

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GUAYANILLA

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Guayanilla, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit 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 the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

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 and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

Also, we were unable to obtain sufficient competent evidential matter related to estimate liability for compensated absences reported in the governmental activities and, accordingly, the amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities is not reasonably determinable.

INDEPENDENT AUDITOR'S REPORT (Continued)

In our opinion, because of the effects of the matter discussed in the third and fourth paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Guayanilla, Puerto Rico**, as of June 30, 2003, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Guayanilla, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments, and has adopted paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, as of June 30, 2003.

The Management's Discussion and Analysis on pages 4 through 11 and the Budgetary Comparison Schedule-General Fund on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Guayanilla, Puerto Rico** taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

López Vega CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 11, 2003

Stamp No. 1942302 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

Management's Discussion and Analysis

Management of the Municipality of Guayanilla (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

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

FINANCIAL HIGHLIGHTS

- The Municipality net assets increased by \$5,518,183.
- In the fund financial statements, the governmental activities revenue increased \$ 4,893,393 (or 43%) while governmental activities expenditures increased \$3,479,131 (or 31%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 244,502.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$252,579.
- The Municipality issued bonds amounting to \$3,452,000 mainly to finance the capital projects, purchase of equipment and payment of operational debts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Fund Financial Statements (Continued)

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

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 11,592,511 at the end of 2003, compared to \$6,074,328 at the end of the previous year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Net Assets (Continued)

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$10,413,475
Capital assets	<u>17,590,915</u>
Total assets	<u>28,004,390</u>
Current liabilities	2,934,497
Noncurrent liabilities	<u>13,477,382</u>
Total liabilities	<u>16,411,879</u>
Invested in capital assets, net of related debt	12,815,915
Restricted	7,583,251
Unrestricted (deficit)	<u>(8,806,645)</u>
Total net assets	<u>\$11,592,511</u>

Changes in Net Assets

The Municipality's net assets increased by \$5,518,183. Approximately 33 percent of the Municipality's total revenue came from taxes, while 63 percent resulted from grants and contributions, including federal aid. Charges for Services provided less than 1 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, health and welfare, community development, public safety, culture and recreation and public works. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets (Continued)

Condensed Statement of Activities
June 30, 2003 -

Program revenues:	
Charges for services	\$151,432
Operating grants and contributions	2,627,801
Capital grants and contributions	3,722,933
General revenues:	
Property taxes	2,060,498
Municipal license tax	2,624,904
Grants and contributions not restricted to specific programs	3,904,805
Other local taxes	756,922
Interest and investment earnings	99,513
Miscellaneous	<u>165,825</u>
Total revenues	<u>16,114,633</u>
Expense:	
General government	4,797,762
Public safety	605,199
Public works	501,111
Culture and recreation	545,741
Health and welfare	1,977,879
Community development	1,704,653
Economic development	177,247
Education	61,793
Interest on long-term debt	<u>225,065</u>
Total expenses	<u>10,596,450</u>
Change in net assets	5,518,183
Net assets, beginning of year	<u>6,074,328</u>
Net assets, end of year	<u>\$11,592,511</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$7,478,978, an increase of \$5,188,711 in comparison with the prior year. There are reservations of fund balance amounting to \$7,712,614. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$129,373), 2) to pay debt service (\$1,048,387), 3) to pay for capital projects (\$2,680,309) and 4) for other purposes (\$3,854,545).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$345,671.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$ 25,957,431, net of accumulated depreciation of \$ 8,366,516, leaving a net book value of \$ 17,590,915. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$ 2,827,994 in terms of net book value. Depreciation charges for the year totaled \$ 1,013,075.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$2,671,294 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal years.

FINANCIAL CONTACT

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,481,092
Cash with fiscal agent	5,536,086
Accounts receivable:	
Intergovernmental	1,300,770
Others	95,527
Capital assets	
Land, improvements, and construction in progress	2,516,483
Other capital assets, net of depreciation	15,074,432
Total capital assets	<u>17,590,915</u>
 Total assets	 <u>28,004,390</u>
 Liabilities	
Accounts payable and accrued liabilities	1,035,936
Due to other governmental entities	433,418
Deferred revenues:	
Municipal license tax	790,277
Federal grant revenues	674,866
Noncurrent liabilities:	
Due within one year	819,550
Due in more than one year	12,657,832
 Total liabilities	 <u>16,411,879</u>
 Net Assets	
Invested in capital assets, net of related debt	12,815,915
Restricted for:	
Capital projects	2,680,309
Debt service	1,048,387
Other purposes	3,854,545
Unrestricted (deficit)	<u>(8,806,645)</u>
 Total net assets	 <u>\$ 11,592,511</u>

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 4,797,762	\$ -	\$ 83,583	\$ -	\$ (4,714,179)
Public safety	605,199	365	324,120		(280,714)
Public works	501,111	98,057	219,511	379,232	195,689
Health and welfare	1,977,879		1,438,324	50,000	(489,555)
Culture and recreation	545,741	53,010	94,169	1,355,000	956,438
Economic development	177,247		437,915		260,668
Community development	1,704,653			1,843,701	139,048
Education	61,793		30,179	95,000	63,386
Interest on long-term debt	225,065				(225,065)
Total governmental activities	\$ 10,596,450	\$ 151,432	\$ 2,627,801	\$ 3,722,933	(4,094,284)
General revenues:					
Property taxes					2,060,498
Municipal license tax					2,624,904
Other Local Taxes					756,922
Grants and contributions not restricted to specific programs					3,904,805
Interest and investment earnings					99,513
Miscellaneous					165,825
Total general revenues					9,612,467
Change in net assets					5,518,183
Net assets - beginning					6,074,328
Net assets - ending					\$ 11,592,511

