

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

**MUNICIPIO DE GUAYAMA
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**HON. EDUARDO E. CINTRON SUAREZ
MAYOR**

Rev.
3/3/14
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

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

FISCAL YEAR ENDED JUNE 30, 2013

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

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

FISCAL YEAR ENDED JUNE 30, 2013

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of **Guayama**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions included in the "Qualified Opinion" paragraph. Because of the matters described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Municipality's governmental activities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not maintain complete, updated and accurate accounting records that supports the amounts presented as capital assets and its related accumulated depreciation, in the governmental activities. I was unable to satisfy ourselves about such balances through alternate procedures. Therefore, I was unable to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$124,167,513 net of accumulated depreciation of \$50,433,482 and the amount of depreciation expense stated at \$2,436,245 reported in the accompanying statement of activities for the year then ended. In addition, the expenses and the net result of operations reported in the accompanying statement of activities are also misstated for amounts that could not be determined for the fiscal year ended June 30, 2013.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities of the Municipality as of June 30, 2013, or the changes in financial position, thereof for the year then ended. Accordingly, I do not express an opinion on these financial statements.

Basis for Qualified Opinion on Government Funds

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I was unable to obtain sufficient evidence to support and satisfy myself about the amounts recorded in the interfund balances in the amount of \$8,925,294 recorded in each major fund and the aggregate remaining fund in the balance sheet of the governmental funds at June 30, 2013.

Qualified Opinion

In my opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Government Funds" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1 (U) to the financial statements, during the fiscal year the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

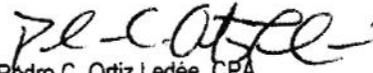
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 57 through 58 be presented to supplement the basic financial statements. Such information, although not a part 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 31, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 31, 2014



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The management of Municipality of **Guayama**, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Municipality's assets exceeded its liabilities at June 30, 2013 by \$81,513,700, and at June 30, 2012 by \$90,712,052;
- The Municipality's total net positions decrease by \$(9,198,352) during fiscal year 2012-2013;
- As of June 30, 2013, the Municipality's governmental funds reported combined ending fund balance of \$14,229,615, a decrease of \$(20,603,598) from the prior year;
- At June 30, 2013, the Statement of Net position presented an unrestricted deficit of \$20,636,111;
- The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2013 were \$124,167,513 (net of accumulated depreciation);
- The investment in capital assets for this year was \$92,088,276 (net of related debt);
- Loans principal payments were \$2,939,000 and \$2,462,000 in 2013 and 2012, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are composed of: (1) the statement of net positions and (2) the statement of activities. These financial statements can be found immediately following this MD&A. These financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

STATEMENT OF NET POSITIONS

The purpose of the statement of net positions is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in the statement of net positions is presented as net positions, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net positions, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

STATEMENT OF ACTIVITIES

The statement of activities presents information showing how the Municipality's net positions changed during the fiscal year ended June 30, 2013, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include; general government, public safety, public works, culture and recreation, health, sanitation and welfare, education, principal and interests on long term debts, and capital outlays. Property taxes, volume of business taxes, sales taxes, and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

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

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

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. 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, governmental 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 may be useful in evaluating a government's near-term financing requirements. 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, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

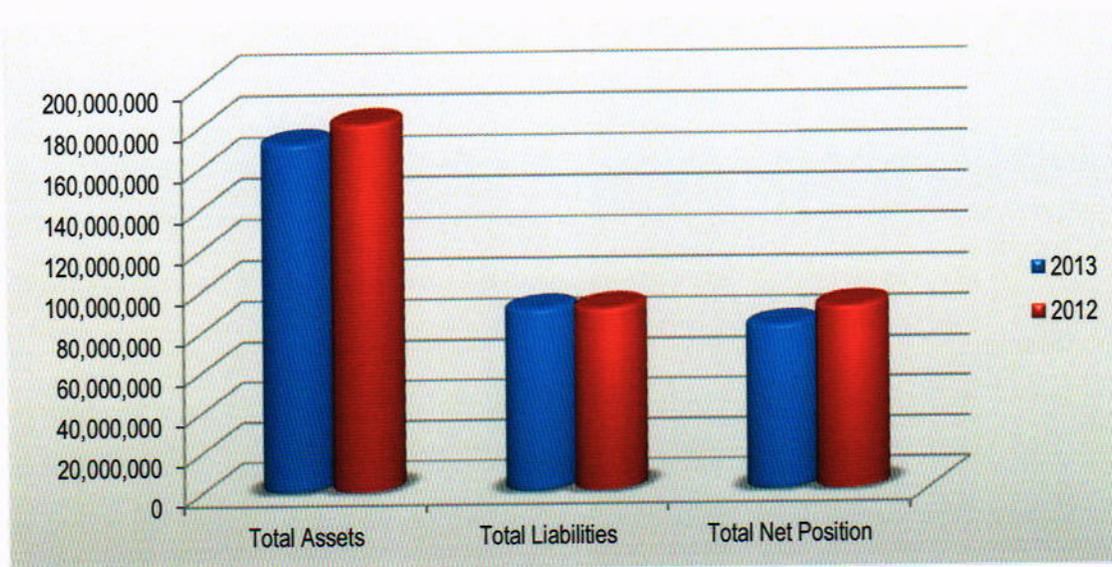
GOVERNMENTAL NET POSITIONS

As noted earlier, net positions may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$81,513,700 as of June 30, 2013, versus \$90,712,052 as of June 30, 2012. Our analysis below focuses on the net positions (**Table 1**) and changes in net positions of the Municipality's governmental activities.

Table 1

Statement of Net positions

	<u>2013</u>	<u>2012</u>
Current assets	\$ 47,418,343	\$ 68,481,142
Capital assets	124,167,513	112,729,183
Total Assets	<u>171,585,856</u>	<u>181,210,325</u>
Current liabilities	30,043,158	35,543,907
Long-term liabilities (excluding current portion)	60,028,998	54,954,366
Total Liabilities	<u>90,072,156</u>	<u>90,498,273</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>
Net positions:		
Investment in capital assets, net of related debt	92,088,276	93,444,313
Restricted	10,061,535	8,653,206
Deficit	<u>(20,636,111)</u>	<u>(11,385,467)</u>
Total Net Positions	<u>\$ 81,513,700</u>	<u>\$ 90,712,052</u>



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the Municipality's net positions reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net positions represents resources that are subject to external restrictions on how they may be used.

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$(38,949,962). These services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not exceed net expenses by \$(9,198,352).

The cost of all governmental activities this year was \$56,180,533. **Table 2** presents the cost of each of the Municipality's largest programs.

