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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GUAYANILLA
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

Cash 1105-9753

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

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MUNICIPALITY OF GUAYANILLA, PUERTO RICO

**SINGLE AUDIT REPORT
JUNE 30, 2004**

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OMB CIRCULAR A-133**

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

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' 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, 2004, 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 paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards 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.

In our opinion, because of the effects of the matter discussed in the third paragraph, 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, 2004, 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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, 2004, 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, 2004.

The accompanying Management's Discussion and Analysis, and the Budgetary Comparison Schedule-General and Debt Service Funds are not a required part of the basic financial statements referred to above, but is 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.

San Juan, Puerto Rico
January 21, 2005

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

Stamp No. 1981594 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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, 2004. 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, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

	<i>Fiscal Years</i>	
	<i>Increase (decrease)</i>	
	<u>2003-2004</u>	<u>2002-2003</u>
The Municipality net assets	(\$ 67,783)	\$5,356,003
The governmental activities revenue	(\$1,852,469)	\$4,893,875
The governmental activities expenditures	\$3,571,307	\$3,641,793
The General Fund (the primary operating fund) on a current financial resource basis	(\$1,174,376)	\$ 244,502
Actual revenues (expenses) exceeded actual expenditures (revenues)- on a budgetary basis	(\$ 807,049)	\$ 252,579

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS (Continued)

	<i>Fiscal Years</i>	
	<i>Increase (decrease)</i>	
	<u>2003-2004</u>	<u>2002-2003</u>
The Municipality issued bonds mainly to finance the capital projects, purchase of equipment and payment of operational debts	\$ 330,000	\$ 3,452,000

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.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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 prior fiscal year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 \$ 11,362,548 at June 30, 2004, compared to \$11,430,331 at the end of the previous year, as restated.

The largest portion of the Municipality's net assets are invested in capital assets net of their related debt of \$4,759,849 (\$4,775,000 in previous year). The Municipality's net assets is also composed of net liabilities amounting to \$5,360,465 (\$7,583,723 in previous year) that are restricted for (1) future debt service payment, (2) the future acquisition or construction of capital assets and (3) other purposes, mainly the financing of federal and state assisted programs. In addition, the Municipality's net assets are reported net of an unrestricted deficit of \$9,522,972 (\$8,969,307 in previous year)

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and other. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

The portion of the Municipality's net assets invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

Condensed Statement of Net Assets:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current assets	\$ 8,194,814	\$10,413,957
Capital assets	<u>20,284,904</u>	<u>17,590,915</u>
Total assets	<u>28,479,718</u>	<u>28,004,872</u>
Current liabilities	3,719,797	2,934,497
Noncurrent liabilities	<u>13,397,373</u>	<u>13,640,044</u>
Total liabilities	<u>17,117,170</u>	<u>16,574,541</u>
Invested in capital assets, net of related debt	15,525,055	12,815,915
Restricted	5,360,465	7,583,723
Unrestricted (deficit)	<u>(9,522,972)</u>	<u>(8,969,307)</u>
Total net assets	<u>\$11,362,548</u>	<u>\$11,430,331</u>

Changes in Net Assets

The Municipality's net assets decreased by (\$67,783) during the fiscal year 2003-04 but increased by \$5,356,003 in the prior fiscal year. Approximately 31 percent (34 percent in previous year) of the Municipality's total revenue came from taxes, while 68 percent (64 percent in previous year) resulted from restricted and unrestricted capital and operating grants, contributions and reimbursements, including federal financial assistance. Charges for Services provided less than 1 percent of the total revenues in both fiscal years. 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, economic development and public works.

The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (Continued)

Condensed Statement of Activities

	<i><u>June 30,</u></i> <i><u>2004</u></i>	<i><u>June 30,</u></i> <i><u>2003</u></i>
Program revenues:		
Charges for services	\$197,358	\$151,432
Operating grants and contributions	4,627,541	2,627,801
Capital grants and contributions	1,964,981	3,722,933
General revenues:		
Property taxes	2,780,392	2,060,498
Municipal license tax	976,884	2,624,904
Grants and contributions not restricted to specific programs	2,869,827	3,904,805
Other local taxes	617,596	756,922
Interest and investment earnings	111,920	99,513
Miscellaneous	<u>116,147</u>	<u>166,307</u>
Total revenues	<u>14,262,646</u>	<u>16,115,115</u>
Expense:		
General government	4,340,562	4,348,372
Public safety	646,617	605,199
Public works	2,930,566	501,111
Culture and recreation	1,214,429	545,741
Health and welfare	1,351,758	1,977,879
Community development	1,299,707	1,704,653
Economic development	1,070,415	177,247
Education	507,500	61,793
Public lighting	689,537	612,052
Interest on long-term debt	<u>279,338</u>	<u>225,065</u>
Total expenses	<u>14,330,429</u>	<u>10,759,122</u>
Change in net assets	(67,783)	5,356,003
Net assets, beginning of year	<u>11,430,331</u>	<u>6,024,328</u>
Net assets, end of year	<u>\$11,362,548</u>	<u>\$ 11,430,331</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

