not restricted to specific programs				14,879,818
Interest, fines, and penalties				2,771,930
Miscellaneous				14,482,503
Total general revenues				164,037,645
Loss on disposition of assets				(5,871)
Change in net position				14,544,595
Net position at beginning of year				865,397,556
Net position at end of year				\$ 879,942,151

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2015**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 39,674,412	-	\$ 8,472	\$ 14,154,598	\$ 53,837,482
Cash with fiscal agent (Notes 2 and 5)	4,567,446	35,363,064		26,524,401	66,454,911
Accounts receivable:					
Property taxes (Note 6)		572,537			572,537
Municipal license taxes (Note 7)	201,402				201,402
Rent, licenses, and permits	1,081,636			11,211	1,092,847
Interest	117,724				117,724
Construction excise taxes	200,000				200,000
Due from other agencies (Note 9)	856,164		168,879	1,511,184	2,536,227
Due from other funds (Note 10)	6,807,051				6,807,051
Inventories (Note 2)	1,485,415				1,485,415
Total assets	\$ 54,991,250	\$ 35,935,601	\$ 177,351	\$ 42,201,394	\$ 133,305,596

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2015**

<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Account payable and accrued liabilities	\$ 3,826,166	\$ -	\$ 159,008	\$ 1,021,479	\$ 5,006,653
Due to other funds (Note 10)				6,807,051	6,807,051
Due to other agencies (Note 12)	5,258,990		18,343		5,277,333
General obligations:					
Bonds		14,079,000			14,079,000
Interest		6,692,334			6,692,334
Claims and judgements	148,439				148,439
Total liabilities	<u>9,233,595</u>	<u>20,771,334</u>	<u>177,351</u>	<u>7,828,530</u>	<u>38,010,810</u>
Deferred Inflows of Resources (Note 13)					
Unearned revenue from:					
Municipal license taxes	33,874,873			207,808	33,874,873
Federal government		-	-	207,808	207,808
Total deferred inflows of resources	<u>33,874,873</u>	<u>-</u>	<u>-</u>	<u>207,808</u>	<u>34,082,681</u>
Fund Balances					
Reserved for:					
Nonspendable					1,485,415
Restricted	1,485,415	15,164,267		463,511	15,627,778
Committed				29,072,289	29,072,289
Assigned	13,836,966			5,901,594	19,738,560
Unassigned	(3,439,599)			(1,272,338)	(4,711,937)
Total fund balances	<u>11,882,782</u>	<u>15,164,267</u>	<u>-</u>	<u>34,165,056</u>	<u>61,212,105</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 54,991,250</u>	<u>\$ 35,935,601</u>	<u>\$ 177,351</u>	<u>\$ 42,201,394</u>	<u>\$ 133,305,596</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balances - governmental funds	\$ 61,212,105
Amounts reported for governmental activities in the statement of net position 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.	1,168,897,013
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(362,188,642)
• Some of the Municipality's tax and other revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures.	<u>12,021,675</u>
Net position of governmental activities	<u><u>\$ 879,942,151</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General	Debt Service	WIA Funds	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 46,084,925	\$ 26,542,899	\$ -	\$ -	\$ 72,627,824
Municipal license taxes (Note 7)	43,398,744				43,398,744
Sales taxes (Note 8)	13,249,367	2,408,545			15,657,912
Licenses and permits	3,127,832				3,127,832
Charges for service and rents	3,291,304			650,732	3,942,036
Intergovernmental revenues (Note 14):					
Federal grants and contributions			2,606,641	17,958,455	20,565,096
State contributions	14,206,930			672,888	14,879,818
Interest, fines, and penalties	2,748,213	23,260		457	2,771,930
Other revenues	14,482,503			-	14,482,503
Total revenues	<u>140,589,818</u>	<u>28,974,704</u>	<u>2,606,641</u>	<u>19,282,532</u>	<u>191,453,695</u>
EXPENDITURES					
General government	77,092,945				77,092,945
Public safety	15,518,394			472,932	15,991,326
Public housing and welfare	2,322,537			5,040,264	7,362,801
Culture and education	1,600,137		2,606,641	8,285,981	12,492,759
Health and sanitation	26,112,715			13,258	26,125,973
Economic development	13,874,507			52,154	13,926,661
Capital outlays	2,335,179			19,180,795	21,515,974
Debt service:					
Principal retirement		23,339,045			23,339,045
Interest and other		13,428,150			13,428,150
Total expenditures	<u>138,856,414</u>	<u>36,767,195</u>	<u>2,606,641</u>	<u>33,045,384</u>	<u>211,275,634</u>
Excess (deficiency) of revenues over expenditures	<u>1,733,404</u>	<u>(7,792,491)</u>	<u>-</u>	<u>(13,762,852)</u>	<u>(19,821,939)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from credit line				4,036,021	4,036,021
Loan proceeds				23,431,000	23,431,000
Transfers in	321,647	9,917,391		593,924	10,832,962
Transfers out	(1,331,087)	(21,647)		(9,480,228)	(10,832,962)
Total other financing sources (uses)	<u>(1,009,440)</u>	<u>9,895,744</u>		<u>18,580,717</u>	<u>27,467,021</u>
Net change in fund balance	723,964	2,103,253	-	4,817,865	7,645,082
FUND BALANCE AT BEGINNING OF YEAR	<u>11,158,818</u>	<u>13,061,014</u>	<u>-</u>	<u>29,347,191</u>	<u>53,567,023</u>
FUND BALANCE AT END OF YEAR	<u>\$ 11,882,782</u>	<u>\$ 15,164,267</u>	<u>\$ -</u>	<u>\$ 34,165,056</u>	<u>\$ 61,212,105</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds	\$ 7,645,082
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • 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. 	21,515,974
<ul style="list-style-type: none"> • Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. 	(16,393,059)
<ul style="list-style-type: none"> • Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. 	(27,467,021)
<ul style="list-style-type: none"> • Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. 	1,613,303
<ul style="list-style-type: none"> • 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. 	23,339,045
<ul style="list-style-type: none"> • In the statements of activities, only the loss on disposition of assets is reported, whereas the governmental funds, the proceeds from sales increase financial resources. Thus, the change in net asset book value of the asset sold. 	(5,871)
<ul style="list-style-type: none"> • Change in accrued interest expense which does not require the use of current financial resources. 	(1,921,258)
<ul style="list-style-type: none"> • Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds. 	6,218,400
Changes in net position of governmental activities	<u>\$ 14,544,595</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. ORGANIZATION