Commonwealth of Puerto Rico
Municipality of Guayanilla
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 390,239	\$ 2,308,773	\$ 680,682	\$ 15,915	\$ 85,483	\$ 3,481,092
Cash with fiscal agent	455,866	1,360,539		2,671,294	1,048,387	5,536,086
Accounts receivable:						
Intergovernmental	649,416		651,354			1,300,770
Others	95,527					95,527
Due from other funds	518,994	19,746				538,740
Total assets	\$ 2,110,042	\$ 3,689,058	\$ 1,332,036	\$ 2,687,209	\$ 1,133,870	\$ 10,952,215
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 540,676	\$ -	\$ 495,260	\$ -	\$ -	\$ 1,035,936
Due to other governmental entities	433,418					433,418
Due to other funds		284,447	192,156	6,900	55,237	538,740
Deferred revenues:						
Municipal license tax	790,277					790,277
Federal grant revenues			644,620		30,246	674,866
Total liabilities	1,764,371	284,447	1,332,036	6,900	85,483	3,473,237
Fund balances:						
Reserved for:						
Encumbrances	129,373					129,373
Capital projects				2,680,309		2,680,309
Other purposes	449,934	3,404,611				3,854,545
Reserved reported in nonmajor funds:						
Debt service fund					1,048,387	1,048,387
Unreserved:						
Undesigned (deficit)	(233,636)					(233,636)
Total fund balances	345,671	3,404,611	-	2,680,309	1,048,387	7,478,978
Total liabilities and fund balances	\$ 2,110,042	\$ 3,689,058	\$ 1,332,036	\$ 2,687,209	\$ 1,133,870	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	17,590,915
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(13,477,382)
Net assets of governmental activities	\$ 11,592,511

Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 1,748,605	\$ -	\$ -	\$ -	\$ 311,893	\$ 2,060,498
Municipal license taxes	2,624,904					2,624,904
Licenses, permits and other local taxes	756,922					756,922
Charges for services	151,432					151,432
Intergovernmental	3,988,388	2,697,639		251,701		6,937,728
Interest	99,513					99,513
Federal grants			2,640,292		677,519	3,317,811
Miscellaneous	131,163	34,645		17		165,825
Total revenues	9,500,927	2,732,284	2,640,292	251,718	989,412	16,114,633
Expenditures						
Current:						
General government	5,344,429	68,551				5,412,980
Public safety	249,963	503	320,181			570,647
Public works	1,496,449	1,283,669	166,511	15,153		2,961,782
Health and welfare	547,958	195,570	561,600		677,519	1,982,647
Culture and recreation	428,508	122,561		49,511		600,580
Economic development		442,247				442,247
Community development			1,592,000	196,849		1,788,849
Education		60,500				60,500
Debt service:						
Principal					332,000	332,000
Interest					225,690	225,690
Total expenditures	8,067,307	2,173,601	2,640,292	261,513	1,235,209	14,377,922
Excess (deficiency) of revenues over (under) expenditures	1,433,620	558,683		(9,795)	(245,797)	1,736,711
Other financing sources (uses)						
Transfers in		1,350,000			244,118	1,594,118
Transfers out	(1,594,118)					(1,594,118)
Long-term debt issued	405,000	820,000		2,227,000		3,452,000
Total other financing sources (uses)	(1,189,118)	2,170,000	-	2,227,000	244,118	3,452,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	244,502	2,728,683	-	2,217,205	(1,679)	5,188,711
Fund balance beginning, as restated	101,169	675,928		463,104	1,050,066	2,290,267
Fund balance, ending	\$ 345,671	\$ 3,404,611	\$ -	\$ 2,680,309	\$ 1,048,387	\$ 7,478,978

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 5,188,711

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

Governmental Funds report capital outlays as expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 3,841,069

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (1,013,075)

Some expenditures reported in the Governmental Funds require the use of current financial resources, but are not reported as expenses in the Statement of Activities. 696,516

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore , are not reported as expenditures in Governmental Funds. (75,038)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (3,120,000)

Change in Net Assets of Governmental Activities \$ 5,518,183

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Guayanilla** (the Municipality) was founded on the year 1833. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 12.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund – Local and State Grants – is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

Special Revenue Fund – Federal Grants – is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Project Fund - Local, State and Federal Grants – is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Local, State and Federal Grants - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **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.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

- Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.
7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
- a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and Intra-entity transactions-** The Municipality has the following types of transactions among funds:
- a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$217,288. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$126,535 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$17,590,915	
Deduct:		
Bonds Payable	(3,645,000)	
Notes Payable	<u>(1,130,000)</u>	\$12,815,915
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		2,680,309
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,048,387
<u>Net assets restricted for other purposes</u>		
Special revenue fund - State & Local Grants - fund balance restricted for other purposes	\$ 3,404,611	
General fund - fund balance restricted	<u>449,934</u>	3,854,545
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	(\$104,263)	
Deduct:		
Bonds and Notes payable	(1,665,000)	
Property Tax - Department of Treasury	(2,421,452)	
Property Tax - CRIM - Law 42	(3,440,749)	
Property Tax - CRIM - Law 146	(226,491)	
Compensated absences debt	(870,652)	
Claims and judgments debt	<u>(78,038)</u>	<u>(8,806,645)</u>
Total net assets - governmental activities		<u>\$11,592,511</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$390,239, \$2,308,773, \$680,682, \$15,915 in the general fund, special revenue fund – state & local grants, special revenue fund – federal grants, and capital project fund – state & local grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$85,483 that were fully collateralized.