The Municipality, like most other state and local governments, 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 \$4,475,017 (\$7,479,460 in previous year), an decrease of (\$3,004,443) (an increase of \$5,189,193 in previous year) in comparison with the prior year. There are reservations of fund balance amounting to \$5,360,465 (\$7,713,098 in previous year). This is the fund balance that it is not available for new spending because it has already been committed: 1) to pay debt service by \$1,286,126 (\$1,048,387 in previous year), 2) to pay for capital projects by \$951,442 (\$2,680,791 in previous year) and 3) for other purposes by \$3,122,897 (\$3,983,918 in previous year).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of (\$828,705) (\$345,671 as of June 30, 2003).

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, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$29,793,014 (\$ 25,957,431 in previous year), net of accumulated depreciation of \$9,508,110 (\$8,366,516 in previous year), leaving a net book value of \$20,284,904 (\$17,590,915 in previous year). 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 \$5,785,692 (\$ 2,827,994 in previous year) in terms of net book value. Depreciation charges for the year totaled \$1,178,369 (\$ 1,013,075 in previous year).

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, 2004 the Municipality has \$942,573 (\$2,671,294 as of June 30, 2003) 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, 2004

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 2004-2005 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, 2004

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,132,159
Cash with fiscal agent	2,278,296
Accounts receivable:	
Intergovernmental	1,672,750
Others	111,609
Capital assets	
Land, improvements, and construction in progress	3,013,089
Other capital assets, net of depreciation	17,271,815
Total capital assets	<u>20,284,904</u>
Total assets	<u>28,479,718</u>
Liabilities	
Bank overdraft	630,154
Accounts payable and accrued liabilities	825,644
Due to other governmental entities	929,562
Deferred revenues:	
Municipal license tax	739,951
Federal grant revenues	594,486
Noncurrent liabilities:	
Due within one year	751,980
Due in more than one year	<u>12,645,393</u>
Total liabilities	<u>17,117,170</u>
Net Assets	
Invested in capital assets, net of related debt	15,525,055
Restricted for:	
Capital projects	951,442
Debt service	1,286,126
Other purposes	3,122,897
Unrestricted (deficit)	<u>(9,522,972)</u>
Total net assets	<u>\$ 11,362,548</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, 2004

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	\$ 4,340,562	-	163,404	-	(4,177,158)
Public safety	646,617	1,055	430,002	46,545	(169,015)
Public works	2,930,566	106,913	276,011	1,142,936	(1,404,706)
Health and welfare	1,351,758	-	1,230,716	50,000	(71,042)
Culture and recreation	1,214,429	89,390	69,255	500,500	(555,284)
Economic development	1,070,415	-	668,014	225,000	(177,401)
Community development	1,299,707	-	1,044,983	-	(254,724)
Education	507,500	-	41,742	-	(465,758)
Public lighting	689,537	-	703,414	-	13,877
Interest on long-term debt	279,338	-	-	-	(279,338)
Total governmental activities	\$ 14,330,429	197,358	4,627,541	1,964,981	(7,540,549)
General revenues:					
Property taxes					2,780,392
Municipal license tax					976,884
Other Local Taxes					617,596
Grants and contributions not restricted to specific programs					2,869,827
Interest and investment earnings					111,920
Miscellaneous					116,147
Total general revenues					7,472,766
Change in net assets					(67,783)
Net assets - beginning					11,430,331
Net assets - ending					\$ 11,362,548