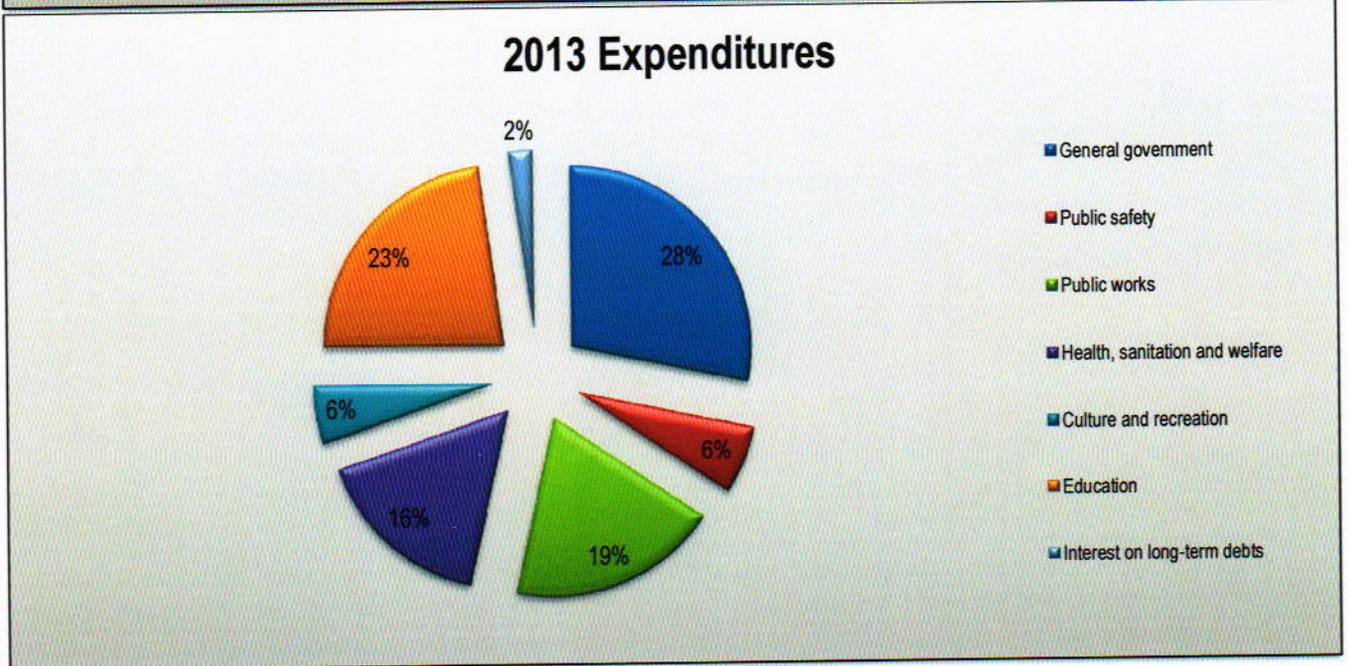
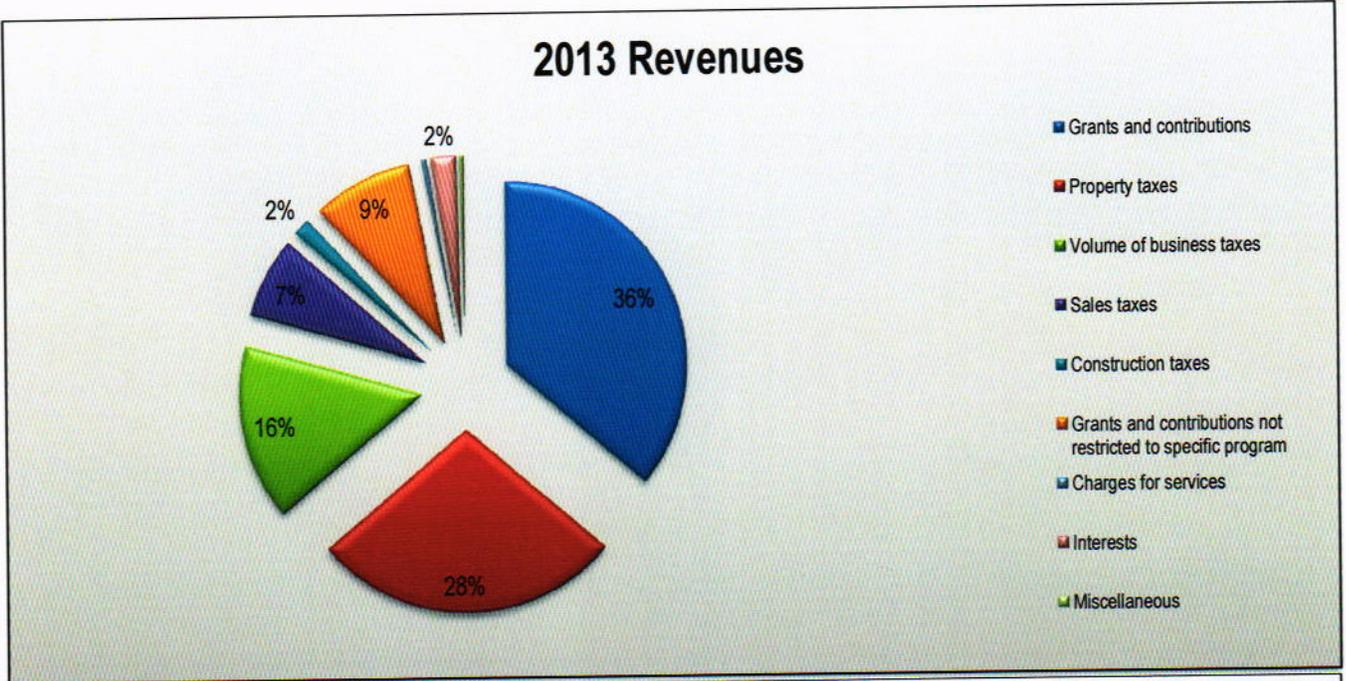
<u>Table 2</u> <u>Statement of Activities</u>	<u>2013</u>	<u>2012</u>
Revenues		
Grants and contributions	\$ 17,013,421	\$ 15,834,730
General revenues:		
Property taxes	12,998,860	13,558,222
Volume of business taxes	7,304,313	8,676,827
Sales taxes	3,335,800	3,092,728
Construction taxes	713,141	697,966
Grants and contributions not restricted to specific program	4,190,139	5,139,150
Charges for services	217,150	479,052
Interests	1,054,558	665,961
Miscellaneous	154,799	405,379
Total revenues	<u>46,982,181</u>	<u>48,550,015</u>
Expenses		
General government	15,864,864	11,533,536
Public safety	3,487,261	3,281,438
Public works	10,697,590	8,038,584
Culture and recreation	2,979,345	3,660,974
Health, sanitation and welfare	9,156,299	8,859,683
Education	12,791,592	13,190,869
Interest on long-term debts	1,203,582	2,421,402
Total expenses	<u>56,180,533</u>	<u>50,986,486</u>
Changes in net positions	(9,198,352)	(2,436,471)
Net positions – beginning	<u>90,712,052</u>	<u>93,148,523</u>
Net positions – ending	<u>\$ 81,513,700</u>	<u>\$ 90,712,052</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Approximately thirty-six percent (36%) of the Municipality's governmental activities total revenue came from grants and contributions, and nine percent (9%) came from state contributions not restricted for specific purposes. Federal grants represent seventy-six percent (76%) of the Municipality's grants and contributions revenues. Also, approximately fifty-three percent (53) of total revenues come from taxes.

The Municipality's governmental activities expenses included items such as general government, public safety, public works, culture and recreation, health, sanitation and welfare, education and, principal and interests on long term debts. Approximately twenty-eight percent (28%) of total expenses resulted from general government, nineteen percent (19%) from public works, sixteen percent (16%) from health, sanitation and welfare and twenty-three percent (23%) from education.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENT FUND FINANCIAL ANALYSIS

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

Table 3

Balance Sheet

	<u>2013</u>	<u>2012</u>
Assets:		
Total assets – Major Funds	\$ 47,677,800	\$ 66,274,646
Total assets – Other Funds	8,485,942	12,338,102
Combined total assets	\$ 56,163,742	\$ 78,612,748
Liabilities:		
Total liabilities – Major Funds	37,296,133	36,595,550
Total liabilities – Other Funds	4,276,444	6,631,478
Combined total liabilities	41,572,577	43,227,028
Deferred Inflows of Resources:		
Total inflows – Major Funds	361,550	552,507
Total inflows – Other Funds	-	-
Combined total deferred inflows of resources	361,550	552,507
Fund Balances (as restated):		
Restricted, Committed or Assigned – Major Funds	14,061,409	28,901,021
Restricted, Committed or Assigned – Other Funds	4,209,498	5,706,624
Unassigned	(4,041,292)	225,568
Combined total fund balances	14,229,615	34,833,213
Total liabilities and fund balances	\$ 56,163,742	\$ 78,612,748

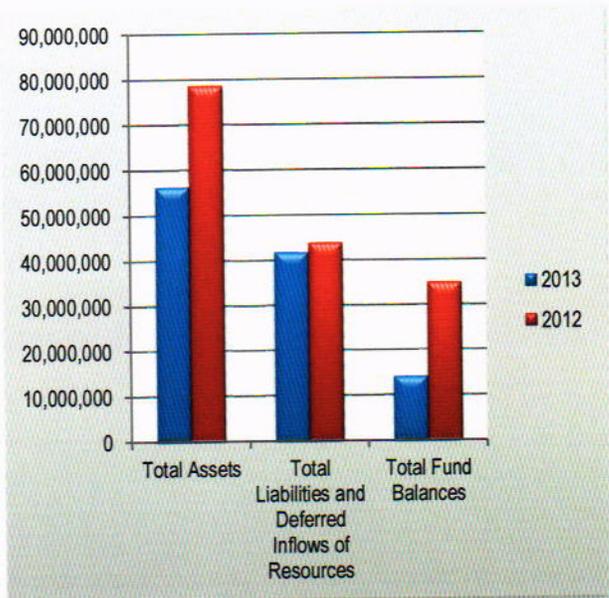
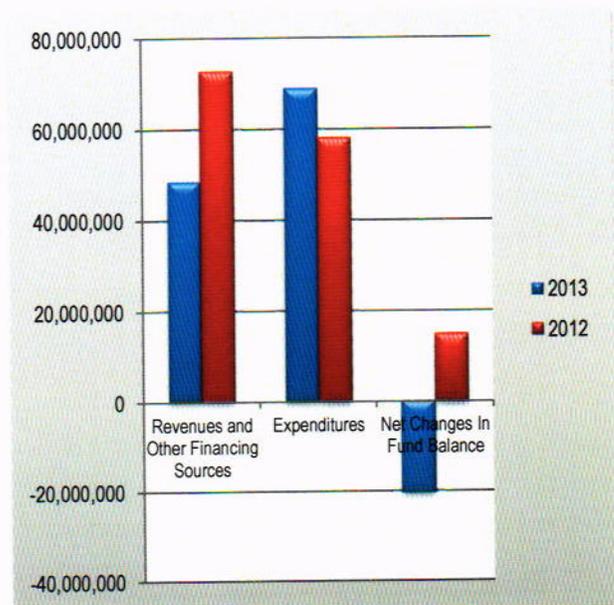


Table 4

Changes in Fund Balances

	<u>2013</u>	<u>2012</u>
Revenues:		
Total revenues – Major Funds	\$ 40,412,669	\$ 41,778,107
Total revenues – Other Funds	7,069,167	6,399,188
Combined total revenues	47,481,836	48,177,295
Expenditures:		
Total expenditures – Major Funds	60,179,498	45,878,224
Total expenditures – Other Funds	8,865,936	12,080,126
Combined total expenditures	69,045,434	57,958,350
Other financing sources:		
Other financing sources – Major Funds	960,000	24,325,000
Other financing sources – Other Funds	-	284,000
Combined other financing sources, net	960,000	24,609,000
Net changes in fund balance	(20,603,598)	14,827,945
Fund Balance – beginning	34,833,213	20,005,268
Fund Balance – ending	\$ 14,229,615	\$ 34,833,213



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2013, the Municipality's governmental funds reported combined ending fund balances of \$14,229,615, a decrease of \$(20,603,598) from the prior year.