The deposits at GDB of approximately \$2,671,294, that is restricted principally for capital projects in the capital project fund – state and local grants, the \$455,866 in the general fund that is principally for operational debts, the \$1,360,539 in the special revenue fund – state & local grants that is restricted principally for other specific purposes, and the \$1,048,387 that is restricted for debt service fund in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality impose a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectible.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

B. Intergovernmental Receivables- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$441,569
Municipal Revenue Collection Center ("CRIM")	<u>207,847</u>
Total	<u>\$649,416</u>

Intergovernmental receivable in the Special Revenue Fund – State & Local Grants represent \$651,354 expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant – State's Program	\$543,691
Public Safety Partnerships and Community Policing Grants	97,195
Juvenile Justice and Delinquency Prevention	<u>10,468</u>
Total	<u>\$651,354</u>

C. Others Receivable – Other accounts receivable in the general fund as of June 30, 2003 are as follows:

<u>Concept:</u>	<u>Amount</u>
Construction Excise Tax	\$63,116
Rent	19,500
Interest	10,654
Municipal License Tax	<u>2,257</u>
Total	<u>\$95,527</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - State & Local Grants	Reimbursable Expenditures	\$284,447
General Fund	Special Revenue Fund - Federal Grants	Reimbursable Expenditures	172,410
General Fund	Other Governmental Funds	Reimbursable Expenditures	55,237
General Fund	Capital Project Fund - State & Local Grants	Reimbursable Expenditures	6,900
Special Revenue Fund - State & Local Grants	Special Revenue Fund - Federal Grants	Reimbursable Expenditures	<u>19,746</u>
Total			<u>\$538,740</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - State & Local Grant	For capital projects and other special purposes	\$1,350,000
General Fund	Debt Service Fund	Debt Retirement	<u>244,118</u>
Total			<u>\$1,594,118</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Land	\$ 711,095			\$ 711,095
Construction in progress	<u> -</u>	<u>\$1,805,388</u>	<u> -</u>	<u>1,805,388</u>
Total capital assets not being depreciated	<u>711,095</u>	<u>\$1,805,388</u>	<u> -</u>	<u>2,516,483</u>
Capital assets, being depreciated:				
Buildings	\$11,607,522	\$ 498,290		\$12,105,812
Buildings improvements	5,380,190	447,110		5,827,300
Infrastructure		328,479		328,479
Infrastructure improvements				
Equipment	1,552,055	158,448		1,710,503
Furnishing				
Computers				
Vehicles	<u>2,865,500</u>	<u>603,354</u>	<u> -</u>	<u>3,468,854</u>
Total capital assets being depreciated	<u>\$21,405,267</u>	<u>\$2,035,681</u>	<u> -</u>	<u>\$23,440,948</u>
Less accumulated depreciation for:				
Buildings	\$ 3,084,677	\$438,947		\$ 3,523,624
Buildings improvements	1,339,291	179,566		1,518,857
Infrastructure		26,844		26,844
Infrastructure improvements				
Equipment	1,051,382	128,369		1,179,751
Furnishing				
Computers				
Vehicles	<u>1,878,091</u>	<u>239,349</u>	<u> -</u>	<u>2,117,440</u>
Total accumulated depreciation	<u>\$ 7,353,441</u>	<u>\$1,013,075</u>	<u> -</u>	<u>\$ 8,366,516</u>
Total capital assets being depreciated, net	<u>\$14,051,826</u>	<u>\$1,022,606</u>	<u> -</u>	<u>\$15,074,432</u>
Governmental activities capital assets, net	<u>\$14,762,921</u>	<u>\$2,827,994</u>	<u> -</u>	<u>\$17,590,915</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 50,303
Public safety	59,312
Public works	453,789
Culture and recreation	353,456
Health and welfare	72,999
Community development	21,923
Education	<u>1,293</u>

Total depreciation expense-governmental activities **\$1,013,075**

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On August 14, 2002 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$2,421,452 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 18,000
2005	30,000
2006	48,000
2007	72,000
2008	84,000
Thereafter	<u>2,169,452</u>
Total	<u>\$2,421,452</u>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net assets includes an outstanding debt balance of \$3,440,749 and \$226,491 related to Law 42 and Law 146, respectively.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$ 150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$790,277 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

B. Federal Government- The deferred revenues presented represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
<u>Special Revenue Fund – Federal Grants</u>	
Public Assistance Grant	\$423,359
Child Care and Development Block Grant	105,108
Local Law Enforcement Block Grant	45,966
Federal Transit: Capital Investment Grants	30,407
Community Service Block Grant	25,613
Child and Adult Care Food Program	12,594
Others	1,573
 <u>Other Governmental Funds</u>	
Section 8 – Housing Choice Voucher	<u>30,246</u>
 Total	 <u>\$674,866</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 2,800,000	\$ 2,632,000	\$ 122,000	\$ 5,310,000	\$152,000
Notes Payable	520,000	820,000	210,000	1,130,000	230,000
Department of Labor	118,576	-	118,576	-	-
Municipality of Yauco	179,484	-	179,484	-	-
Puerto Rico Aqueduct and Sewer Authority	123,944	-	123,944	-	-
Property Tax – Department of Treasury	2,421,452	-	-	2,421,452	18,000
Property Tax – CRIM – “Law 42”	3,715,261	-	274,512	3,440,749	274,512
Property Tax – CRIM – “Law 146”	226,491	-	-	226,491	-
Compensated Absences	870,652	-	-	870,652	67,000
Claims and judgments	<u>3,000</u>	<u>78,038</u>	<u>3,000</u>	<u>78,038</u>	<u>78,038</u>
 Total	 <u>\$10,978,860</u>	 <u>\$3,530,038</u>	 <u>\$1,031,516</u>	 <u>\$13,477,382</u>	 <u>\$819,550</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment, construction projects and operational loans payments. During the current year, the Municipality issued bonds for approximately \$2,632,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1983 Series	1/1/2008	\$ 285,000	9.50% - 10.63%	\$ 123,000
1987 Series	1/1/2011	194,000	5.00%	101,000
1988 Series	1/1/2013	270,000	5.00%	160,000
1994 Series	7/1/2008	260,000	5.00% - 7.61%	140,000
1996 Series	1/1/2020	238,000	4.50%	222,000
1998 Series	1/1/2022	122,000	4.50%	119,000
1998 Series	7/1/2023	715,000	2.70% - 6.13%	690,000
2001 Series	7/1/2025	1,300,000	5.00% - 7.50%	1,260,000
2003 Series	7/1/2027	1,230,000	5.00% - 6.50%	1,230,000
2003 Series	7/1/2027	405,000	5.00% - 6.50%	405,000
2003 Series	7/1/2027	875,000	5.00% - 6.00%	<u>860,000</u>
Total general obligation bonds				<u>\$5,310,000</u>