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ -	3,420,733	695,501	15,925	-	4,132,159
Cash with fiscal agent	56,743	10,539	-	942,573	1,268,441	2,278,296
Accounts receivable:						
Intergovernmental	962,447	-	710,303	-	-	1,672,750
Others	91,487	-	-	-	20,122	111,609
Due from other funds	958,990	169,040	5,649	-	-	1,133,679
Total assets	\$ 2,069,667	3,600,312	1,411,453	958,498	1,288,563	9,328,493
Liabilities and Fund Balances						
Liabilities :						
Bank overdraft	\$ 630,154	-	-	-	-	630,154
Accounts payable and accrued liabilities	491,607	-	334,037	-	-	825,644
Due to other governmental entities	929,562	-	-	-	-	929,562
Due to other funds	107,098	534,158	482,930	7,056	2,437	1,133,679
Deferred revenues:						
Municipal license tax	739,951	-	-	-	-	739,951
Federal grant revenues	-	-	594,486	-	-	594,486
Total liabilities	2,898,372	534,158	1,411,453	7,056	2,437	4,853,476
Fund balances:						
Reserved for:						
Capital projects	-	-	-	951,442	-	951,442
Other purposes	56,743	3,066,154	-	-	-	3,122,897
Reserved reported in nonmajor funds:						
Debt service fund	-	-	-	-	1,286,126	1,286,126
Unreserved:						
Undesigned (deficit)	(885,448)	-	-	-	-	(885,448)
Total fund balances	(828,705)	3,066,154	-	951,442	1,286,126	4,475,017
Total liabilities and fund balances	\$ 2,069,667	3,600,312	1,411,453	958,498	1,288,563	9,328,493

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Reconciliation of Balance Sheet- Governmental Funds
to the Statement of Net Assets
June 30, 2004

Agregate fund balance reported in the balance sheet- governmental funds **\$ 4,475,017**

Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because:

Assets not available to pay current period expenditures not reported in the governmental funds
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds 20,284,994

The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:

Bonds payable	(5,499,849)
Notes payable	(900,000)
Property Tax - Department of Treasury	(2,421,452)
Property Tax - CRIM - Law 42	(3,157,050)
Property Tax - CRIM - Law 146	(226,491)
Compensated absences debt	(1,174,493)
Claims and judgments debt	(18,038)
	(11,362,638)

Net Assets reported in the accompanying statement of net assets **\$ 11,362,638**

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

Commonwealth of Puerto Rico
Municipality of Guayanilla
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Capital Project Fund - State & Local Grants	Debt Service Fund	Total Governmental Funds
Revenues						
Property taxes	\$ 2,172,352	-	-	-	608,040	2,780,392
Municipal license taxes	976,884	-	-	-	-	976,884
Licenses, permits and other local taxes	617,596	-	-	-	-	617,596
Charges for services	197,358	-	-	-	-	197,358
Intergovernmental	3,735,650	3,250,154	-	-	-	6,985,804
Interest	111,920	-	-	-	-	111,920
Federal grants	-	-	2,451,508	25,037	-	2,476,545
Miscellaneous	115,505	432	193	17	-	116,147
Total revenues	7,927,265	3,250,586	2,451,701	25,054	608,040	14,262,646
Expenditures						
Current:						
General government	4,673,623	296,962	-	-	-	4,970,585
Public safety	285,275	44,061	367,198	-	-	696,534
Public works	1,625,885	620,264	50,820	1,816,128	-	4,113,097
Health and welfare	776,141	152,439	784,576	-	-	1,693,156
Culture and recreation	269,655	1,177,945	24,855	6,900	-	1,479,355
Economic development	-	1,070,415	-	261,375	-	1,331,790
Community development	-	547,624	918,934	-	-	1,466,558
Education	-	91,869	415,119	-	-	506,988
Public Lighting	689,537	-	-	-	-	689,537
Debt service:						
Principal	-	-	-	-	370,151	370,151
Interest	-	-	-	-	279,338	279,338
Total expenditures	8,320,116	4,001,579	2,541,502	2,084,403	649,489	17,597,089
Excess (deficiency) of revenues over (under) expenditures	(392,851)	(750,993)	(89,801)	(2,059,349)	(41,449)	(3,334,443)
Other financing sources (uses)						
Transfers in	-	502,337	89,801	-	279,188	871,326
Transfers out	(781,525)	(89,801)	-	-	-	(871,326)
Long-term debt issued	-	-	-	330,000	-	330,000
Total other financing sources (uses)	(781,525)	412,536	89,801	330,000	279,188	330,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,174,376)	(338,457)	-	(1,729,349)	237,739	(3,004,443)
Fund balance, beginning	345,671	3,404,611	-	2,680,791	1,048,387	7,479,460
Fund balance, ending	\$ (828,705)	3,066,154	-	951,442	1,286,126	4,475,017

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (3,004,443)

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. 3,872,358

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. (1,178,369)

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. 283,699

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. (81,179)

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. 40,151

Change in Net Assets of Governmental Activities \$ (67,783)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 by \$428.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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. The Municipality does not have any component unit to be included in the accompanying financial statements.