The Municipality has a fund balance in its Governmental Funds that is restricted, committed and assigned to pay debt service (\$4,578,362) and for capital projects and other special purposes (\$13,692,545). In its General Fund has an unassigned fund deficit of \$(4,041,292).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds. **Table 5** summarizes the results of the General Fund's Budgetary Comparison Schedule:

Table 5	Final Budget	Actual Amounts	Variance
Total revenues	\$ 35,056,609	\$ 22,972,970	\$(12,083,639)
Total expenditures, encumbrances and other financing uses	<u>35,056,609</u>	<u>28,371,770</u>	<u>6,684,839</u>
Excess or deficiency	<u>\$ -</u>	<u>\$(5,398,800)</u>	<u>\$ (5,398,800)</u>

The original and the final budget of the General Fund for the fiscal year ended June 30, 2013 amounted to \$34,537,165 and \$35,056,609, respectively. Over the course of the fiscal year, the Municipality revised the General Fund's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the General fund for the fiscal year ended June 30, 2013 were \$22,972,970, which is \$(12,083,639) less than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the General Fund for the fiscal year ended June 30, 2013 were \$28,371,770, which is \$6,684,839 less than the budgeted expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

INVESTMENT IN CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to \$124,167,513 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$13,874,575. Additions during the fiscal year were for buildings, motor vehicles, and machinery and equipment. **Table 6** present the major classes of capital assets (net of accumulated depreciation):

Table 6 Capital Assets	Amount
Construction in progress	\$ 31,862,180
Works of art	1,476
Land	41,871,851
Buildings	40,817,592
Infrastructure	8,330,420
Machinery and equipment	639,602
Computers	53,822
Furniture	36,142
Licensed vehicles	<u>554,428</u>
Total Assets	<u>\$ 124,167,513</u>

LONG-TERM DEBT

At June 30, 2013, the Municipality had total of \$60,028,998 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$44,810,105 comprises debt backed by the full faith and credit of the government and \$15,218,893 is other obligations.

Table 7 Long Term Debts	Amount
General obligations bonds and notes	\$ 44,810,105
Others	<u>15,218,893</u>
Total Long Term Debts	<u>\$ 60,028,998</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2013 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

FINAL COMMENTS

During fiscal year 2012-2013 the Municipal Legislature approved Resolution Number 32, authorizing the issuance of General Obligation Notes in the amount of \$960,000. This bond is payable with resources collected through the Municipal Redemption Fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 828-0900.

**Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Net Position
June 30, 2013**

	Governmental Activities
Cash and investments	\$ 22,744,337
Cash with fiscal agent	21,757,800
Receivable:	
Sales taxes	113,969
Property Taxes	445,486
State government	1,411,115
Federal grants	887,955
Other assets	57,681
Capital assets:	
Nondepreciable capital assets	73,734,031
Depreciable capital assets	50,433,482
Total capital assets	<u>124,167,513</u>
 Total assets	 <u>171,585,856</u>
 Liabilities	
Accounts payable and accrued liabilities	2,924,920
Christmas Bonus	482,875
Accrued interests	1,200,500
Due to other governmental units	628,632
Commitment and Contingencies	15,984,516
Unearned revenues	8,821,715
Noncurrent liabilities:	
Due within one year	3,593,149
Due in more than one year	56,435,849
 Total liabilities	 <u>90,072,156</u>
 Net position	
Net investment in capital assets	92,088,276
Restricted for:	
Debt service	4,578,362
Other purposes	5,483,173
Unrestricted (deficit)	<u>(20,636,111)</u>
 Total net position	 <u>\$ 81,513,700</u>

**Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Activities
For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 15,864,864	\$ 217,150	\$ 218,747	\$ -	\$ (15,428,967)
Public safety	3,487,261		519,190		(2,968,071)
Public works	10,697,590			972,604	(9,724,986)
Culture and recreation	2,979,345				(2,979,345)
Health, sanitation and welfare	9,156,299		3,405,985		(5,750,314)
Education	12,791,592		11,896,895		(894,697)
Interest on long-term obligations	1,203,582				(1,203,582)
					-
Total governmental activities	\$ 56,180,533	\$ 217,150	\$ 16,040,817	\$ 972,604	(38,949,962)
General revenues:					
					12,998,860
Property taxes					7,304,313
Volume of business taxes					3,335,800
Sales taxes					713,141
Construction taxes					4,190,139
Grants and contributions not restricted to specific programs					1,054,558
Interests					154,799
Miscellaneous					
Total general revenues					29,751,610
Change in net position					(9,198,352)
Net position - beginning					90,712,052
Net position - ending					\$ 81,513,700

**Commonwealth of Puerto Rico
Municipality of Guayama
Balance Sheet
Governmental Funds
June 30, 2013**

	General Fund	Head Start Fund	Loans Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 19,600,367	\$ 37,458	\$ -	\$ -	\$ 3,106,512	\$ 22,744,337
Cash with fiscal agent			12,730,868	8,557,488	469,444	21,757,800
Receivables:					-	-
Sales taxes	45,060			37,438	31,471	113,969
Property taxes	361,550			83,936	-	445,486
State government					1,278,220	1,278,220
Federal grants		806,696			81,259	887,955
Due from other funds	5,416,939				3,508,355	8,925,294
Other assets					10,681	10,681
Total assets	\$ 25,423,916	\$ 844,154	\$ 12,730,868	\$ 8,678,862	\$ 8,485,942	\$ 56,163,742
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	\$ 889,611	\$ 243,315	\$ 390,012	\$ -	\$ 1,401,982	\$ 2,924,920
Bonds and notes payable				2,900,000	-	2,900,000
Accrued interests				1,200,500	-	1,200,500
Due to governmental units	628,632				-	628,632
Due to other funds	1,883,052	600,839	4,131,484		2,309,919	8,925,294
Commitment and contingencies	15,984,516				-	15,984,516
Unearned revenues	8,444,172				564,543	9,008,715
Total liabilities	27,829,983	844,154	4,521,496	4,100,500	4,276,444	41,572,577
Deferred inflows of resources						
Unavailable revenues:						
Property taxes	361,550				-	361,550
Total deferred inflows of resources	361,550	-	-	-	-	361,550
Fund balances						
Restricted	342,325			4,578,362	1,035,721	5,956,408
Committed	931,350		8,209,372		1,658,661	10,799,383
Assigned					1,515,116	1,515,116
Unassigned	(4,041,292)				-	(4,041,292)
Total fund balances (deficit)	(2,767,617)	-	8,209,372	4,578,362	4,209,498	14,229,615
Total liabilities and fund balances	\$ 25,423,916	\$ 844,154	\$ 12,730,868	\$ 8,678,862	\$ 8,485,942	\$ 56,163,742

Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Head Start Fund	Loans Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 8,905,298	\$ -	\$ -	\$ 4,284,519	\$ -	\$ 13,189,817
Volume of business taxes	7,304,313				-	7,304,313
Sales taxes	2,306,887			602,056	426,857	3,335,800
Construction taxes	713,141				-	713,141
Charges for services	217,149				162,137	379,286
Federal assistances		10,680,435			5,362,565	16,043,000
Intergovernmental	4,190,139				903,594	5,093,733
Rent					-	-
Interests	1,053,131			802	625	1,054,558
Miscellaneous	154,799				213,389	368,188
Total revenues	24,844,857	10,680,435	-	4,887,377	7,069,167	47,481,836
Expenditures						
Current:						
General government	12,454,800		4,567		457,790	12,917,157
Public safety	2,616,242				739,738	3,355,980
Public works	7,135,823				2,703,086	9,838,909
Culture and recreation	1,909,666				101,974	2,011,640
Health, sanitation and welfare	5,148,010				3,944,373	9,092,383
Education		10,680,435	1,968,400		10,266	12,659,101
Debt service:						
Principal				2,939,000	-	2,939,000
Interest and other charges				2,356,689	-	2,356,689
Capital outlays			12,965,866		908,709	13,874,575
Total expenditures	29,264,541	10,680,435	14,938,833	5,295,689	8,865,936	69,045,434
Excess (deficiency) of revenues over (under) expenditures	(4,419,684)	-	(14,938,833)	(408,312)	(1,796,769)	(21,563,598)
Other financing sources (uses)						
Long term debt issuance			960,000		-	960,000
Transfers in	1,306,237			35,387	1,605,880	2,947,504
Transfers out	(1,641,267)				(1,306,237)	(2,947,504)
Total other financing sources (uses)	(335,030)	-	960,000	35,387	299,643	960,000
Net change in fund balances	(4,754,714)	-	(13,978,833)	(372,925)	(1,497,126)	(20,603,598)
Fund balance (deficit), beginning	1,987,097	-	22,188,205	4,951,287	5,706,624	34,833,213
Fund balance (deficit), ending	(2,767,617)	-	8,209,372	4,578,362	4,209,498	14,229,615

D. K. [Signature]
6/10/2014

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITIONS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS..... \$ 14,229,615

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 73,734,031	
Depreciable Capital Assets	74,203,724	
Accumulated Depreciation.....	<u>(23,770,242)</u>	
Total.....		124,167,513

Some of the Municipality's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds.....	361,550
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Other assets (Real Estate Held for Sale) are not a current financial resources and therefore, is not reported in the funds.....	47,000
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Deferred (unavailable) revenues in the governmental funds, related to home sales program income, reduces Real Estate Held for Sale in the Statement of Net Position.....	187,000
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Intergovernmental receivables related to Christmas bonus that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds...	132,895
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Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Accrued employee's Christmas bonus	(482,875)	
Bonds and Notes Payable	(41,910,105)	
Compensated Absences.....	(2,842,081)	
Property Tax Debt – Law 42.....	(114,341)	
Claims and Judgments	(1,812,423)	
Estimated Landfill Closure and Post-Closures Costs	<u>(10,450,048)</u>	
Total.....		<u>(57,611,873)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES..... \$ 81,513,700

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ (20,603,598)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital assets additions 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. In the current period, these amounts are:

Capital Assets Additions	13,874,575	
Depreciation Expense	<u>(2,436,245)</u>	
Total.....		11,438,330

Some of the Municipality's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds:

Prior year deferred property taxes	(552,507)
Prior year deferred home sales program income.....	(280,800)
Current year deferred property taxes.....	361,550

Accounts receivable recorded in the statement of activities do not provide current financial resources:

Prior year state government receivable (Christmas bonus)	(160,793)
Current year state government receivable (Christmas bonus).....	132,895

Accounts payable reported in the Governmental-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, are not reported as expenditures in Government Funds:

Prior year accrued employees' Christmas bonus.....	458,951
Current year accrued employees' Christmas bonus	(482,875)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. This is the amount by which the debt proceeds exceed debt service principal payments:

Bonds and Notes Payable	1,979,000	
Property Tax Debt – Law 42.....	2,963	
Estimated Landfill Closure and Post-Closures Costs	(709,278)	
Compensated Absences.....	(122,874)	
Claims and Judgments	<u>(1,812,423)</u>	
Total.....		(662,612)

Certain interest reported in the Government-wide financial statements do not require the use of current financial resources, therefore are not reported as expenditures in the governmental Funds. The following amount represents the change in interest payable.