The Municipality of Guaynabo, Puerto Rico (the "Municipality"), is a local government constituted 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 Legislature, 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 Position** - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net position of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- **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 governments 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 financially 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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015.

b. Government-Wide and Governmental Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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 government-wide financial statements.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 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. General capital assets acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital lease are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interests associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and when the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Municipality reports the following major governmental funds:

1) 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.

2) 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.

3) Workforce Investment Act Fund

This fund account for revenues sources to help people access the tools they need to manage their careers through information and high quality services and to help companies find skilled workers.

d. Cash, Cash Equivalents, and Cash with Fiscal Agent

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 other governmental funds consist 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections withheld 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. Landfill Closure and Postclosure Care Costs

Landfill Closure and Postclosure Care Costs are accounted for under the provisions of Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, issued by the Governmental Accounting Standards Board (GASB 18).

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In the accompanying government-wide statement of net position, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and postclosing costs are made using current costs.

The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the fund level, landfill closure and postclosure care costs are recorded in the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds as expenditures in the accounting period in which the liability is incurred.

f. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015 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 which are expensed as incurred. In the accompanying government-wide statement of net position, all individual capital assets over the threshold amount of \$1,000 have been capitalized and depreciated. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	Useful Life
Buildings, structure, and improvements	50 years
Public domain infrastructure	50 to 60 years
System infrastructure	50 years
Motor vehicles	8 to 10 years
Office furniture, equipment, and fixtures	5 to 20 years
Computer equipment and software	5 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), which enhanced the usefulness of fund balance information by providing clearer

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the 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 GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

- 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, 2015.

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.