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, 2004

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, 2004

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, 2004

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, 2004

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, 2004

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, 2004

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, 2004

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, 2004 amounted to approximately \$188,542. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$182,005 for workers compensation insurance covering all municipal employees.

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 (\$630,154), \$3,420,733, \$695,501, \$15,925 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, 2004.

The deposits at GDB of approximately \$942,573, that is restricted principally for capital projects in the capital project fund - state and local grants, the \$56,743 in the general fund that is principally for operational debts, the \$10,539 in the special revenue fund - state & local grants that is restricted principally for other specific purposes, and the \$1,268,441 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, 2004, the tax rates were as follows:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED)

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, 2004, 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.

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-General Fund</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$703,414
Municipal Revenue Collection Center ("CRIM")	<u>259,033</u>
Total	<u>\$962,447</u>

Intergovernmental receivable in the Special Revenue Fund - State & Local Grants represent \$710,303 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	\$473,947
Child Care and Development Block Grant	74,914
SBGP	31,463
Local Law Enforcement Block Grant	4047
Public Safety Partnerships and Community Policing Grants	123,637
Other	<u>2,295</u>
Total	<u>\$710,303</u>

C. Others Receivable - Other accounts receivable as of June 30, 2004 are as follows:

<u>Concept:</u>	<u>Amount</u>
<u>General Fund</u>	
Construction Excise Tax	\$4,931
Rent	2,300
Interest	6,409
Waste disposal	63,784
Insurance claims	<u>14,063</u>
Total	<u>\$91,487</u>
<u>Debt Service Fund</u>	
Property Tax	<u>20,122</u>
Total	<u>\$111,609</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004, and interfund transfers during the fiscal year ended at June 30, 2004, 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	\$488,607
General Fund	Special Revenue Fund – Federal Grants	Reimbursable Expenditures	460,890
General Fund	Debt Service Funds	Payment of Interest	2,437
General Fund	Capital Project Fund – State & Local Grants	Reimbursable Expenditures	7,056
Special Revenue Fund – State & Local Grants	Special Revenue Fund – Federal Grants	Reimbursable Expenditures	19,746
Special Revenue Fund – State & Local Grants	Special Revenue Fund – State & Local Grants	Reimbursable Expenditures	47,846
Special Revenue Fund – State & Local Grants	General Fund	Reimbursable Expenditures	101,488
Special Revenue Fund – Federal Grants	General Fund	Reimbursable Expenditures	<u>5,649</u>
Total			<u>\$1,133,679</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 special purposes	\$502,337
General Fund	Debt Service Fund	Debt retirement	279,188
Special Revenue Fund – State & Local Grant	Special Revenue Fund – Federal Grants	Reimbursable of loan	<u>89,801</u>
Total			<u>\$871,326</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 July 1, 2003</u>	<u>Transfers in & Additions</u>	<u>Transfers out & Retirements</u>	<u>Balance June 30, 2004</u>
Capital asset, not being depreciated:				
Land	\$ 711,095	\$ 450,000		\$ 1,161,095
Construction in progress	<u>1,805,388</u>	<u>3,138,309</u>	(\$ 3,091,703)	<u>1,851,994</u>
Total capital assets not being depreciated	<u>2,516,483</u>	<u>3,588,309</u>	<u>(3,091,703)</u>	<u>3,013,089</u>
Capital assets, being depreciated:				
Buildings	\$12,105,812	415,577		\$12,521,389
Buildings improvements	5,827,300	1,708,530		7,535,830
Infrastructure	328,479	1,006,993		1,335,472
Infrastructure improvements				
Equipment	1,710,503	202,255	(36,775)	1,875,983
Furnishing				
Computers				
Vehicles	<u>3,468,854</u>	<u>42,397</u>	<u>-</u>	<u>3,511,251</u>
Total capital assets being depreciated	<u>\$23,440,948</u>	<u>3,375,752</u>	<u>(36,775)</u>	<u>\$26,779,925</u>
Less accumulated depreciation for:				
Buildings	\$ 3,523,624	456,469		\$ 3,980,093
Buildings improvements	1,518,857	189,258		1,708,115
Infrastructure	26,844	107,349		134,193
Infrastructure improvements				
Equipment	1,179,751	142,506	(36,775)	1,285,482
Furnishing				
Computers				
Vehicles	<u>2,117,440</u>	<u>282,787</u>	<u>-</u>	<u>2,400,227</u>
Total accumulated depreciation	<u>\$ 8,366,516</u>	<u>1,178,369</u>	<u>(36,775)</u>	<u>\$ 9,508,110</u>
Total capital assets being depreciated, net	<u>\$15,074,432</u>	<u>2,197,383</u>	<u>-</u>	<u>\$17,271,815</u>
Governmental activities capital assets, net	<u>\$17,590,915</u>	<u>\$5,785,692</u>	<u>(\$ 3,091,703)</u>	<u>\$20,284,904</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$ 54,460
Public safety	62,433
Public works	589,798
Culture and recreation	365,846
Health and welfare	75,095
Community development	30,226
Education	<u>511</u>