1,153,107

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (9,198,352)

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Guayama (the Municipality) is a local municipal government in the Commonwealth of Puerto Rico (the Commonwealth) founded in 1736. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

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

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

A. FINANCIAL REPORTING MODEL

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2013, in conformity with *Accounting Principles Generally Accepted in the United States of America* (GAAP), as prescribed by the *Governmental Accounting Standards Board* (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2013 in conformity with GAAP.

According to the financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

The Budgetary Comparison Schedule - General Fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the General Fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

C. FINANCIAL STATEMENT PRESENTATION

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-Wide Financial Statements (GWFS)

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net Position are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2013, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, volume of business taxes, sales taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) public safety, (3) public works, (4) culture and recreation, (5) health, sanitation and welfare, (6) education, (7) principal and interests on long term debts and, (8) capital outlays. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of Legal Affairs
- Department of internal audit
- Department of budget and management
- Department of public relations

Public safety:

- Department of emergency management
- Department of municipal police

Public works:

- Department of public works
- Department of transportation
- Department of land use
- Federal program office

Culture and recreation:

- Department of recreation and sports
- Department of tourism and culture

Health, sanitation and welfare:

- Department of health
- Department of sanitation
- Department of elderly affairs
- Department of citizen affairs
- Section 8 program office

Education:

- Head start department

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

Program revenues – These revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

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

Special items – These items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net positions for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

As defined in the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), fund types are as follows:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The model as defined in GASBS No. 34 established criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This fund is used to account for the receipts and disbursements of the head start program grant administered by the Administration for the Integral Care and Development of Children of the Commonwealth of Puerto Rico, as a pass-through entity of the U.S. Department of Health and Human Services.

Loans Fund – This is the fund used to account for all financial resources and transactions related to the loans for construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.

Debt Service Fund – This is the fund used to account for the accumulation of resources, from the property and sales taxes, for and the payment of general long-term debt principal, interest and related cost.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes.

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

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

In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues or differed inflow of resources at June 30, 2013.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2013, has been reported only in the government-wide financial statements.

Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund balances, but are not recorded in the accompanying governmental fund financial statements.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as assets by the provider and a liability by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FUND BALANCES

According to the provisions of GASB No. 54, the fund balances are reported in five categories:

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2013.

When an expenditure is incurred for purposes 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.

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted, committed and assigned.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETARY DATA (CONTINUED)

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not legally required to prepare a budget. Also, the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

G. CASH, CASH EQUIVALENT AND INVESTMENT

The Finance Director of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undistributed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. RECEIVABLES

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

I. DEFERRED OUTFLOW / INFLOW OF RESOURCES

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013, the governmental funds presents deferred inflows of resources.

J. INVENTORIES

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

K. CAPITAL ASSETS

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Capital Assets	Years
Buildings and site improvements	40
Infrastructure	40
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. CAPITAL ASSETS (CONTINUED)

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

L. LONG-TERM OBLIGATIONS

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

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

M. COMPENSATED ABSENCES

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2013.

<u>BALANCE</u> <u>JUNE 30, 2012</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2013</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 2,719,207	\$ 122,874	\$ -	\$ 2,842,081	\$ 650,000	\$ 2,192,081

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from monthly advances of annual property tax and subsidy sent to the Municipality.

O. INTERFUND TRANSACTIONS

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of reciprocal and nonreciprocal interfund activities:

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

P. CLAIMS AND JUDGMENTS

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

Q. USE OF ESTIMATES

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the basic financial statements and the reported revenue and expenses during the reporting period. Actual result could differ from those estimates.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. ACCOUNTING FOR PENSION COSTS

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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

S. RISK FINANCING

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2012-2013 amounted, approximately, \$384,132. In addition, cost of the workers compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2013 amounted, approximately, \$782,033.

T. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following accounting standards that have effective dates after June 30, 2013:

- ❖ GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.
- ❖ GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.
- ❖ GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is effective for periods beginning after June 15, 2014.
- ❖ GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- ❖ GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for periods beginning after June 15, 2013.
- ❖ GASB Statement No. 71 *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68*. This statement is effective for periods beginning after June 15, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

U. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2013:

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Municipality has implemented this Statement in fiscal year 2012-2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Municipality has implemented this Statement in fiscal year 2012-2013.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2013, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2013.

The Municipality's bank balances in commercial banks of \$19,600,367 in the General Fund and \$37,458 in Head Start Fund were fully collateralized at June 30, 2013. In the Other Governmental Funds, there were deposits with commercial banks of \$3,106,512 that were fully collateralized.

The deposits at GDB of \$12,730,868 in the Loans Fund, \$8,557,488 in the Debt Service Fund and the \$469,444 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. SALES TAXES RECEIVABLES

As described below in Note 16, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$45,060 in the General fund and \$31,471 in Other Governmental Funds represents the amount due by the taxpayers at June 30, 2013.

Also, sales taxes receivable of \$37,438 in the Debt Service Fund represents the amount due at June 30, 2013 for the Municipal Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 – RECEIVABLES (CONTINUED)

B. PROPERTY TAXES RECEIVABLES

Property taxes receivable of \$361,550 in the general fund represents excess of revenues over advances received from the CRIM during fiscal year 2012-2013, according final settlement statement. Property taxes receivable of \$83,936 in the Debt Service Fund represents advances from fiscal year 2012-2013, not collected by the Municipality at June 30, 2013.

C. STATE GOVERNMENT RECEIVABLES

Receivable in the Other Governmental Funds represents expenditures incurred, not yet reimbursed by the state agencies at June 30, 2013. Following is a detail of the state government receivable:

<u>Description</u>	<u>Amount</u>
Commonwealth of Puerto Rico-Department of Labor and Human Resources – Law 52	\$ 157,857
Authority for the Infrastructure Financing (AFI)	364,651
Department of Justice	696,102
Others	<u>59,610</u>
Total	<u>\$ 1,278,220</u>

D. FEDERAL GRANTS RECEIVABLE

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

<u>Description</u>	<u>Amount</u>
Head Start	\$ 806,696
Child and Adult Care Food Program	63,076
Others	<u>18,183</u>
Total	<u>\$ 887,955</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 – DUE FROM / TO OTHER FUNDS

Interfund receivables and payables at June 30, 2013 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Head Start	Payroll and related accruals paid and not reimbursed	\$ 600,839
General Fund	Loans Fund	Reimbursable expenditures	2,940,604
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and others reimbursable expenditures	1,875,496
Other Governmental Funds	General Fund	Reimbursable expenditures and to cover special funds deficit	1,883,052
Other Governmental Funds	Loans Fund	Reimbursable expenditures	1,190,880
Other Governmental Funds	Other Governmental Funds	Reimbursable expenditures	<u>434,423</u>
Total			<u>\$ 8,925,294</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS

CAPITAL ASSETS

Capital assets, those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans.

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying statement of net positions do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2013. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

A summary of capital assets and changes occurring during fiscal year 2012-2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance June 30, 2012	Additions	Retirements / Reclassifications	Balance June 30, 2013
Capital asset, not being depreciated:				
Land	\$ 41,871,851	\$ -	\$ -	\$ 41,871,851
Construction in progress	<u>17,987,605</u>	<u>13,874,575</u>	<u>-</u>	<u>31,862,180</u>
Total capital assets not being depreciated	<u>59,859,456</u>	<u>13,874,575</u>	<u>-</u>	<u>73,734,031</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	50,406,646	-	-	50,406,646
Infrastructure and infrastructure improvements	17,448,981	-	-	17,448,981
Equipment	2,441,577	-	-	2,441,577
Computers	448,207	-	-	448,207
Works of art	7,400	-	-	7,400
Furniture	963,041	-	-	963,041
Licensed vehicles	<u>2,487,872</u>	<u>-</u>	<u>-</u>	<u>2,487,872</u>
Total capital assets being depreciated	<u>74,203,724</u>	<u>-</u>	<u>-</u>	<u>74,203,724</u>
Less accumulated depreciation for:				
Buildings, structures and improvements	(8,274,807)	(1,314,247)	-	(9,589,054)
Infrastructure and infrastructure improvements	(8,573,397)	(545,164)	-	(9,118,561)
Equipment	(1,521,681)	(280,294)	-	(1,801,975)
Computers	(344,404)	(49,981)	-	(394,385)
Works of art	(5,184)	(740)	-	(5,924)
Furniture	(909,027)	(17,872)	-	(926,899)
Licensed vehicles	<u>(1,705,497)</u>	<u>(227,947)</u>	<u>-</u>	<u>(1,933,444)</u>
Total accumulated depreciation	<u>(21,333,997)</u>	<u>(2,436,245)</u>	<u>-</u>	<u>(23,770,242)</u>
Total capital assets being depreciated, net	<u>52,869,727</u>	<u>(2,436,245)</u>	<u>-</u>	<u>50,433,482</u>
Governmental activities capital assets, net	<u>\$ 112,729,183</u>	<u>\$ 11,438,330</u>	<u>\$ -</u>	<u>\$ 124,167,513</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 – CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE

CAPITAL ASSETS (CONTINUED)

Depreciation expenses were charged to governmental functions/programs as follows:

<u>Governmental activities</u>	<u>Amount</u>
General government	\$ 282,171
Public safety	131,281
Public works	858,681
Culture and recreation	967,705
Health, sanitation and welfare	63,916
Education	<u>132,491</u>
Total depreciation expenses	<u>\$ 2,436,245</u>

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities by major fund:

<u>Major Governmental Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General Fund	\$ 582,575	\$ 307,036	\$ 889,611
Head Start	243,315	-	243,315
Loans Fund	390,012	-	390,012
Other Governmental Funds	<u>1,401,982</u>	-	<u>1,401,982</u>
Total	<u>\$ 2,617,884</u>	<u>\$ 307,036</u>	<u>\$ 2,924,920</u>

NOTE 7 – BONDS AND NOTES PAYABLE

As described below in Note 11, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2013, the government-wide and fund financial statements presented the following accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

<u>Description</u>	<u>Amount</u>
Principal	\$ 2,900,000
Interests	<u>1,200,500</u>
Total	<u>\$ 4,100,500</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2013, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 197,475
State Retirement System Administration	151,569
Internal Revenue Service	103,055
Treasury Department	5,361
Commonwealth of Puerto Rico – Employees Association	46,761
General Service Administration	108,516
State Department of Labor	<u>15,895</u>
Total	<u>\$ 628,632</u>

NOTE 9 – UNEARNED REVENUES

Volume of business tax – unearned revenues of \$8,444,172 in the General Fund are related to volume of business taxes collected in fiscal year 2012-2013, that will be earned in fiscal year 2013-14.