These bonds, except the bond of \$875,000, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 152,000	\$ 249,700
2005	159,000	323,630
2006	179,000	312,852
2007	189,000	301,178
2008	204,000	288,591
2009-2013	886,000	1,270,429
2014-2018	1,007,000	989,840
2019-2023	1,349,000	621,717
2024-2028	<u>1,185,000</u>	<u>172,260</u>
Total	<u>\$5,310,000</u>	<u>\$4,530,197</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. During the current year, the Municipality issued notes for approximately \$820,000. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2003</u>
1999 Series	7/1/2005	\$ 280,000	2.70% - 6.13%	\$ 180,000
1996 Series	7/1/2006	600,000	5.00% - 8.00%	225,000
2003 Series	7/1/2009	820,000	5.00% - 6.00%	<u>725,000</u>
Total notes payable				<u>\$1,130,000</u>

The notes, except the 1996 and the 2003 Series notes, are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 230,000	\$ 59,814
2005	245,000	48,165
2006	260,000	34,789
2007	125,000	23,700
2008	130,000	16,200
2009-2013	<u>140,000</u>	<u>8,400</u>
Total	<u>\$1,130,000</u>	<u>\$191,068</u>

4. **Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

- 5. Compensated absences-** The government-wide statement of net assets includes approximately \$490,117 of accrued sick leave benefits, and approximately \$380,535 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

9. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$123,306 and \$138,207, respectively.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

10. RISK MANAGEMENT

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

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$78,038 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

12. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance of the General Fund has been restated by approximately \$920,486 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the recognition and elimination of interfund transactions pending at year end.

The beginning Fund Balance for Special Revenue Fund has been restated by approximately (\$304,626) to properly present the previously reported fund balance at June 30, 2002. The restatement is mainly due to the recognition and elimination of interfund transactions.

The beginning Fund Balance of the Debt Service Fund has been restated by approximately \$278,444 to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due to CRIM related to Final Liquidation 2001-2002.

The beginning Fund Balance of the Capital Projects Fund has been restated by approximately (\$107,874) to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the elimination of intefund transactions and receivables.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$1,653,225	\$1,785,428	\$1,785,479	\$ 51
Municipal license tax	823,026	2,355,752	2,629,646	273,894
Licenses, permits and other local taxes	373,500	594,323	693,806	99,483
Charges for service	188,000	158,421	151,432	(6,989)
Intergovernmental	3,555,225	3,766,715	3,988,388	221,673
Rent of property				
Fines and forfeitures				
Interest	57,700	70,297	93,159	22,862
Miscellaneous	74,000	79,106	111,664	32,558
Operating transfer from other fund				
Total revenues and other financing sources	<u>\$6,724,676</u>	<u>\$8,810,042</u>	<u>\$9,453,574</u>	<u>\$ 643,532</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$4,239,439	\$4,838,903	\$5,182,276	(\$ 343,373)
Public safety	260,218	251,721	249,963	1,758
Public works	624,622	642,768	635,874	6,894
Health and welfare	1,289,585	1,301,045	1,354,361	(53,316)
Culture and recreation	209,137	184,509	184,403	106
Economic development				
Community development				
Urban development				
Education				
Operating transfer to other fund	<u>101,675</u>	<u>1,591,096</u>	<u>1,594,118</u>	<u>(3,022)</u>
Total expenditures, encumbrances and other financing uses	<u>\$6,724,676</u>	<u>\$8,810,042</u>	<u>\$9,200,995</u>	<u>(\$ 390,953)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>\$ 252,579</u>	<u>\$ 252,579</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$9,453,574
Differences-budget to GAAP:				
GAAP adjustment to revenues				<u>47,353</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$9,500,927</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$9,200,995
Differences-budget to GAAP:				
Nonbudgeted expenditures				428,786
Prior year encumbrances recorded as current year expenditures for GAAP basis				73,813
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				(1,594,118)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(42,169)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$8,067,307</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with 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, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

<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 Loans and Grants	10.770		\$ 197,049
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>13,028</u>
Total U. S. Department of Agriculture			<u>210,077</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		677,519
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant – State Program	14.228	98-FD-27 99-FD-27 00-FD-27 01-FD-27 02-AB-FC-27	<u>1,592,000</u>
Total U.S. Department of Housing and Urban Development			<u>2,269,519</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2003