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 (the "CRIM") for the year ended June 30, 2015 amounted to approximately \$2.0 million. The current

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.1 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
72	Fair Value Measurement and Application	2015-16
73	Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	2015-16
74	Financial Reporting for Postemployment Benefits Plans other than Pension Plans	2016-17
75	Accounting and Financial Reporting for Postemployment Benefits other the Pensions	2017-18

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Statement Number	Statement Name	Adoption Required in Fiscal Year
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Government	2015-16
77	Tax Abatement Disclosures	2016-17
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.	2016-17
79	Certain External Investment Pools and Pool Participant	2016-17

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

m. Deferred Inflows

The Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

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

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *earned but unavailable revenue* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2015 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *“unearned revenue”* in the accompanying statement of net position). No *“earned but unavailable revenue”* is accounted for in the accompanying statement of net position.

n. Pensions

For purpose of measuring, the next pension liability, deferred outflows of resources and deferred inflows of resources and pension expenses, information about fiduciary net position of the employee’s retirement system of the Government of the Commonwealth of Puerto Rico (ERS) and addition to reductions from ERS’s liabilities net position should have been determined on the same basis as they are reported by the ERS. However, as of the date that financial statement has been issued, the ERS has not issued the financial statements as of June 30, 2014. Accordingly the information related to the pension plans is not available and is not included in the accompanying financial statements of the Municipality for the year ended June 30, 2015.

o. 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. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, include only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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

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

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2015 representing the original budget.

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b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2015 is presented below for the general fund and debt service funds:

	General Fund	Debt Service Fund
Excess (deficiency) of revenues over expenditures - budgetary basis	\$ (7,669,485)	\$ (192,491)
Entity differences:		
Non-budgeted transfers in	321,647	2,317,391
Non-budgeted transfers-out	(1,331,087)	(21,647)
Non-budgeted revenues	7,337,666	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(11,771,743)	
Current year encumbrances recorded as expenditures for budgetary basis	13,836,966	
Excess (deficiency) of revenues over expenditures - GAAP basis	\$ 723,964	\$ 2,103,253

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation

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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 \$362 million differences are as follows:

Bonds payable	\$ 267,729,000
Capital leases	24,856,174
Puerto Rico Health Insurance Administration	12,000,000
Note payable	10,142,120
Landfill obligation	10,396,000
Compensated absences	13,002,165
Accrued interest payable	17,756,726
Credit lines	5,177,981
CRIM	830,952
Claims and judgments	<u>297,524</u>

Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 362,188,642</u>
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5. DEPOSITS - CUSTODIAL CREDIT RISK

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 \$26 million are restricted principally for capital project activities. These funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposit in three (3) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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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.

6. 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 10.08% for real property and 8.08% 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	3.25%	3.25%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>10.08%</u>	<u>8.08%</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.

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

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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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2014-15, but not the final settlement as the six month 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.

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. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for \$5,339,500. This amount will be repaid through advances from property taxes (refer to note 15).

Based on the preliminary settlement already received, during the year ended June 30, 2015, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by \$314,198. Such amount is presented as due from CRIM in the accompanying financial statements. (See note 9)

7. MUNICIPAL LICENSE TAXES

Municipal license tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at

COMMONWEALTH OF PUERTO RICO
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June 30, 2015. 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 Guaynabo, 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 Guaynabo are as follows:

Financial institutions	=	1.5%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred inflows of resources in the General Fund. Any municipal license taxes collected in advance are recorded as deferred inflows of resources. As of June 30, 2015, the total municipal license taxes receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred inflows of resources amounted to \$6,745,654 and \$33,874,873, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2015 the municipal license tax receivable (net) and the respective deferred inflows of resources amounted to \$201,402 and \$33,874,873, respectively, in the accompanying fund financial statements.

8. SALES AND USE TAXES

On January 24, 2014, the Commonwealth's Legislature enacted Act. No. 19, which amended Act. No. 1, 2011's Internal Revenue Code, to create the Municipal Finance Corporation ("COFIM" by its Spanish acronym). COFIM is ascribed to Government Development Bank of Puerto Rico ("GDB") and was created to govern the aggregate municipal debt. Pursuant to this legislation, a GDB deposit account, the Municipal Redemption Fund, was originated in which, effective on July 1, 2014, 1% of the sales and use tax will be collected by COFIM with the purpose of the Municipal Redemption Fund.

The higher of the first collections of the prior year product of the sales and use tax or the applicable fixed income will be the funding source of the COFIM deposit. Beginning in the fiscal year 2014-2015, sales and use tax will be deposited in the COFIM's Redemption Fund and will be pledged with the purpose of service COFIM'S obligations. Any excess of the COFIM deposit will be transferred to the municipalities based on the proportion of their respective collections.

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Act No. 19 also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety cost. Amount collected by COFIM will be deposited in accounts of special funds in the GDB, subject to restrictions.