Total deprecation expense-governmental activities \$1,178,369

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, 2004

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, 2004, 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>
2005	\$ 18,000
2006	30,000
2007	48,000
2008	75,000
2009	84,000
Thereafter	<u>2,166,452</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, 2004

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 \$3,157,050 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 \$739,951 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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	\$382,867
Federal Transit: Capital Investment Grants	30,423
Community Service Block Grant	25,626
Child and Adult Care Food Program	25,882
Child Care and Development Block Program	64,078
Section 8 – Housing Choice Voucher	57,506
Other	<u>8,104</u>
Total	<u>\$594,486</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$ 5,310,000	\$ 330,000	\$ 140,151	\$ 5,499,849	\$169,000
Notes Payable	1,130,000		230,000	900,000	226,250
Property Tax – Department of Treasury	2,421,452		-	2,421,452	18,000
Property Tax – CRIM – "Law 42"	3,440,749		283,699	3,157,050	273,902
Property Tax – CRIM – "Law 146"	226,491		-	226,491	-
Compensated Absences	1,033,314	552,450	411,271	1,174,493	46,790
Claims and judgments	<u>78,038</u>	<u>-</u>	<u>60,000</u>	<u>18,038</u>	<u>18,038</u>
Total	<u>\$13,640,044</u>	<u>\$ 882,450</u>	<u>\$1,125,121</u>	<u>\$13,397,373</u>	<u>\$751,980</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. LONG-TERM LIABILITIES (CONTINUED)

- a. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus 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.
- b. **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 \$330,000. Bonds payable outstanding at June 30, 2004 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, 2004</u>
1983 Series	1/1/2008	\$ 285,000	9.50% - 10.63%	\$ 114,849
1987 Series	1/1/2011	194,000	5.00%	90,000
1988 Series	1/1/2013	270,000	5.00%	147,000
1994 Series	7/1/2008	260,000	5.00% - 7.61%	120,000
1996 Series	1/1/2020	238,000	4.50%	213,000
1998 Series	1/1/2022	122,000	4.50%	115,000
1998 Series	7/1/2023	715,000	2.70% - 6.13%	675,000
2001 Series	7/1/2025	1,300,000	5.00% - 7.50%	1,240,000
2003 Series	7/1/2027	1,230,000	5.00% - 6.50%	1,210,000
2003 Series	7/1/2027	405,000	5.00% - 6.50%	400,000
2003 Series	7/1/2027	875,000	5.00% - 6.00%	845,000
2004 Series	7/1/2028	330,000	4.00% - 5.00%	<u>330,000</u>
Total general obligation bonds				<u>\$5,499,849</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>	<u>Total</u>
2005	\$ 169,000	\$ 282,216	451,216
2006	184,000	511,727	695,727
2007	194,000	317,103	511,103
2008	220,849	304,317	525,166
2009	200,000	290,163	490,163
2010-2013	671,000	996,073	1,667,073
2014-2018	1,002,000	1,049,163	2,051,163
2019-2023	1,359,000	659,760	2,018,760
2024-2028	<u>1,500,000</u>	<u>199,350</u>	<u>1,699,350</u>
Total	<u>\$5,499,849</u>	<u>\$4,609,872</u>	<u>10,109,721</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. LONG-TERM LIABILITIES (CONTINUED)