<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 JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Edward Byrne Memorial state and Local Law Enforcement Assistance Discretionary Grants Program (B)	16.580		48,988
Local Law Enforcement Block Grants Program	16.592		25,064
Public Safety Partnership and Community Policing Grant	16.710		<u>246,129</u>
Total U.S. Department of Justice			<u>320,181</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	Not Available	<u>166,511</u>
Total U.S. Federal Emergency Management Agency			<u>166,511</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Services Block Grant	93.569	Not Available	25,000
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care & Development Block Grant	93.575	Not Available	<u>504,286</u>
Total U.S. Department of Health and Human Services			<u>529,286</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$3,495,574</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Guayanilla and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Federal Grants, Capital Projects Funds and Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Federal Grants	Capital Project Fund	Other Governmental Funds	Totals
Per Schedule of Expenditures of Federal Awards	\$2,621,006	\$197,049	\$677,519	\$3,495,574
Non federal programs Expenditures	19,286	64,464	557,690	641,440
Total expenditures in the fund financial statements	<u>\$2,640,292</u>	<u>\$261,513</u>	<u>\$1,235,209</u>	<u>\$4,137,014</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the basic financial statements of the **Municipality of Guayanilla** as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003, which was unqualified at the fund financial statements level, but adverse at the government-wide financial statements level because we were unable to obtain competent evidential matter related to the Capital Assets reported in the governmental activities. Also, we were unable to obtain sufficient competent evidential matter related to estimated liability for compensated absences reported in the governmental activities, Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Guayanilla's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Guayanilla's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 03-01 through 03-05.

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

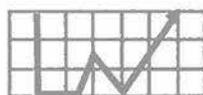
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item 03-01 and 03-03 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Guayanilla in a separate letter dated December 11, 2003.

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

López Vega CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 11, 2003

Stamp No. 1942303 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133**

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

Compliance

We have audited the compliance of the **Municipality of Guayanilla** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Guayanilla's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Guayanilla's** management. Our responsibility is to express an opinion on the **Municipality of Guayanilla's** compliance based on our audit.

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

As described in items 03-06, 03-07, 03-09, 03-10 and 03-11 in the accompanying schedule of findings and questioned costs, the **Municipality of Guayanilla** did not comply with requirements regarding Cash Management, Eligibility, Special Test - Selection from the Section 8 Waiting List, Special Test - Housing Quality Standards Inspections and Enforcement, and Special Test - Reasonable Rent that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Guayanilla** to comply with requirements applicable to that program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality of Guayanilla** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that 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, 03-08 , 03-12 through 03-20.

Internal Control Over Compliance

The management of the **Municipality of Guayanilla** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Guayanilla's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Guayanilla's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-06 through 03-20.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items 03-06, 03-07, 03-09 through 03-11, 03-15, 03-16 and 03-18 to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Guayanilla** in a separate letter dated March 25, 2004.



**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133
(CONTINUED)**

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

López Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 25, 2004

Stamp No. 1942304 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified, except for adverse
for government-wide financial
statements

Internal control over financial reporting:
 Material weakness identified? Yes X No
 Reportable conditions identified not considered to
 be material weaknesses? Yes X None reported

Noncompliance material to financial statements
 noted? Yes No X

Federal awards

Internal Control over major programs:
 Material weakness identified? Yes X No
 Reportable conditions identified not considered to
 be material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance
 for major programs: Unqualified except for qualified
for Section 8 Choice Voucher
(14.871)

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant – State’s Program
14.871	Section 8 Housing Choice Voucher Program
93.575	Child Care Development Block Grant

Dollar threshold used to distinguish
 between Type A and Type B programs \$ 300,000
 Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-01
Requirement	Fixed\ Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-03
Requirement	Financial Reporting - Accounting Records
Statement of Condition	The Municipality has not updated the estimated liability for compensated absences recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2003.
Criteria	<i>GASB Statements No. 16</i> requires that a liability for compensated absences should be recorded when future payments for such absences have been earned by employees.
Cause of Condition	The Municipality did not maintain updated compensated absences records for each employee. Therefore, accrued compensated absences balances for all employees were not available for financial statements purposes as of June 30, 2003.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 16</i> requirements.
Recommendation	We recommend that the Municipality should maintain updated information regarding accrued compensated absences for all employees. Also, we recommend that the Municipality should include in its government-wide financial statement the compensated absences liability necessary to comply with the <i>GASB Statement No. 16</i> .
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-04
Requirement	Expenditures for Goods and Services and Account Payables - Purchasing and Receiving
Statement of Condition	<p>We performed a cash disbursement test and examined thirty two (32) disbursement vouchers related to CDBG-State Program, thirteen (13) disbursement vouchers related to Child Care Development Grant, ten (10) disbursement vouchers related to Section 8 Housing Choice Vouchers and twenty eight (28) disbursement vouchers related to General Fund. As result we found the following situations:</p> <ul style="list-style-type: none">a. Three (3) cancelled checks which belong to the General Fund were not available for our test.b. In ten (10) General Fund disbursement vouchers, the purchase order was issued after the receiving of goods or services.c. In fourteen (14) CDBG-State program disbursement vouchers, the purchase order was issued after the receiving of goods or services.d. In three (3) Child Care Development Block Grant disbursement vouchers, the purchase order was issued after the receiving of goods or services.e. Tree (3) Child Care Development Block Grant disbursement vouchers did not include evidence of the quotation's analysis.f. We did not find evidence of three quotations for the acquisition of goods or services in seven (7) General Fund disbursement vouchers.g. Two (2) cancelled check which belong to the Child Care Development Block Grant program were not available for our test.h. Three (3) Child Care Development Block Grant disbursement vouchers were not available for us test. <p>Also, during our examination of the Municipality's procedures for the formal procurement process we examined twenty five (25) bid files and other related documents and noted the following situations:</p> <ul style="list-style-type: none">a. We did not find evidence of the bid bond required by the Municipality's Bid Board for two (2) bidders.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-04 (Continued)

- b. We did not find evidence of the bid adjudgment letter to be submitted by certified mail to one (1) bidder.
- c. We did not find evidence in the bid or contract files regarding bonding, insurance or tax requirements as follows:
 - Payment and Performance Bond - Six (6) cases
 - Workmen's Compensation Insurance - Six (6) cases
 - Municipal Sales Volume Tax - Seven (7) cases
 - Municipal Excise Construction Tax - Seven (7) cases
 - General Liability Insurance - Six (6) cases

Criteria

The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (IV) that the Finance Director will be responsible to account and realize disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board.