During each subsequent fiscal year, the first collections of the sales and use tax will be credited at the time of being received in the COFIM's Redemption Fund or any other special fund, including a fund under the control of the trust that has been designated in the trust agreement or other contract of pledge under which the COFIM bonds had been issued or incurred other obligations.

On or before August 30th of each fiscal year, GDB, as fiscal agent, will determine the COFIM deposit applicable to the current fiscal year. An amount equal to the COFIM's deposit from the first collections of the sales and use tax for that fiscal year shall be deposited in the Redemption Fund of the COFIM.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Department of Federal Transportation (Other Governmental funds)	\$ 1,511,184
Government Development Bank for Puerto Rico (COFIM)	390,871
Municipal Revenues Collection Center (CRIM)	314,198
Labor Development Administration (WIA)	168,879
Municipality of Arecibo	93,041
Department of Public Housing	<u>58,054</u>
	<u><u>\$ 2,536,227</u></u>

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10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2015, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental	<u>\$ 6,807,051</u>

The balance of approximately \$6.8 million due to the general fund from other governmental funds resulted from loans made to construction projects that will be paid during the subsequent year.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2015 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	Other Governmental	\$ 8,586,304
Debt Service	General	1,331,087
Other Governmental	Other Governmental	593,924
General	Other Governmental	300,000
General	Debt Service	<u>21,647</u>
		<u>\$ 10,832,962</u>

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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11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 682,729,870	\$ 1,336,192	\$ -	\$ 684,066,062
Construction in progress	45,476,588	11,612,794	21,323,286	35,766,096
Total capital assets, not being depreciated	<u>728,206,458</u>	<u>12,948,986</u>	<u>21,323,286</u>	<u>719,832,158</u>
Capital assets, being depreciated:				
Building and building improvements	386,639,840	10,875,728	-	397,515,568
Vehicles and equipment	69,200,521	3,428,746	1,258,007	71,371,260
Infrastructure	176,593,702	15,585,800	-	192,179,502
Total capital assets, being depreciated	<u>632,434,063</u>	<u>29,890,274</u>	<u>1,258,007</u>	<u>661,066,330</u>
Less accumulated depreciation for:				
Building and building improvements	104,775,678	9,157,564	-	113,933,242
Vehicles and equipment	54,937,481	3,638,188	1,252,136	57,323,533
Infrastructure	37,147,393	3,597,307	-	40,744,700
Total accumulated depreciation	<u>196,860,552</u>	<u>16,393,059</u>	<u>1,252,136</u>	<u>212,001,475</u>
Total capital assets, being depreciated, net	<u>435,573,511</u>	<u>13,497,215</u>	<u>5,871</u>	<u>449,064,855</u>
Governmental activities capital assets, net	<u>\$ 1,163,779,969</u>	<u>\$ 26,446,201</u>	<u>\$ 21,329,157</u>	<u>\$ 1,168,897,013</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2015 are as follows:

Government Development Bank (COFIM)	\$ 4,974,637
Puerto Rico Water and Sewer Authority	269,144
Labor Development Administration (WIA funds)	18,343
General Services Administration	<u>15,209</u>
Total	<u>\$ 5,277,333</u>

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13. DEFERRED INFLOWS OF RESOURCES

a. Municipal License Taxes

The deferred inflows of resources of \$33,874,873 in the general fund related to municipal license taxes collected in fiscal year 2014-2015 that will be earned in fiscal year 2015-2016 (Refer Note 7).

b. Federal Government

The deferred inflows of resources 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. These were related to the following federal programs/grants:

Program/Grant Description

Special Program for Aging Title III	\$ 77,998
Special Fund - Fideicomiso	116,010
UDAG Program	<u>13,800</u>
	<u>\$ 207,808</u>

14. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and other governmental funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

15. LONG-TERM DEBTS

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

- a. Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and

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- b. Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the Municipality's property.