- c. **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. 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, 2004</u>
1999 Series	7/1/2005	\$ 280,000	2.70% - 6.13%	\$ 125,000
1996 Series	7/1/2006	600,000	5.00% - 8.00%	155,000
2003 Series	7/1/2009	820,000	5.00% - 6.00%	<u>620,000</u>
Total notes payable				<u>\$ 900,000</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>	<u>Total</u>
2005	\$ 226,250	\$ 42,362	268,612
2006	258,750	32,271	291,021
2007	145,000	16,200	161,200
2008	130,000	12,300	142,300
2009	<u>140,000</u>	<u>4,200</u>	<u>144,200</u>
Total	<u>\$900,000</u>	<u>\$107,333</u>	<u>1,007,333</u>

- d. **Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2004, as described in Note 6, from property tax advances in excess of actual collections.
- e. **Compensated absences-** The government-wide statement of net assets includes approximately \$278,555 of accrued sick leave benefits, and approximately \$895,938 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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.

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, 2004 amounted to approximately \$131,938 and \$159,197, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. PENSION PLAN (CONTINUED)

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, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

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. The claims amounted to approximately \$61 millions.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$18,038 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

11. CONTINGENCIES (CONTINUED)

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.

12. SUBSEQUENT EVENTS

- On July 1, 2004, The Municipal Legislature approved the issuance of a Municipal General Obligation Note amounting to \$525,000.00. The proceeds of this note will be used to finance the acquisition of new equipment.
- On July 1, 2004, The Municipal Legislature approved the issuance of a Municipal General Obligation Bond amounting to \$730,000.00. The proceeds of this bond will be used to finance nine capital projects in the municipality.
- On July 1, 2004, The Municipal Legislature approved the issuance of a Municipal General Obligation Note amounting to \$130,000.00. The proceeds of this note will be used to finance the acquisition of new air conditioning units.
- On December 12, 2004, The Director of Finance requested from The Department of Labor a change in the method with which they compute the unemployment contribution, from the Reimbursement Method to the Experience Method.
- On December 29, 2004, The Municipal Legislature approved an ordinance establishing the procedures to be followed when enacting an employee lay-off, due to the elimination of positions because of a lack of funds or work and to eliminate eventually the general fund deficit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$1,634,905	\$1,837,242	\$1,913,319	\$ 76,077
Municipal license tax	1,027,974	1,027,974	976,884	(51,090)
Licenses, permits and other local taxes	1,231,742	1,231,742	612,665	(619,077)
Charges for service	186,500	186,500	147,775	(38,725)
Intergovernmental	3,682,741	3,682,741	3,735,650	52,909
Rent of property				
Fines and forfeitures				
Interest	67,000	67,000	103,074	36,076
Miscellaneous	111,300	111,300	84,942	(26,358)
Operating transfer from other fund				
Total revenues and other financing sources	<u>\$7,942,162</u>	<u>\$8,144,499</u>	<u>\$7,574,309</u>	<u>(\$ 570,190)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	\$4,532,288	\$4,501,512	\$4,111,552	\$ 389,960
Public safety	274,522	264,946	285,074	(20,128)
Public works	1,252,886	1,337,816	1,483,930	(146,114)
Health and welfare	780,788	747,101	766,650	(19,549)
Culture and recreation	186,138	194,047	263,090	(69,043)
Economic development				
Community development				
Public lighting	617,521	617,521	689,537	(72,016)
Education				
Operating transfer to other fund	<u>298,019</u>	<u>481,556</u>	<u>781,525</u>	<u>(299,969)</u>
Total expenditures, encumbrances and other financing uses	<u>\$7,942,162</u>	<u>\$8,144,499</u>	<u>\$8,381,358</u>	<u>(\$ 236,859)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(\$807,049)</u>	<u>(\$807,049)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$7,574,309
Differences-budget to GAAP:				
GAAP adjustment to revenues- Accounts Receivables				<u>352,955</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$7,927,265</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$8,381,358
Differences-budget to GAAP:				
Nonbudgeted expenditures- Accounts Payable & Accruals Expenses				720,283
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				<u>(781,525)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$8,320,116</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA, PUERTO RICO
STATEMENT OF REVENUES AND EXPENDITURES
(BUDGET AND ACTUAL)
BUDGETARY BASIS - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 350,204	350,204	608,040	257,836
Transfer-in	-	-	-	-
Total revenues	<u>350,204</u>	<u>350,204</u>	<u>608,040</u>	<u>257,836</u>
Expenditures				
Bonds and notes	172,000	172,000	180,151	(8,151)
Interest-bonds and notes	<u>178,204</u>	<u>178,204</u>	<u>190,150</u>	<u>(11,946)</u>
Total expenditures	<u>350,204</u>	<u>350,204</u>	<u>370,301</u>	<u>(20,097)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>237,739</u>	<u>237,739</u>
Reconciliation of differences:				
Uses/outflows of financial resources:				
Actual amounts (budgetary basis) "total charges to appropriations from the budgetary comparison schedule			\$ 370,301	
Differences - budgetary basis to GAAP				
Transfers from the general fund are outflows of budgetary resources but are not expenditures for financial reporting purposes.			<u>279,188</u>	
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances - governmental funds			<u>\$ 649,489</u>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)