Federal grants – unearned revenues presented in the other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the federal government are as follows:

Program Description	Amount
Water and Waste Disposal System for Rural Communities	\$ 338,690
Community Development Block Grant – Entitlement Grants	121,799
Others	<u>104,054</u>
Total	<u>\$ 564,543</u>

NOTE 10 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the General Fund amounting to \$361,550, were unavailable revenues related to property taxes that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2013, was as follows:

Description	Beginning Balance (as restated)	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 46,314,105	\$ 960,000	\$ (2,464,000)	\$ 44,810,105	\$ 2,940,000
Compensated absences	2,719,207	122,874		2,842,081	650,000
Property Tax Debt – Law 42	117,304	-	(2,963)	114,341	3,149
Claims and Judgments	-	1,812,423	-	1,812,423	-
Estimated landfill closure and post-closure care cost	9,740,770	709,278	-	10,450,048	-
Total	\$ 58,891,386	\$ 3,604,575	\$ (2,466,963)	\$ 60,028,998	\$ 3,593,149

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2013, are comprised of the following individual issues:

1. BONDS AND NOTES PAYABLE

DESCRIPTION	AMOUNT
1995 serial bonds, original amount of \$27,000, due in annual principal installments ranging from \$1,000 to \$2,000; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	\$ 11,000
1995 serial bonds, original amount of \$550,000, due in annual principal installments ranging from \$27,000 to \$55,105; plus interest due in annual installments at a rate of 4.50% through January 1, 2020	263,105
1998 serial bonds, original amount of \$825,000, due in annual principal installments ranging from \$80,000 to \$90,000; plus interest due in annual installments at a rate of 4.50% through January 1, 2012	
1996 serial bonds, original amount of \$5,105,000, due in annual principal installments ranging from \$210,000 to \$450,000; plus interest due in semiannual installments at rates not to exceed 6.63% through July 1, 2020	2,785,000
1999 serial bonds, original amount of \$4,590,000, due in annual principal installments ranging from \$140,000 to \$385,000; plus interest due in semiannual installments rates not to exceed 5.60% through July 1, 2024	3,185,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

1. BONDS AND NOTES PAYABLE (CONTINUED)

DESCRIPTION	AMOUNT
1999 serial bonds, original amount of \$3,840,000, due in annual principal installments ranging from \$220,000 to \$370,000; plus interest due in semiannual installments rates not to exceed 5.01% through July 1, 2017	1,600,000
2003 serial bonds, original amount of \$705,000, due in annual principal installments ranging from \$20,000 to \$60,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2027	545,000
2003 serial bonds, original amount of \$2,450,000, due in annual principal installments ranging from \$65,000 to \$190,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2027	1,890,000
2004 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$70,000 to \$150,000; plus interest due in semiannual installments rates not to exceed 5.25% through July 1, 2023	1,250,000
2005 serial bonds, original amount of \$1,810,000, due in annual principal installments ranging from \$105,000 to \$170,000; plus interest due in semiannual installments rates not to exceed 4.73% through July 1, 2019	1,015,000
2005 serial bonds, original amount of \$4,745,000, due in annual principal installments ranging from \$125,000 to \$325,000; plus interest due in semiannual installments rates not to exceed 5.02% through July 1, 2029	3,795,000
2011 serial bonds, original amount of \$2,665,000, due in annual principal installments ranging from \$90,000 to \$275,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2027	2,575,000
2011 serial bonds, original amount of \$12,035,000, due in annual principal installments ranging from \$375,000 to \$1,185,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2028	11,660,000
2000 serial bonds, original amount of \$43,000, due in annual principal installments ranging from \$1,000 to \$4,000; plus interest due in semiannual installments rates not to exceed 4.50% through January 1, 2036	41,000
2011 serial bonds, original amount of \$7,610,000, due in annual principal installments ranging from \$290,000 to \$800,000; plus interest due in semiannual installments rates of 7.50% through July 1, 2027	7,610,000

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

1. BONDS AND NOTES PAYABLE (CONTINUED)

DESCRIPTION	AMOUNT
2004 serial bonds, original amount of \$284,000, due in annual principal installments ranging from \$7,000 to \$19,000; plus interest due in semiannual installments rates not to exceed 4.25% through January 1, 2036	270,000
2009 general obligation note, original amount of \$400,000, due in annual principal installments ranging from \$45,000 to \$70,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2016	250,000
2010 general obligation note, original amount of \$355,000, due in annual principal installments ranging from \$40,000 to \$60,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2016	225,000
2011 general obligation note, original amount of \$585,000, due in annual principal installments ranging from \$65,000 to \$105,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2017	450,000
2012 general obligation note, original amount of \$2,015,000, due in annual principal installments ranging from \$345,000 to \$465,000; plus interest due in semiannual installments rates not to exceed 7.50% through July 1, 2016	1,670,000
1997 serial bonds, original amount of \$400,000, due in annual principal installments ranging from \$25,000 to \$40,000; plus interest due in semiannual installments rates not to exceed 5.00% through July 1, 2016	130,000
2000 special obligation note, original amount of \$3,475,000, due in annual principal installments ranging from \$205,000 to \$420,000; plus interest due in semiannual installments at rates not to exceed 7.50% through July 1, 2020	2,630,000
2013 special obligation note, original amount of \$960,000, due in annual principal installments ranging from \$110,000 to \$175,000; plus interest due in semiannual installments at rates not to exceed 7.50% through July 1, 2019	<u>960,000</u>
Total General Obligations – Bonds	<u>\$ 44,810,105</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

1. BONDS AND NOTES PAYABLE (CONTINUED)

These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes;
- ❖ Municipal sales taxes resources restricted for debt service, and;
- ❖ Operational resources.

The annual requirements to amortize the general obligations bonds and notes outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2014	\$ 2,940,000	\$ 2,151,878	\$ 5,091,878
2015	3,156,000	2,688,111	5,844,111
2016	3,379,000	2,471,311	5,850,311
2017	3,626,000	2,243,245	5,869,245
2018	3,208,000	1,964,055	5,172,055
2019-2023	13,712,105	7,207,336	20,919,441
2024-2028	12,824,000	2,883,077	15,707,077
2029-2033	1,903,000	100,946	2,003,946
2034-2038	62,000	5,493	67,493
Total	\$ 44,810,105	\$ 21,715,452	\$ 66,525,557

B. COMPENSATED ABSENCES

The government-wide statement of net positions includes \$2,842,081 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

C. PROPERTY TAX DEBT – LAW 42

On January 26, 2000, Act No. 42 was enacted to authorize the CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with the CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$114,341.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 – GENERAL LONG-TERM DEBTS (CONTINUED)

F. CLAIMS AND JUDGMENTS

Liabilities of \$1,812,423 reported in the statement of net positions represent the balance owed for claims and judgments at June 30, 2013, as described in Note 20.

NOTE 12 – LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net positions date. The \$10,450,048 reported as landfill closure and post closure care liability at June 30, 2013, represents an estimate of the cumulative amount reported to date based on the percentage used (47%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of \$11,682,752, as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2013. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty five (25) years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13 – DEBT RETIREMENT

Revenues of the debt service fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 14 – PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 14 – PROPERTY TAXES (CONTINUED)

The tax rate per annum is 10.08% for real property and 8.08% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 9.05% and 7.05%, respectively, belongs to the Municipality. From the portion belonging to the Municipality, 5.80% and 3.80%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund.

The remaining portion belonging to the Municipality of 3.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 8). The Municipality has not reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 assessed valuation on residential units occupied by their owners. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with an annual net sales volume of less than \$150,000. The Municipal Revenue Collection Center advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from Municipal Revenue Collection Center.

Due to the fact that collections of property tax are applied to the advances of property tax paid by the Municipal Revenue Collection Center, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

NOTE 15 – VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- ❖ 1.50% for financial institutions and savings and loan associations.
- ❖ 0.30% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 – SALES AND USE TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipality government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed overall sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Resources are recorded in the General Fund.

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

NOTE 17 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 18 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Debt Service Fund	Debt retirement	\$ 35,387
General Fund	Other Governmental Fund	To cover special funds expenditures	1,605,880
Other Governmental Fund	General Fund	To cover operating and other special funds expenditures	<u>1,306,237</u>
Total			<u>\$ 2,947,504</u>

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan).

Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE’S RETIREMENT PLAN (CONTINUED)

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- The present value of the future pension payments was computed by using a discount of 9%.
- Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT’S AGE</u>	<u>PENSION BENEFITS</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee’s service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee’s service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee’s service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 19 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The total pension expenditures recorded in the category of administration for the fiscal year ended on June 30, 2011, 2012 and 2013 were, approximately, \$658,000, \$734,000 and \$696,500, respectively. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2013. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

NOTE 20 – COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. With respect to pending litigation, the Municipality has reported liabilities of \$1,812,423 in the government wide statement of net positions.

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

The GWFS and FFS presented \$15,984,516 as commitments and contingencies, related to municipal license taxes deficiency payment received from a taxpayer during fiscal year 2010-2011, result of a claim settled in court. This taxpayer appealed the court determination, and the Municipality is waiting for the final resolution.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

C. CONSTRUCTION

The Municipality had commitments at June 30, 2013 of approximately \$730,000 for the construction, improvements, or renovation of several capital facilities and the capital assets.

D. OTHER COMMITMENTS

At June 30, 2013 the general fund had commitments of approximately \$685,000 for executory purchase orders or contracts that will be honored during the subsequent year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 21 – FUND BALANCE

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Head Start Fund	Loans Fund	Debt Service Fund	Other Governmental Fund	Total
Restricted for:						
General government	\$ 342,325	\$ -	\$ -	\$ -	\$ 76,360	\$ 418,685
Public safety	-	-	-	-	20	20
Public works	-	-	-	-	744,797	744,797
Culture and recreation	-	-	-	-	12,978	12,978
Health, sanitation and welfare	-	-	-	-	201,566	201,566
Debt service	-	-	-	4,578,362	-	4,578,362
Committed for:						
General government	-	-	-	-	503,858	503,858
Public works	931,350	-	-	-	446,047	1,377,397
Culture and recreation	-	-	-	-	272,253	272,253
Health, sanitation and welfare	-	-	1,207	-	-	1,207
Education	-	-	5,433	-	-	5,433
Capital outlays	-	-	8,202,732	-	436,503	8,639,235
Assigned for:						
General government	-	-	-	-	437,972	437,972
Public safety	-	-	-	-	98,099	98,099
Public works	-	-	-	-	887,008	887,008
Culture and recreation	-	-	-	-	86,138	86,138
Health, sanitation and welfare	-	-	-	-	5,899	5,899
Unassigned	<u>(4,041,292)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,041,292)</u>
Total Fund Balance	<u>\$ (2,767,617)</u>	<u>\$ -</u>	<u>\$ 8,209,372</u>	<u>\$ 4,578,362</u>	<u>\$ 4,209,498</u>	<u>\$ 14,229,615</u>

NOTE 22 – SUBSEQUENT EVENTS

On January September 13, 2014, the Legislature of the Municipality of Guayama issued Ordinance No. 13, which authorized the establishment of a municipal enterprise to undertake various commercial activities, as expressly assigned by Law No. 81 of August 30, 1991, as amended, known as Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81).

The Municipality's executive branch approved Ordinance No. 34, Series 2013-2014, authorizing the issuance of a General Obligation Note in the amount of \$530,000, for construction purposes. This note is payable with resources collected through the Special Additional Contribution Fund, and were disbursed by the Governmental Development Bank (GDB) during August 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On April 4, 2013, the Governor of the Commonwealth of Puerto Rico signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The ERS financial situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from \$400 to \$500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Administration Fund Act), to set up a special fund called the Municipal Administration Fund, which authorize municipalities to pledge the funds deposited on the Municipal Administration Fund to secure the repayment of any loan, bond, promissory note or other evidence of debt, whose source of repayment are the funds deposited into the Special Fund and to meet any budgeted expenditure of the municipalities and any activity or project of the municipalities; authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in the approved Law; amend paragraph (b) of section 4020.01; amended paragraph (b) of section 4020.02, and amend paragraph (a) and repealing paragraph (e) of section 6080.14 of the law No. 1 - 2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico", for the purposes of restructuring the sales and use tax so that tax rate is six (6) percent statewide and one (1) percent at municipal level; to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 22 – SUBSEQUENT EVENTS (CONTINUED)

On January 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 18 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with legal faculty to issue and/or use other mechanisms to pay or refinance the debt contracted by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico"; in order to establish mechanisms for advances of the tax to the municipalities; and for other related purposes.

On October 30, 2013 the Municipality's executive branch approved Ordinance Number 23, authorizing the issuance of a Special Obligation Bond in the amount of \$3,475,000, for construction, improvements, and other purposes. This bond is payable with resources collected through the Municipal Redemption Fund.

Management has evaluated subsequent events through March 24, 2014, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note A)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 8,165,384	\$ 8,165,384	\$ 8,905,298	\$ 739,914
Volume of business taxes	20,816,016	20,816,016	7,304,313	(13,511,703)
Charge for services	350,500	350,500	217,149	(133,351)
Intergovernmental	4,065,265	4,065,265	4,190,265	124,874
Licenses and permits	600,000	600,000	713,141	113,141
Interests	400,000	400,000	1,053,131	653,131
Miscellaneous	140,000	140,000	154,799	14799
Transfer in	-	435,000	435,000	-
Prior year allocation	-	84,444	-	84,444
Total revenues	<u>34,537,165</u>	<u>35,056,609</u>	<u>22,972,970</u>	<u>(12,083,639)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	17,320,594	16,732,000	11,971,525	4,760,475
Public safety	3,023,777	3,002,481	2,616,714	385,767
Public works	8,832,843	8,915,241	6,731,576	2,183,665
Culture and recreation	2,136,372	2,337,807	1,864,784	473,023
Health, sanitation and welfare	3,187,079	3,130,475	5,151,784	(2,021,309)
Transfers out	36,500	938,605	35,387	903,218
Total expenditures, encumbrances and other financing uses	<u>34,537,165</u>	<u>35,056,609</u>	<u>28,371,770</u>	<u>6,684,839</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,398,800)</u>	<u>\$ (5,398,800)</u>

EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES

Sources/inflows of resources:	
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	\$ 22,972,970
Differences-budget to GAAP	
Resources considered revenues for financial reporting, but not for budgetary purposes	2,306,887
Operation transfer-in from other funds	(435,000)
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances – governmental fund	<u>\$ 24,844,857</u>
Uses/outflows of resources:	
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	\$ 28,371,770
Differences-budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	1,613,839
Current-year encumbrances recorded as current expenditures for budgetary basis	(685,681)
Operation transfer-out to other funds	(35,387)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 29,264,541</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE A – 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 Fund.

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 be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2013.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Water and Waste Disposal System for Rural Communities	10.760		\$ 620,210
Pass-Through – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	<u>1,216,460</u>
Total U.S. Department of Agriculture			<u>1,836,670</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant – Entitlement Grants	14.218		839,293
Section 8 Housing Choice Vouchers Program	14.871		1,036,200
Total U.S. Department of Housing and Urban Development			<u>1,875,493</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-Through – State Governor Office			
Homeland Security Program (NIMS)	97.067	N/AV	<u>66,178</u>
Total U.S. Department of Homeland Security:			<u>66,178</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through – State Administration for Children and Families:			
Head Start Program	93.600	241-2011-000343	<u>10,680,435</u>
Total U.S. Department of Health and Human Service:			<u>10,680,435</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,458,776</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of **Guayama**, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms, records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

I have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of **Guayama**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 31, 2014. The report on the governmental fund financial statements was qualified for the interfund balances and I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Municipality's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 13-II-02 and 13-II-03.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 13-II-01.

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

Compliance and Other Matters

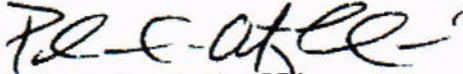
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-II-01, 13-II-02 and 13-II-03.

Municipality's Response to Findings

Municipality's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 31, 2014



PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Guayama**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Municipality's compliance.

Basis for Qualified Opinion on Community Development Block Grants- Entitlement

As described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding CFDA 14.218 Community Development Block Grants- Entitlement as described in finding 13-III-08, 13-III-10 and 13-III-11 for Cash Management, Program Income and Reporting. Compliance with such requirements is necessary in my opinion, for the Municipality, to comply with the requirements applicable to that program.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

Qualified Opinion on Community Development Block Grants- Entitlement

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants- Entitlement for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In my opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 13-III-04, 13-III-05, 13-III-06, 13-III-07, 13-III-09, 13-III-13, 13-III-13 and 13-III-14. My opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and significant deficiencies

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 13-III-08, 13-III-10 and 13-III-11 to be material weaknesses.

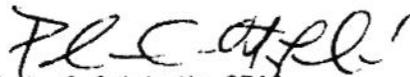
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

Report on Internal Control over Compliance (Continued)

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 13-III-04, 13-III-05, 13-III-06, 13-III-07, 13-III-09, 13-III-13, 13-III-13 and 13-III-14 to be significant deficiencies.