There is not legal limitation on the amount of debt that the Municipality may guarantee so long as the 10 percent limitation is not exceeded. At June 30, 2015, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2015 are as follows:

General Obligation Bonds

\$10,500,000 series of 2000, payable in annual installments of \$755,000 to \$2,380,000 until July 1, 2024, interest ranging from 7.29% to 7.50%.	\$ 6,015,000
\$26,235,000 series of 1997, payable in annual installments of \$355,000 to \$2,275,000 until July 1, 2021, interests from 4.70% to 6.63%.	11,360,000
\$21,100,000 series of 1997, payable in annual installments from \$305,000 to \$66,000 until July 1, 2022, interests from 6.69% to 7.50%.	10,025,000
\$16,355,000 series of 1998, payable in annual installments from \$240,000 to \$1,365,000 until July 1, 2023, interests from 6.00% to 7.50%.	8,595,000
\$10,455,000 series of 2001, payable in annual installments from \$145,000 to \$910,000 until July 1, 2025, interests from 5.00% to 8.00%.	6,570,000
\$2,760,000 series of 2002, payable in annual installments from \$45,000 to \$220,000 until July 1, 2026, interests from 5.00% to 7.00%.	1,780,000

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\$4,625,000 series of 2002, payable in annual installments from \$65,000 to \$385,000 until July 1, 2026, interests from 5.00% to 7.50%.	\$ 3,035,000
\$2,920,000 series of 2003, payable in annual installments from \$50,000 to \$225,000 until July 1, 2027, interests from 2.70% to 5.60%.	1,955,000
\$2,715,000 series of 2003, payable in annual installments from \$45,000 to \$215,000 until July 1, 2027, interests from 5.00% to 6.50%.	1,825,000
\$485,000 series of 2004, payable in annual installments from \$5,000 to \$35,000 until July 1, 2028, interests from 1.65% to 6.50%.	345,000
\$3,895,000 series of 2004, payable in annual installments from \$65,000 to \$300,000 until July 1, 2028, interests from 1.65% to 6.50%.	2,750,000
\$960,000 series of 2004, payable in annual installments from \$67,500 to \$100,000 until July 1, 2016, interests from 2.25% to 5.25%.	100,000
\$2,515,000 series of 2005, payable in annual installments of \$55,000 to \$170,000 until July 1, 2029, interests ranging from 4.37% to 5.0%.	1,765,000
\$11,755,000 series of 2005, payable in annual installments of \$545,000 to \$1,085,000 until July 1, 2019, interests ranging from 4.37% to 5.0%.	4,025,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	2,030,000

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\$6,835,000 series of 2006, payable in annual installments of \$285,000 to \$685,000 until July 1, 2020, interests from 4.23% to 4.8%.	\$ 3,020,000
\$4,305,000 series of 2006, payable in annual installments of \$110,000 to \$365,000 until July 1, 2025, interests from 6.25% to 7.25%.	2,810,000
\$1,600,000 series of 2007, payable in annual installments of \$25,000 to \$130,000 until July 1, 2031, interests of 6.60% to 7.25%.	1,295,000
\$4,525,000 series of 2007, payable in annual installments of \$175,000 to \$465,000 until July 1, 2021, interests of 6.60% to 7.25%.	2,370,000
\$1,125,000 series of 2007, payable in annual installments of \$15,000 to \$100,000 until July 1, 2031, interests of 6.60% to 7.50%.	925,000
\$6,020,000 series of 2007, payable in annual installments of \$140,000 to \$550,000 until July 1, 2026, interests of 6.60% to 7.50%.	4,315,000
\$33,375,000 series of 2008, payable in annual installments of \$595,000 to \$2,830,000 until July 1, 2032, interests of 1.48% to 7.50%.	28,240,000
\$2,515,000 series of 2008, payable in annual installments of \$35,000 to \$215,000 until July 1, 2032, interests of 3.93% to 7.50%	2,130,000
\$1,310,000 series of 2008, payable in annual installments of \$50,000 to \$140,000 until July 1, 2022, interests of 3.93% to 7.50%.	790,000