Cause of Condition

The Municipality's internal control procedures failed to assure that all transactions include all the required documentation.

The Municipality's internal control procedures failed to assure that all required documents were been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-04 (Continued)

Effect of Condition The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter Four (IV) and Eight (VIII).

The Municipality is not in compliance with the Article 8.016 (c) of State Act Number 81 of August 30, 1991.

Recommendation We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations were requested for all purchases of goods or services which do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed that limits. Also, we recommend to the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-05
Requirement	Payroll and Related Liabilities – Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of sixty (60) personnel files. The following summarize the situations found:</p> <ul style="list-style-type: none">a. Fourteen (14) employee's time assistance cards were not available for our examination.b. Two (2) employees were absence as per time assistance card examined by us, but those absences days were not deducted from the compensated absences card balances.c. Four (4) employee's compensated absences cards were not available for our examination.d. Two (2) cancelled checks were not available for our examination.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee files.</p>
Cause of Condition	<p>The Municipality controls and procedures failed to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.</p>
Effect of Condition	<p>The Municipality is not in compliance with the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.</p>
Recommendation	<p>We recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.</p>
Questioned Costs	<p>None</p>
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures, we found that during the current fiscal year the Municipality maintained an average cash balance in books of approximately \$128,010. At June 30, 2003, the cash balance in book was \$85,483; \$4,132 of these funds was from HUD overpayment during the fiscal year 2002-03 as determined in the year-end settlement; \$993 was from operating reserve at June 30, 2003, as determined in the year-end settlement; and the remaining \$80,358 we could not determine its origin.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>We performed an eligibility test and examined a sample of thirty (30) participant's files. The following summarized the situations found:</p> <ul style="list-style-type: none">a. Two (2) participant's files did not include a release form to allow the PHA to obtain information from third parties.b. Three (3) participant's files did not include the annual release form to allow the PHA to obtain employment information.c. In three (3) participant's files the Privacy Act Notice form was not provided for the signature of head of household.d. Ten (10) participant's files did not contain a release form to allow the PHA to obtain information from third parties, signed by any members of the family composition who is at least eighteen (18) years of age.e. Twelve (12) participant's files did not include a federally prescribed general release form to allow the PHA to obtain information regarding the employment, signed by any members of the family composition who is at least eighteen (18) years of age.
Criteria	<p>Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.</p> <p>Code of Federal Regulations 24, Subpart B, Section 5.212 (b) states that all assistance applicants shall be provided with a Privacy Act notice at the time of application. All participants shall be provided with a Privacy Act notice at each annual income recertification.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07 (continued)
Cause of Condition	The Municipality controls and procedures failed to assure that the participant files include all required documentation and releases required by the Program regulation.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230 and 982.516.
Recommendation	We recommend the Program to improve monitoring procedures to assure that the participant's files include all documentation required by the Program regulation.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	<p>The determination of reasonable rent (reasonable rent certification) was not duly documented. We examined a sample of thirty (30) participant's files and found the following situations:</p> <ul style="list-style-type: none">a. On two (2) new participant's file the certification of reasonable rent included only one comparable unassisted unit.b. On three (3) new participant's files the certification of reasonable rent did not include the comparable rent with other similar units.c. On three (3) participant's files the determination of reasonable rent included only one comparable unassisted unit for an increase of the rent to owner during fiscal year 2002-2003.d. On ten (10) participant's files the determination of reasonable rent did not include comparable unassisted units for an increase of the rent to owner during fiscal year 2002-2003.
Criteria	<p>Code of Federal Regulations 24, Section 982.507 a (1) states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent paid to the owner is reasonable. Also, Code of Federal Regulations 24, Section 982.507 a (2) (i) states that the PHA must re-determine the reasonable rent before any increase in the rent to owner.</p> <p>Code of Federal Regulations 24, Section 982.507 (b) states that the PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08 (continued)
Cause of Condition	The Federal Program Department did not maintain adequate documentation to support the basis for the determination that the rent paid to the owner is reasonable.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.507 a (1), 982.507 a (2) (i) and 982.507 (b).
Recommendation	We recommend that the Federal Program Department establish controls to assure appropriate documentation of the determination of reasonable rent is maintained in participant's files.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and Housing Quality Standards Enforcement
Statement of Condition	<p>During our examination of thirty (30) participant files, we noted the following situations:</p> <ul style="list-style-type: none">a. On six (6) participant's files the Municipality followed up the deficiencies noted in the Housing Quality Standards Inspections after the expiration of the correction period. In some cases, the follow up procedures were performed several months after the expiration of the correction period. There was no evidence on the participant's files that show that the PHA extended the time frame to correct the deficiencies notes on the inspection.b. In four (4) participant's files the correction period was ended and we did not find evidence showing that the PHA properly stopped HAP's or terminated the HAP contract.c. In two (2) cases, the correction period ended and several months after the expiration of the correction period the PHA sent a letter to owner stopping HAP.d. In one (1) participant file the correction period was ended and we did not find evidence showing that the PHA took action to enforce the family obligations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-09 (continued)
Criteria	Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 established that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.
Cause of Condition	The Municipality controls and procedures failed to assure that annual inspections were properly performed and documented in participants files and to assure that adequate follow up was realized by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcement.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404.
Recommendation	We recommend management to improve monitoring procedures to assure that annual inspections are properly documented in the participant files and to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-10
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	<p>In our waiting list test we found that the PHA did not select the participants from the top of the waiting list according to the PHA's applicant selection policies.</p> <p>Also, we examined a sample of five (5) files of participants admitted to the Program during the current year and we found that one (1) of those participants was not selected from the waiting list.</p>
Criteria	<p>Code of Federal Regulations 24, sections 982.202 (d) states that the PHA must admit applicants for participation in accordance with HUD regulations and other requirements, and with PHA policies stated in the PHA administrative plan and the PHA plan.</p> <p>The PHA administrative plan states that, except for special admissions, participant must be selected from the PHA waiting list. Eligible applicants are entitled to be placed on the section 8 waiting list and receive preference in selection for certificates and vouchers, if they meet certain preference.</p>
Cause of Condition	The Municipality controls and procedures failed to assure that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 982.202 (d) and with the PHA administrative plan.
Recommendation	We recommend management to improve monitoring procedures to assure that the participant are admitted to the program or are provided the opportunity to be admitted to the program according with the PHA administrative plan.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-11
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Utility Allowance Schedule
Statement of Condition	The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2003. There is no evidence of the last time that the Utility Allowance Schedule was actualized.
Criteria	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The Municipality did not follow the procedures established to review utility rate data each year.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-12
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Allowable Costs and Cost Principles
Statement of Condition	Section II - Financial Statement Findings - Finding Reference 03-03