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 and Debt Service Fund is the budget ordinance at June 30, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

MUNICIPALITY OF GUAYANILLA, PUERTO RICO

**ADDITIONAL REPORTS REQUIRED UNDER THE
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**



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

Certified Public Accountants and Financial Consultants

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 of the Commonwealth of Puerto Rico (The Municipality)** as of and for the year ended June 30, 2004, and have issued our report thereon dated January 15, 2004, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the Capital Assets reported in the Governmental Activities. Except as discussed in the preceding sentence, 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's** basic financial statements are free of material misstatement, we performed test 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 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 an instance of noncompliance that is required to be reported under Government Auditing Standards. This noncompliance instance is described in the accompanying Schedule of Findings and Questioned Costs as Items 04-II-1 to 04-II-2.

**INDEPENDENTS 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
(Continuation)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs, as Items 04-II-1 to 04-II-2.

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 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 all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Item 04-II-1 to be a material weakness.

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

January 15, 2005
San Juan, Puerto Rico

Nieves Velázquez & Co., P.S.C.

CPA Stamp #1981603 was affixed
to the record copy of this report.





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND 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 of the Commonwealth of Puerto Rico (The Municipality)** with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The **Municipality's** major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, 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's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality's** compliance with those requirements.

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

(Continuation)

Compliance (Continuation)

In our opinion, the **Municipality** 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Finding and Questioned Costs as Item 04-III-1.

Internal Control Over Compliance

The management of the **Municipality** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality's** internal control over compliance with 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 our 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's** ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions is described in the accompanying schedule of findings and questioned costs as item 04-III-1.

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

Internal Control Over Compliance (Continuation)

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 the 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 in 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Municipality as of and for the year ended June 30, 2004, and have issued our report thereon dated January 15, 2005, which was unqualified at the fund financial statements level, but adverse at the government wide financial statements because we were unable to obtain competent evidential matter related to the Capital Assets reported in the Governmental Activities. Except as discussed in the preceding sentence, our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 16, 2005
San Juan, Puerto Rico

Menes Velazquez & Co., P.S.C.

CPA Stamp #1981604 was affixed
to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

<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	Not applicable	\$ 25,027
Pass-through the Commonwealth of Puerto Rico- Department of Education: Child and Adult Care Food Program	10.558	Not available	17,384
U.S. Department of Housing and Urban Development			
Direct Program			
Section 8 Housing Choice Voucher Program	14.871	Not applicable	700,993
Pass-through the Commonwealth of Puerto Rico-Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant- State Program	14.228	99-FD-27 00-FD-27 01-FD-27 02-AB-FC-27 03-FD-27	918,934
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	Not available	63,583
Local Law Enforcement Block Grants Program	16.592	Not available	50,002
Public Safety Partnership and Community Policing Grant	16.710	Not available	314,692
U.S. Federal Emergency Management Agency			
Pass-through the Commonwealth of Puerto Rico- Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	Not available	50,820
U.S. Department of Health and Human Services			
Pass-through the Commonwealth of Puerto Rico- Administration for Children and Families:			
Child Care & Development Block Grant	93.575	Not available	<u>419,661</u>
Total Expenditures of Federal Awards			<u>\$2,561,095</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

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 Government and Nonprofit 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 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:

<u>Description</u>	<u>Special Revenue Fund Federal Grants</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Per Schedule of Expenditures of Federal Awards	\$2,536,068	25,027	-	2,561,095
Non Federal Programs Expenditures	<u>5,434</u>	<u>2,059,376</u>	<u>649,489</u>	<u>2,714,299</u>
Total Expenditures in the Fund Financial Statements	<u>\$2,541,502</u>	<u>2,084,403</u>	<u>649,489</u>	<u>5,275,394</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section I. Summary of Audit 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?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Reportable conditions identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

Federal Awards

Internal Control over major programs:		
Material weakness identified?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Reportable conditions identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Type of auditors' report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

Identification of major programs:

CFDA Number

14.228

14.871

Name of Federal Program or Cluster

Community Development Block Grant-State's Program

Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs Auditee qualified as low-risk auditee?