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\$6,325,000 series of 2010, payable in annual installments from \$90,000 to \$530,000 until July 1, 2033, interests from 1.53% to 7.50%.	\$ 5,505,000
\$2,010,000 series of 2010, payable in annual installments from \$30,000 to \$175,000 until July 1, 2032, interests from 2.43% to 7.50%.	1,730,000
\$675,000 series of 2010, payable in annual installments from \$10,000 to \$60,000 until July 1, 2033, interests from 4.75% to 7.50%.	590,000
\$2,000,000 series of 2010, payable in annual installments from \$75,000 to \$215,000 until July 1, 2023, interests from 4.75% to 7.50%.	1,330,000
\$6,270,000 series of 2012, payable in annual installments from \$115,000 to \$465,000 until July 1, 2034, interests from 4.75% to 6.00%.	5,470,000
\$12,350,000 series of 2012, payable in annual installments from \$220,000 to \$910,000 until July 1, 2034, interests from 4.75% to 7.50%.	10,780,000
\$24,015,000 series of 2012, payable in annual installments from \$405,000 to \$1,850,000 until July 1, 2034, interests from 4.75% to 7.50%.	21,135,000
\$4,885,000 series of 2012, payable in annual installments from \$195,000 to \$490,000 until July 1, 2024, interests from 4.75% to 7.50%.	3,465,000
\$9,045,000 series of 2012, payable in annual installments from \$130,000 to \$755,000 until July 1, 2034, interests from 4.75% to 7.50%.	8,080,000

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\$53,355,000 series of 2012, payable in annual installments from \$1,647,000 to \$4,434,000 until July 1, 2028, interests from 4.60% to 5.77%.	\$ 42,023,000
\$20,690,000 series of 2012, payable in annual installments from \$300,000 to \$1,720,000 until July 1, 2035, interest from 6.01% to 7.50%.	18,930,000
\$305,000 series of 2012 payable in annual installments from \$35,000 to \$55,000 until July 1, 2017, interest from 6.00% to 7.50%.	105,000
\$2,415,000 series of 2012 payable in annual installments from \$35,000 to \$200,000 until July 1, 2036, interest from 6.00% to 6.50%.	2,255,000
\$1,610,000 series of 2012 payable in annual installment from 110,000 to \$215,000 until July 1, 2021, interest from 6.00% to 6.50%.	1,095,000
\$14,700,000 series of 2014 payable in annual installments from \$310,000 to 960,000 until July 1, 2038, interest from 4.00% to 7.50%.	14,070,000
\$7,636,000 series of 2015 payable in annual installments from \$110,000 to \$636,000 until July 1, 2039, interest from 7.00% to 7.50%.	7,526,000
\$15,795,000 series of 2015 payable in annual installments from \$225,000 to \$1,320,000 until July 1, 2039, interest from 7.00% to 7.50%.	<u>15,570,000</u>
Total bonds payable	<u><u>267,729,000</u></u>

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Notes Payable

<p>Note payable of \$1,163,000 to The Bank of New York. The term of the loan is for seven years and the principal is payable annually each August 1, starting in August of 2015. During the first year the Municipality has a moratorium. The annual installments are \$167,000. The initial interest rate for each advance will be set on the date of such advance and will be equal to 20 basis points (0.2%) above the applicable LIBOR rate.</p>	<p>\$ 1,163,000</p>
<p>Note payable of \$7,028,503 that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.</p>	<p>5,339,500</p>
<p>Note payable of \$2,000,000 to The Bank of New York. The term of the loan is for twenty years and is payable annually each August, started in August of 2007. The annual installments are from \$61,000 to \$186,000, at the fluctuating interest established by the U.S. Department of Treasury.</p>	<p>1,491,000</p>
<p>Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.</p>	<p>2,148,620</p>
<p>The Municipality entered in payment plan on the amount of \$18,000,000 with the Puerto Rico Health Reform of the Commonwealth of Puerto Rico on 2013 for the concepts of medical claims for previous years. The term of agreement is a \$3,000,000 down-payment and \$1,500,000 payable annually for ten years.</p>	<p><u>12,000,000</u></p>
<p>Total notes payable</p>	<p><u>22,142,120</u></p>
<p>Total bonds, notes, and other long-term debts</p>	<p><u><u>\$ 289,871,120</u></u></p>

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The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2015, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 14,712,000	\$ 17,152,565	\$ 572,956	\$ 604,161
2017	15,567,000	16,304,356	590,552	570,326
2018	16,537,000	15,373,825	609,878	535,144
2019	17,637,000	14,377,076	630,978	498,497
2020	17,232,000	13,769,943	652,900	460,378
2021-2025	76,365,000	53,395,064	2,965,961	1,704,491
2026-2030	58,213,000	29,068,432	2,916,413	843,424
2031-2035	41,405,000	11,753,244	1,202,482	98,154
2036	10,061,000	1,907,050		
	<u>\$ 267,729,000</u>	<u>\$ 173,101,555</u>	<u>\$ 10,142,120</u>	<u>\$ 5,314,575</u>

As described in note 6, the Municipality levies an annual special tax of 3.25% 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.