Municipality's response to the internal control over compliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing base on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
March 31, 2014



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Disclaimer of opinion for governmental activities	
	Qualified opinion for fund financial statements	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes <input checked="" type="checkbox"/>	No

Federal Awards

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified?	Yes <input checked="" type="checkbox"/>	None reported
Type of auditor’s report issued on compliance for major programs:	Qualified opinion on Community Development Block Grant- Entitlement	
	Unmodified opinion on Child and Adult Care Food Program/ Water and Waste Disposal System for Rural Communities/ Section 8 Housing Choice Voucher Program/ Head Start Program	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
10.760	Water and Waste Disposal System for Rural Communities
14.218	Community Development Block Grant- Entitlement
14.871	Section 8 Housing Choice Voucher Program
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	\$433,763
Auditee qualified as low-risk auditee?	Yes No <input checked="" type="checkbox"/>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-01
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During my examination of the accounting cycle, I noted that the Municipality's accounting records are maintained in a cash and budgetary basis and at the end of year, personnel of the finance department and external consultants summarized in electronic worksheets the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, I noted the following conditions during our evaluation of the accounting cycle:</p> <ol style="list-style-type: none">a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self balancing set of accounts for each fund operated by the Municipality.b. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.c. The bank reconciliations of various accounts were not prepared in a timely manner.
CRITERIA	Chapter VIII, Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that uniform accounting system used by the Municipality must produce reliable reports and financial statements provide complete information about the results of the Municipality's operations and include the necessary internal controls to account for all funds, capital assets and other assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-01 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CAUSE	The Municipality has not established effective internal control procedures over the preparation of the financial statements. Also, management is not following the internal control established over the transactions recorded on its accounting records and the preparation of the bank reconciliation.
EFFECT	The Municipality is not in compliance with Chapter VIII, Articles 8.010 (b) and (c) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with GAAP. Also, the Municipality should consider, providing additional training to the accounting staff, related to the bookkeeping task and the preparation of bank reconciliation.
MANAGEMENT RESPONSE	Municipality's management is evaluating alternatives to acquire accounting software the can provide accurate accounting data.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	13-II-02
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the infrastructure assets reported in the property records. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34).
CRITERIA	Chapter VIII, Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records. Also, GASB 34 require that all capital assets must be presented in the statement of net position and must be depreciated during its useful life.
CAUSE	The Municipality did not maintain a complete and accurate subsidiary ledger for financial reporting purposes, which supports the amounts reported in the Statement of Net Position.
EFFECT	The Municipality is not in compliance with Chapter VIII, Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to make an inventory of the capital assets and reconcile it with the capital assets subsidiary ledger.
MANAGEMENT RESPONSE	The Department of Finance will assign staff to make an inventory of capital assets in order to adjust the capital assets subsidiary.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	13-II-03
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	The Municipality does not maintain an accurate record over the special revenue funds transactions and the interfund transactions of Municipalities' funds.
CONTEXT	<p>During my examination of the accounting records, I noted that the Municipality does not maintain complete and adequate subsidiary records to accurately account for the interfund transactions, presented in the Balance Sheet, for the fiscal year 2012-2013. This situation caused that the General Fund and various special revenue funds were used as loans, to paid operational costs of other funds.</p> <p>In addition, during my examination of the accounting records, I noted that the Municipality did not have adequate internal control over the cash transactions of a bank account were the Municipality pooled the cash balances of various non federal special revenue funds. I found that several funds maintain in this account maintain overdrafts.</p>
CRITERIA	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991, states that the restricted funds received by the Municipality should be only used for the purposes established by these resources. In addition, Article 8.010 (C) (2) and (3) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, stated that Municipality should maintain accurate accounting records and funds controls.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the interfund transactions and the due from and due to account balances.
RECOMMENDATION	I recommend management to implement procedures in order to obtain and maintain accurate subsidiary records that supports the interfund transactions.
EFFECT	The Municipality is not in compliance with Chapter VIII, Article 8.004 (c) and Article 8.010 (c) (2) (3) of the State Act No. 81.
MANAGEMENT RESPONSE	As part of our corrective action plan, we are identifying the origin of all the interfund transactions that are not properly documented and will proceed to realize the necessary adjusting entries.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-04
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO-ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Programs did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds.
CONTEXT	During my cash management test, I noted that the Head Start Program maintained an average cash balance of approximately \$390,408 in books. In addition, the Programs did not disburse in a timely manner the request of funds advanced by the pass-through entity.
CRITERIA	Code of Federal Regulation 45, Subpart C, Section 92.21 (b) states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.
CAUSE	The Programs did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.
EFFECT	The Program is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.21 (b).
RECOMMENDATION	I recommended management to continue strengthening its disbursement procedures to minimize the time between the transfer of funds by the pass through entity and the disbursements made by the Programs.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will continue strengthening the controls in order to reduce the time between the receipt of funds and the disbursements made.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-05
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO-ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	MATCHING, LEVEL OF EFFORT, EARMARKING
CONDITION	The Municipality did not maintain accurate accounting records and proper documentation over the in-kind contributions. Also, the Head Start Program did not maintain adequate procedures to account the 15% administrative earmark.
CONTEXT	<p>During my matching test, I examined two (2) months (February 2013 and April 2013) of the in-kind contributions of the Head Start Program and noted the following conditions:</p> <ul style="list-style-type: none">• For fiscal year 2012-2013, the Program did maintain adequate internal control over the accounting records to present accurate balances of the in-kind contributions. Formal accounting records were the in-kind contributions are recorded was not available for review, instead, the Program used electronic worksheets to summarize the in-kind contribution as an alternate control. Nevertheless, the information on such worksheets did not agree with the monthly reports submitted to the pass-through entity.• During my examination, I noted that the Program reports monthly in-kind rent contribution during February and April 2013, which were based on property appraisals that were not updated.• During February 2013, the valuation of volunteers work was not prepared according to Program's wage rates table. I found instances where the valorization of maintenance work was being determined using the assistant teacher rates. <p>Also, the Municipality did not maintain adequate internal controls over accounting records to adequately separate the administrative and programmatic costs of the Program.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-05 (CONTINUED)
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO-ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	MATCHING, LEVEL OF EFFORT, EARMARKING
CRITERIA	45 CFR Subpart C, Section 92.24 (b) (6) states that costs and third party in kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost- type contractors. Also, 45 CFR, Section 92.20 (b) (2) states that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
CAUSE	The Municipality did not maintain an adequate control over the in-kind contributions accounting records and supporting documentation.
EFFECT	The Municipality is not in compliance with 45 CFR, Subpart C, Sections 92.24 (b) (6), 92.20 (b) (2).
RECOMMENDATION	I recommend management to strengthen the internal controls and procedures to assure that adequate supporting documentation of the in-kind contributions made to the Head Start Program is maintained and properly recorded in the accounting records. Also, the Program should be aware that the in-kind reported to the pass-through entity agree and are supported with adequate accounting records.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Municipality's management will give instructions to the accounting staff to ensure that the in kind is processed and recorded in a timely manner in the accounting records and assure that the amounts reported in the monthly reports agree with the accounting records. In addition, we will improve our accounting records to appropriately separate the administrative and programmatic costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-06
FEDERAL PROGRAM	HEAD START (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; PASS THROUGH COMMONWEALTH OF PUERTO RICO-ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Municipality did not maintain adequate internal controls of the accounting transactions of the Head Start Program.
CONTEXT	During my reporting test, I noted that the Program did not summarize the information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger or other accounting system. Also, I noted that the accounting software provided by the pass-through entity did not included all the financial transactions of the program year 2012-2013.
CRITERIA	Code of Federal Regulation 45, 92.20 (b) (1) states that the grantees and subgrantees financial management system must assure accurate, current, and complete disclosure of the financial results of the financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant. In addition, Section 92.20 (b) (2) states that the grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
CAUSE	The Program is not following the accounting guidance provided by the pass-through entity.
EFFECT	The program did not maintain its financial management system updated to assure compliance with the financial reports requirements of the pass through entity and Federal regulation.
RECOMMENDATION	Management should enforce the use of the accounting software provided by the pass-through entity. Also, management should provide the accounting staff continuous training in accounting matters.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will give instructions to the accounting personnel to continue using the accounting system provided by the pass-through entity.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-07
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST
CONDITION	During the fiscal year 2012-2013, the Program disbursed funds without the appropriate supporting documentation established by the Federal regulation.
CONTEXT	As part of my grant disbursement test, I examined five (5) "Financial Assistance to Small Businesses" participants' files. I noted that the Program did not comply with the following dispositions established in the "Economic Development Operational Guide": (1) I did not found evidence of an analysis or evaluations of the financial conditions of the participants; (2) there was no evidence of a formalized contract between the Municipality and the participants; (3) I did not found evidence of the investments made by the participants with the financial assistances; (4) I did not found evidence of the required follow up visits to the participants businesses.
CRITERIA	<p>24 CFR, Subtitle A, Section 85.20 (b) (6) has established that accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others. Also, CFR 24 Subtitle A, Section 85.20 (b) (3) states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.</p> <p>In addition, 24 CFR, Section 570.209 (d) states that the grantee must maintain sufficient records to demonstrate the level of public benefit, based on the above standards, that is actually achieved upon completion of the CDGB assisted economic development activities and how that compares to the level of such benefit anticipated when the CDBG assistance was obligated.</p>
CAUSE	This condition occurred because of the lack of adequate internal controls and procedures design to obtain the required documentation during the selection process. Also, the Program failed to assure compliance of the follow-up visits.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-07 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST
EFFECT	The Program is not in compliance with 24 CFR, Section 85.20 (b) (3) and (6). In addition, did not comply with 24 CFR, Section 570.209 (d).
RECOMMENDATION	Municipality's management should continue strengthening the internal controls and procedures in order to assure that the participants' files are adequately documented. Also, the Program's staff should inspect and monitor the participants' businesses, to verify if the investments made by the participants, were in accordance with the operational guide.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will assign personnel in order to inspect and monitor the participant's activities. Also, we will verify if the investments made by the participants were made in accordance to the operational guide.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-III-08
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	During the fiscal year 2012-2013, the Program maintain excess of cash in the bank account.
CONTEXT	During my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average cash balance, in the bank reconciliations, of approximately \$45,794. Also, I examined seven (7) drawdowns of funds made by the Programs during the fiscal year 2012-2013 and found that one (1) drawdown in the amount of \$50,770 took twenty (20) days from the moment the funds were received and the issuance of the check.
CRITERIA	Code of Federal Regulations 24, 85.20 (b) (7) states, that procedures for minimizing the time elapsing between the transfer of funds from the U.S Treasury and disbursement by grantees and sub grantees must be whenever advance payment procedures used.
CAUSE	The Program and the Finance Department of the Municipality did not maintain appropriate cash management procedures in order to drawdown funds only for immediate needs.
EFFECT	The Program cannot reconcile the excess of drawdowns made in the Integrated Disbursement and Information System (IDIS) with the accumulated expenditures in the accounting records. In addition, the Program is not in compliance with Code of Federal Regulations 24, 85.20 (b) (7).
RECOMMENDATION	I recommend management to strengthen its disbursements procedures to minimize the time between the drawdown of funds made in the IDIS system and the disbursements made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will continue strengthening our controls and procedures in order minimized the time between the drawdown and the disbursement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-09
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Program did not verify if the contractor was suspended or debarred by the Federal government.
CONTEXT	During my disbursement test, I examined one (1) construction contract and one (1) professional service contract, to verify the suspension and debarment process and I did not found evidence that the Municipality verified the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractor, to assure that this contractor was not suspended or debarred.
CRITERIA	Code of Federal Regulations 24, Subpart C, Section 85.35 states that grantees and subgrantees must not make any award or permit any award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs subject to 2 CFR part 2424.
CAUSE	The Program did not maintain adequate procedures in order to verify in the EPLS system at the moment that formalized the contracts.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Section 85.36 (b) (9).
RECOMMENDATION	Management should obtain the EPLS in printed or electronic format or obtained a certification from the contractor every time the Municipality formalized a contract with Programs' funds.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will include a step during the formalization of contracts to verify if the contractors are suspended or debarred from the Federal government.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	13-III-10
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROGRAM INCOME
CONDITION	The Program did not comply with the program income requirement.
CONTEXT	During the fiscal year 2012-2013, the Program received \$187,000 in program income related with a project of acquisition and resale of existing housing units. During my program income test, I found that the transactions related with the program income were not recorded in the accounting records of the Program. Also, I noted that the Program did not maintain an adequate inventory of the sales of the housing units.
CRITERIA	Code of Federal Regulations 24, Subpart J, Section 570.504 (a), stated that the receipts and expenditures of program income shall be recorded as part of the financial transactions of the grant program.
CAUSE	The Program does not maintained appropriate accounting records over the program income transactions.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, Subpart J, Section 570.504 (a).
RECOMMENDATION	The Program's accountant should include in the accounting records, the program income transactions. Also, the Program should maintain an adequate inventory of the available housing units.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	As part of our corrective action plan will include all the transactions related to the program income in the accounting records of CDBG Program.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-11
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Program failed to summarize the financial transactions in a complete set of accounting records.
CONTEXT	During my reporting test, I noted that the quarterly disbursements reported in the SF-425 during the fiscal year 2012-2013, have differences of \$31,947 with the accounting records (check register) of the Program. Also, the accumulated expenditures in the accounting records of the Program did not reconcile with the accumulated draw-downs made in the Integrated Disbursement and Information System (IDIS). Finally, I noted that the accounting records were not updated at June 30, 2013.
CRITERIA	Code of Federal Regulations 24, Subpart I, Section 570.489 (d) (1) states that States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions.
CAUSE	The Program failed to establish adequate internal controls over the transactions recorded on its accounting records and the accurate submission of the quarterly reports.
EFFECT	The Program did not submit accurate quarterly reports in order to comply with the Federal regulation.
RECOMMENDATION	I recommend management to continue updating the accounting records of the Program in order to assure that the accounting information is complete and accurate.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Management gave instructions to the accounting staff to improve the accounting records of the Program in order to include all the activities related to assets, liabilities, revenues and expenditures.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-12
FEDERAL PROGRAMS	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- ENVIRONMENTAL REVIEWS
CONDITION	The Program did not provide sufficient evidence about the environmental reviews for a construction project.
CONTEXT	During my disbursement test, I selected the project "Pavement and Improvements to Roads in Comm. Caimital, and I did not found any environmental reviews or a written determination stating that the review was not required.
CRITERIA	As stated in 24 CFR 58.22, neither a recipient nor any participant in the development process, including public or private nonprofit or for profit entities, or any of their contractors, may commit HUD assistance under a program listed in 58.1 (b) on an activity or project until HUD or the State has approved the recipient's RROF and the related certification from the responsible entity. In addition, until the RROF and the related certification have been approved neither a recipient nor any participant in the development process may commit non HUD funds on or undertake an activity or project under a program listed in 58.1 (b) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.
CAUSE	The Program incurred in such disbursements without the necessary environmental reviews or without documenting adequately, that a review was not required.
EFFECT	The Program is not in compliance with 24 CFR 58.22.
RECOMMENDATION	Management should not encumber or expend CDBG funds on an activity or project until the environmental reviews are obtain or a written determination is made stating that the review is not necessary.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will gave instructions to the Federal Department staff, that the funds cannot be obligated or expended until the environmental reviews are made.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-13
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- REHABILITATION
CONDITION	The Program failed to maintain appropriate supporting documentation regarding the rehabilitation contracts.
CONTEXT	During my special test- rehabilitation, I examined ten (10) participant's files and noted that in two (2) participant's files, I did not found evidence of the final visits made by the Program to the participants. I found that these rehabilitation works were not finished in the timeframe established in the contract, which was thirty days. At the moment of my examination more than one year has passed since the date the contracts were signed by the participants and the Municipality.
CRITERIA	Code of Federal Regulations 24, Section 570.506 (b) state that at a minimum, the grantee should maintain records demonstrating that each activity undertaken meets one of the three national objectives of the CDBG Program. Also, Code of Federal Regulations 24, Section 570.506 (b) (9) states that when CDBG Entitlement Grant funds are used for residential rehabilitation activity to aid in the prevention or elimination of slums or blight in a slum or blighted area, the grantee must maintain records to support the local definition of "substandard", must document a pre-rehabilitation inspection report describing the deficiencies in each structure to be rehabilitated, and must document the details in each structure to be rehabilitated, and must document the details and scope of CDBG assisted rehabilitation, by structure.
CAUSE	The Municipality's internal controls and procedures failed to assure that the rehabilitation works were properly monitored in order to verify that the works were made in the period established in the contracts and were used adequately in accordance with the pre-rehabilitation inspections.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations 24, Section 570.506 (b) and (b) (9).
RECOMMENDATION	I recommend management to follow its procedures in order that the Program's personnel inspects the rehabilitation works to assure that is carried out in accordance with the Federal regulation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-13 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST- REHABILITATION
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Federal Department staff will be properly advice that follow-up visits are necessary to inspect the rehabilitation work is made in accordance to the contract.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	13-III-14
FEDERAL PROGRAM	CHILD AND ADULT CARE FOOD PROGRAM (CFDA NO. 10.558) U.S. DEPARTMENT OF AGRICULTURE; PASS THROUGH COMMONWEALTH OF PUERTO RICO- DEPARTMENT OF EDUCATION
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	The Program maintain high average balances in the monthly adjusted cash balances.
CONTEXT	During my cash management test, I noted that during the fiscal year 2012-2013, the Program maintained an average monthly cash balance of approximately \$302,348 in books.
CRITERIA	Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7) states, procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed.
CAUSE	The Program and Finance Department of the Municipality did not maintain appropriate cash management procedures.
EFFECT	The Program is not in compliance with Code of Federal Regulations 7, Subpart C, Section 3016.20 (b) (7).
RECOMMENDATION	I recommend management to make an analysis of the cash balance and verify if there are cash carryovers and determine if those carryovers have to be reimburse to the pass-through entity.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We will analyze our cash balance in order to determine if there are cash carryovers and verify with the pass-through entity, if it can be used in the Program's activities.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
12-III-06	Allowable Cost	93.600	None	Full corrective action was taken. Controls and procedures corrected.
12-III-07	Cash Management	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-04
12-III-08	Procurement, Suspension and Debarment	93.600	None	Full corrective action was taken. Controls and procedures corrected.
12-III-09	Reporting	93.600	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-06
12-III-10	Allowable Cost	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-07
12-III-11	Allowable Cost	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-08
12-III-12	Procurement and Suspension and Debarment	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-09