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Finding and Questioned Cost

Finding Reference	03-13
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of five (5) housekeeping assistance project participant files, we noted the following situations:</p> <ul style="list-style-type: none">a. In four (4) files the participant did not complete the approval application form OCAM-AH-004A.b. In four (4) files the participant did not complete a participation contract form OCAM-AH-005, establishing the service plan to be offered by the CDBG program.c. In five (5) files there was no evidence indicating that the Service Coordinator visited at least twice times per month the participant housing unit to ensure the quality of services.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Office of the Commissioner of Municipal Affairs ("OCAM") issued a procedures manual for housekeeper activities.</p>
Cause of Condition	<p>The Municipality controls and procedures failed to assure that the housekeeper activities participant's files include all the required documents to comply with the program requirements.</p>
Effect of Condition	<p>The Municipality is in noncompliance with 24 CFR, Subpart I, Section 570.484 and Office of the Commissioner of Municipal Affairs ("OCAM") procedures.</p>
Recommendation	<p>We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures guide title "Guia operacional para la prestación del servicio de auxiliaries en el hogar", including the use of the forms included in the guide.</p>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference **03-13 (Continued)**

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-14
Program	Community Development Block Grant – State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of the Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, the Municipality maintained an average monthly cash balance per accounting records of \$39,129.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec.570.489 (c).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of the Commissioner of Municipal Affairs
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test for the construction projects 01-FD-27-001 and 01-FD-27-004, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees. Also, the contracts did not include provisions for payment of prevailing wage rate.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Cause of Condition	The Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible Municipal Employee to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-16
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 03-01

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-17
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of the Commissioner of Municipal Affairs
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test, we noted the following situations: <ul style="list-style-type: none">a. Two (2) contracts did not include a provision for compliance with executive order 11246 “EQUAL EMPLOYMENT OPPORTUNITY”.b. Three (3) contracts did not include a provision for compliance with sections 103 and 107 of “THE CONTRACT WORK HOURS & SAFETY STANDARDS ACT”.c. Four (4) contracts did not include a provision for compliance with Energy Policy and Conservation Act.d. Four (4) contracts did not include a provision for compliance with the Copeland “Anti-Kickback”.e. Four (4) contracts did not include a provision for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality did not maintain appropriate monitoring procedures to detect the exclusion of certain contract clauses.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-17 (Continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, 570.489 (g).
Recommendation	We recommend management to update contract model according with the federal requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-18
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Program Income
Statement of Condition	<p>During our audit of the program income requirements, we noted that for the last six (6) months of the fiscal year 2002-2003, the Municipality did not maintain internal controls to assure:</p> <ol style="list-style-type: none">a. That the program income was properly determined or calculated in accordance with stated criteria and that the program income was only collected from allowable sources.b. That all program income was properly recorded in the accounting records.c. That program income was used in accordance with the program requirements and other regulations applicable.
Criteria	<p>The CDBG-state program grant agreement states that the Municipality must submit to the Office of the Commissioner of Municipal Affairs ("OCAM") an annual report about the program income. nor after January 31 of the subsequent year.</p>
Cause of Condition	<p>The Municipality did not maintain adequate internal controls in order to assure the proper determination; accounting; and use of program income.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-18 (continue)
Effect of Condition	Municipality is not in compliance with the CDBG-state program grant agreement.
Recommendation	We recommend management to develop internal controls and procedures in order to assure that the program income was properly determined and calculated; properly recorded and used for allowable costs.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-19

Program Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs

Requirement Reporting

Statement of Condition During our examination of reporting, we not obtain evidence which assure us that the Financial Quarterly Reports of the fiscal year 2002-2003 were submitted on a timely basis.

Criteria The grant agreement provisions have established that the Municipality should submit all of the required reports by the Pass-through Grantor.