Credit Line

On December 19, 2013, the Municipality entered into a \$21,000,000 non-revolving line of credit with two financial institutions. At June 30, 2015, approximately \$15,822,000 was available under the line of credit, net of \$5,178,000 in promissory notes.

The Credit Agreement was for the purpose of authorizing its promissory notes in anticipation of its Revenue Bonds of 2014. The proceeds of the non-revolving line of credit are for the construction and development of the "Avenida Conector Los Filtros" toll road ("the Project") that will connect highways PR-199 and PR-177, in the Municipality of Guaynabo, Puerto Rico.

The aggregate principal amount of the Municipal Revenue Bonds of 2014, not to exceed \$21,000,000, is to provide permanent financing for the Project. By converting

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the outstanding principal amount of the notes into the Bonds, and the deposit of \$1,000,000 to the Debt Service Reserve Account. The Municipality should pay interest on the unpaid principal amount of the notes at a fixed rate per annum equal to 6.90%. The non-revolving line of credit is collateralized by, among other pledging, all revenues generated by the Municipality from the Project.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 258,922,000	\$ 23,431,000	\$ (14,624,000)	\$ 267,729,000	\$ 14,712,000
Credit line 21.0M	1,845,759	3,332,222		5,177,981	
Credit line 7.6M	6,896,201	703,799	(7,600,000)		
Notes payable	<u>11,257,165</u>		<u>(1,115,045)</u>	<u>10,142,120</u>	<u>572,956</u>
Total long-term debt	<u>278,921,125</u>	<u>27,467,021</u>	<u>(23,339,045)</u>	<u>283,049,101</u>	<u>15,284,956</u>
Capital leases	27,407,334		(2,551,160)	24,856,174	2,693,368
Landfill obligation	10,770,000		(374,000)	10,396,000	400,000
CRIM		830,952		830,952	830,952
A.S.E.S.	13,500,000		(1,500,000)	12,000,000	1,500,000
Compensated absences	<u>12,868,552</u>	<u>133,613</u>		<u>13,002,165</u>	<u>3,000,000</u>
Total other liabilities	<u>64,545,886</u>	<u>964,565</u>	<u>(4,425,160)</u>	<u>61,085,291</u>	<u>8,424,320</u>
Total noncurrent liabilities	<u>\$ 343,467,011</u>	<u>\$ 28,431,586</u>	<u>\$ (27,764,205)</u>	<u>\$ 344,134,392</u>	<u>\$ 23,709,276</u>

16. RETIREMENT PLAN

a. Plan Description

Substantially all Municipality's full time employees are under the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Government Employees System Administration and was established by Act No. 447 on May 15, 1951. Act No. 447 was significantly modified by Act. No. 1 of 1990 and by Act 305 of 1999, later known as System 2000.

b. Benefits Provided

Retirement benefits for municipality employees include retirement, disability, death, vested and nonvested withdrawals. Employees retiring prior to July 1, 2013, annuity benefits are subject to \$500 minimum monthly. Other benefits for

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qualifying employees include additional minimum pension, ad-hoc cost-of-living adjustment (COLAs), benefits due to death and disability, medical insurance plan contribution, Christmas bonus, and medication bonus.

Plan members were eligible for merit annuity as long as they have 30 years or more of credited service. The annuity is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Act No. 3, as enacted by legislation in April 4, 2013, constituted a comprehensive a reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

- 1) For active participants of the contributory defined benefit program under Act No. 447 of 1951 and Act No. 1 of 1990, all requirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid a retirement through lifetime annuity.
- 2) Increased the minimum pension for current retirees from \$400 to \$500 per month.
- 3) The retirement age for Act No. 447 participants is gradually increased from age 58 to age 61.
- 4) The retirement age for System 2000 participants is gradually increased from age 60 to age 65.
- 5) Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
- 6) Eliminated the merit annuity available who joined the ERS prior to April 1, 1990.
- 7) The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

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- 8) The employee contribution rate was increased from 8.275% to 10%.
- 9) For System 2000 participants, the retirement will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- 10) Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution saving will be contributed to the ERS.
- 11) Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- 12) Survivor benefits were modified.

c. Contribution Requirements

Employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes as delineated in Act No. 3 of 2013, with varying provisions for the three-group as Act 447 employees, Act 1 employees, and System 2000 employees.