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
12-III-13	Program Income	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-10
12-III-14	Reporting	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-11
13-III-15	Special Test- Environmental Reviews	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-12
12-III-16	Special Test- Rehabilitation	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-13
12-III-17	Special Test- Depository Agreement	14.871	None	Full corrective action was taken. We enter into the agreement with our bank Institution.
12-III-18	Cash Management	10.558	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-14

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
12-III-19	Procurement, Suspension and Debarment	10.558	None	Full corrective action was taken. System and procedures corrected.
12-III-20	Period of Availability	10.558	None	Full corrective action was taken. System and procedures corrected.
11-III-05	Allowable Cost	93.600 93.708	None	Full corrective action was taken. System and procedures corrected.
11-III-06	Cash Management	93.600 93.708	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-04
11-III-09	Reporting	93.600 93.708	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-06
11-III-10	Cash Management	14.218 14.253	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-08
11-III-11	Procurement and Suspension and Debarment	14.218	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-11

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
11-III-12	Special Test- Depository Agreement	14.871	None	Full corrective action was taken. We enter into the agreement with our bank Institution.
11-III-13	Cash Management	10.558	None	No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 13-III-14
11-III-14	Period of Availability	10.558	None	Full corrective action was taken. System and procedures corrected.
11-III-15	Allowable Cost	10.760	None	Full corrective action was taken. System and procedures corrected.
11-III-16	Davis-Bacon Act	10.760	None	Full corrective action was taken. System and procedures corrected.
10-III-04	Cash Management	93.600 93.708	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-09	Reporting	93.600 93.708	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
10-III-11	Special Test- Depository Agreement	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-12	Cash Management	10.558	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-III-13	Period of Availability	10.558	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-04	Allowable Cost/ Cost Principles	93.600	\$87,101	No corrective action has been taken. The auditors did not identified during fiscal year 2012-2013 transactions related to this finding.
09-III-05	Cash Management	93.600	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
09-III-12	Procurement and Suspension and Debarment	14.218	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-15	Cash Management	10.558	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
09-III-16	Period of Availability	10.558	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.