Cause of Condition The Municipality record retention control and procedures fail to maintain adequate documentation to support that quarterly reports are submitted in a timely basis to the pass-through grantor.

Effect of Condition The Municipality could be not in compliance with the grant agreement.

Recommendation We recommend to the Municipality Management to maintain adequate documentation which support that quarterly reports were submitted to the grantee in a timely basis.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-20
Program	Child Care & Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$124,392 was maintained during the fiscal year ended June 30, 2003.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to the Administration for Children and Families only for immediate needs.
Effect of Condition	The Municipality requested funds in excess of immediate needs and for that reason is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the Administration for Children and Families and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-08	10.770	<p><u>The Municipality must implement controls and procedures in order to assure the accountability of all financial transactions.</u></p> <p>No corrective action has been taken.</p>
02-09	10.770	<p><u>The Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and were prepared in accordance with the required accounting basis.</u></p> <p>Finding no longer valid.</p>
02-10	14.228	<p><u>The Municipality should maintain its cash management internal control procedures to assure compliance with the cash management requirement.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-14.</p>
02-11	14.228	<p><u>The Municipality should follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee. Also, interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) in order to establish the degree of compliance and the nature and extend of violations, if any.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-15.</p>
02-12	14.228	<p><u>The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-16.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-13	14.228	<p><u>The Municipality should reconcile differences between the financial quarterly report and the general ledgers before report submission are made to the Pass-through Grantor.</u></p> <p>Full corrective action was taken.</p>
02-14	14.871	<p><u>The Municipality's Management should periodically compare actual Program cash requirements to the funds advanced from U. S. Treasury Department and prepare and submit a revised requisition to reduce monthly advances.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.</p>
02-15	14.871	<p><u>The Program should establish the following procedures: Provide an application form to be filed by the participant and sign by all family members who are at least 18 years old, provide a Federal prescribed General Release Form for employment information and a Privacy Act Notice to be signed by all members of the family who are at least 18 years old, implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-07.</p>
02-16	14.871	<p><u>The Municipality's Management should implement controls procedures over Section 8 Rental Program financial activities in order to assure the accountability of all financial transactions, including accounting records in accordance with Generally Accepted Accounting Principles. Such action should permit the preparation of accurate, current, and complete financial reports.</u></p> <p>Full corrective action was taken.</p>
02-17	14.871	<p><u>The Municipality should follow admission procedures established in</u></p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>the administrative plan. Also, the Municipality should establish a manual book or a software program to record the applicants or internal control procedures so that the waiting list includes all information as required by Federal regulations. This control must permit proper tracing of participants selected to the waiting list maintained in order to assure the selection from the top of the waiting list.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-10.</p>
02-18	14.871	<p><u>The Municipality should implement the following procedures in order to avoid these situations in a future: The Municipality must assure HUD 50058 Form, Family Report Form (OMB No. 2577-0083) be printed and maintained in the participant file every time there is a change in family composition, family income or other situations that may affect the calculation of the total tenant payment. Assign an employee to review that the HUD 50058 Form, Family Report Form (OMB No. 2577-0083) to assure that the information submitted electronically to HUD do not contain errors in order to be evaluated correctly by HUD personal.</u></p> <p>Full corrective action was taken.</p>
02-19	14.871	<p><u>The Municipality should implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented. Also, the Municipality should strengthen their procedures to assure the enforcement with HQS by the owners.</u></p> <p>No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-09.</p>
02-20	14.871	<p><u>The Municipality should evaluate utility allowance rate each year as established in the federal regulations.</u></p> <p>No corrective action has been taken. The auditors reissued the</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		finding for the current year. Finding Reference 03-11.
02-21	14.871	<u>The Federal Program Department establishes adequate controls to assure that the rent paid to the owners is reasonable and that appropriate documentation of the determination of reasonable rent is maintained in participant's files.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-08.
01-07	14.855	<u>Cash Management</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-06.
01-08	14.855	<u>Eligibility Test-lack of proper documentation (participants records) as required by program regulations.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-07.
01-09	14.855	<u>Failure to timely submit the Voucher for Payment of Annual Contribution and Operation Statement for Voucher Program</u> Full corrective action was taken.
01-10	14.855	<u>Section 8 Waiting List - Selection from the Waiting List.</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-10.
01-11	14.855	<u>Housing Quality Standards Inspections and Enforcement</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-09.
01-12	14.855	<u>The determination of reasonable rent (reasonable rent certification)</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<u>was not documented in the participant files</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-08.
01-13	14.228	<u>The funds received were not disbursed in a reasonable time</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-14.
01-14	14.228	<u>The Municipality did not apply monitoring procedures to assure contractors compliance with Davis Bacon Act.</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-15.
01-15	14.228	<u>Inadequate Property Records</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-16.
01-16	14.228 83.544	Procurement and Suspension and Debarment
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-17.
01-17	83.544	<u>The Municipality did not maintain files by project worksheet (PW) as required by the Office of Governor Authorized Representative (GAR)</u>
		No corrective has been taken.
01-18	83.544	<u>The Municipality did not provide to us the quarterly progress reports</u>
		No corrective action has been taken.
2000-III-1	83.544	<u>Reporting, Matching, level of effort and earmarking</u>
		No corrective action has been taken.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2000-III-3	14.228 14.855 14.857	<u>Equipment and Real Property Management</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-16.
2000-III-4	14.228	<u>Cash Management</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-14.
2000-III-5	14.228	<u>Procurement, Suspension and debarment</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-17.
2000-III-6	83.544	<u>Allowable Cost / Cost Principles, Reporting</u> No corrective action has been taken.
2000-III-7	14.855 14.857	<u>Special Test and Provisions</u> No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-10.