Pursuant to Act No.116 of 2011, employer contribution is increased by 1% annually from 9.275% of compensation to 10.275% beginning on July 1st, 2012 to June 30th, 2016. Act No. 116 includes subsequent increases of 1.25% annually from July 1st, 2016 to June 30th, 2021.

d. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 on Accounting and Financial Reporting for Pensions establishes for cost sharing government-employers plans to report their proportional share of the plan's net pension liability, deferred outflows of resources, and deferred inflows of resources in their statements of net position. As of June 30, 2015, the required information for the proportional share of the pension liability, pension expense, and the related deferred outflows of resources and deferred inflows of resources was not available from the ERS.

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The most recent available financial statements of the pension funds are for the year ended June 30, 2013, which reflected a significant unfunded actuarial liability. This financial information included a decrease of 1.4% in the funded ratio of the actuarial accrued liability for pension benefits, 3.1% and 4.5% at June 30, 2013 and 2012, respectively. Furthermore, the ERS's financial report for the year ended June 30, 2014 and the amount of contributions recognized by the pension plan from the Municipality were not available as of June 30, 2015.

17. 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.

18. LEASES

a. Capital Leases

The Municipality is obligated under several capital lease agreements with third parties that will expire at different years until 2024. These capital lease obligations are related to lease building facilities and office equipment recorded as capital assets in the accompanying government-wide statement of net position. These lease agreements qualify as capital leases for financial reporting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2015 is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 3,791,120
2017	3,788,713
2018	3,786,248

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<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 3,784,307
2020	3,791,355
2021-2024	<u>10,891,077</u>
Total minimum lease payments schedule under agreements	29,832,820
Less:	
Interests to be paid through expiration dates of lease agreements	<u>4,976,646</u>
Present value of minimum lease payments	24,856,174
Less: Current portion of obligation under capital leases	<u>2,693,368</u>
Long-term portion of obligation under capital leases	<u>\$ 22,162,806</u>

The activity of obligation under capital leases for the year ended June 30, 2015 was as follows:

	<u>Balance at June 30, 2014</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2015</u>
Principal	<u>\$ 27,407,334</u>	<u>\$ -</u>	<u>(\$2,551,160)</u>	<u>\$ 24,856,174</u>

b. Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- 1) The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- 2) Total income from leases during the year ended June 30, 2015 was \$1,880,327.
- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

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Leasing arrangements with the Municipality as lessee:

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

19. 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.

20. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board*. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws or regulations to incur closure and postclosure care costs.

The landfill ceased operation on March 2008. On July 15, 2008, the Municipality entered in an agreement with a contractor to initiate and complete the total closure of the Municipal Landfill in a four year period for a cost of \$7,200,000. The work to close the facility was completed on November 2012.

During fiscal year ended as of June 30, 2015, the Municipality incurred in landfill post-closing costs which approximates to \$374,000. The landfill obligation has been reduced to a total estimated current cost of \$10,396,000 as of June 30, 2015. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates. The liability was recorded in the accompanying government-wide financial statements. For funds financial statements, expenditures are recognized using the modified

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accrual basis of accounting when the related liability is incurred and the payment is due.

21. COMMITMENTS

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2015. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$32.5 million.

22. FUND BALANCES

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable				
Inventory	\$ 1,485,415	\$ -	\$ -	\$ 1,485,415
Restricted:				
Federal Programs			463,511	463,511
Debt service		15,164,267		15,164,267
Committed:				
Public works			29,072,289	29,072,289
Assigned:				
General government	11,117,343		5,901,594	17,018,937
Public safety	293,540			293,540
Public works	1,173,128			1,173,128
Culture				-
Health and sanitation	1,240,794			1,240,794
Public housing and welfare	12,161			12,161
Unassigned	<u>(3,439,599)</u>		<u>(1,272,338)</u>	<u>(4,711,937)</u>
	<u>\$ 11,882,782</u>	<u>\$ 15,164,267</u>	<u>\$ 34,165,056</u>	<u>\$ 61,212,105</u>

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23. NET POSITION

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

Capital assets, net of accumulated depreciation.	\$ 1,168,897,013
Outstanding balance on capital related debt	<u>(265,699,000)</u>
Total invested in capital assets, net of related debt	<u>\$ 903,198,013</u>

24. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through February 23, 2016, the date on which the financial statements were available to be issued.