Yes No

\$300,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	04-II-1	<p>Fixed/Capital Assets</p> <p><u>Criteria</u></p> <p>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.</p> <p><u>Condition</u></p> <p>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.</p> <p><u>Cause</u></p> <p>Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.</p> <p><u>Effect</u></p> <p>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.</p>	—

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
All Programs and Funds	04-II-1	<p>Fixed/Capital Assets (Continuation)</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to assign a task force or an outside consultant to acquire competent evidential matter to support the value, completeness and ownership of those assets.</p> <p><u>Management Comments</u></p> <p>We agree with the auditors' finding and will follow their recommendation.</p>	
CDBG (14.228) and General Fund	04-II-2	<p>Expenditures for Goods and Services and Account Payables-Purchasing and Receiving</p> <p><u>Criteria</u></p> <p>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.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG (14.228) and General Fund	04-II-2	<p>Expenditures for Goods and Services and Account Payables-Purchasing and Receiving (Continuation)</p> <p><u>Condition</u></p> <p>We performed a search unrecorded liabilities and examined forty (40) disbursement vouchers related to CDBG-State Program, and forty (40) disbursement voucher related to General Fund. As result we found the following:</p> <ul style="list-style-type: none"> a. In four (4) CDBG-State Program disbursement vouchers, the purchase order was dated after the receiving of goods or service. b. In four (4) General Fund disbursement vouchers, the purchase order was dated after the receiving of goods or services. <p><u>Cause</u></p> <p>The Municipality's internal control procedures failed to assure that all transactions followed established procedures.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter Four (IV) and Eight (VIII).</p> <p>The Municipality is not in compliance with the Article 8.016 (c) of State Act Number 81 of August 30, 1991.</p>	<p>—</p> <p>—</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section II. Financial Statement Findings

<u>Fund or Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG (14.228) and General Fund	04-II-2	<p>Expenditures for Goods and Services and Account Payables-Purchasing and Receiving (Continuation)</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality should improve its internal control procedures in order to assure that all the established procedures have been followed before products and services are ordered.</p> <p><u>Management Comments</u></p> <p>We agree with the auditors' finding and will follow their recommendation.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section III. Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG 14.228	04-III-1	<p><i>Cash Management</i></p> <p><u>Criteria</u></p> <p>The Municipality must maintain a cash management system in order to minimize the time elapsed between the transfer of funds between the pass-through grantor and disbursements made by the grantee (24 CFR, Subpart I, Section 570.489).</p> <p><u>Condition</u></p> <p>The Municipality's elapsed time between draw down and disbursement averaged 33 days.</p> <p><u>Cause</u></p> <p>The Municipality did not maintain appropriate cash management procedures to minimize the elapsed time between draw downs and related disbursement.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR, Subpart I, Section 570.489.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Section III. Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG 14.228	04-III-1	<i>Cash Management</i> <u>Recommendation</u> Municipal officials should improve sound internal control procedures to minimize the elapsed time between draw downs and related disbursements in order to comply with program requirements. <u>Management Comments</u> We agree with the auditors' finding and will follow their recommendation.	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-06	14.871	<i>Cash Management</i>

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.

At June 30, 2004 we determined that the cash balance was \$140,433 of which \$95,557.92 are held as operating reserve.

03-07	14.871	<i>Eligibility of Individuals</i>
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We performed an eligibility test and examined a sample of thirty (30) participant's files. The following summarized the situations found:

- 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.

We examined twenty five (25) participant's files for the current year and found no exception.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-08	14.871	<p><i>Special Test-Reasonable Rent</i></p> <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> <ol style="list-style-type: none">On two (2) new participant's file the certification of reasonable rent included only one comparable unassisted unit.On three (3) new participant's files the certification of reasonable rent did not include the comparable rent with other similar units.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.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. <p>In our current year examination, we did not encounter a similar situation.</p>
03-09	14.871	<p><i>Special Test-Housing Quality Standards Inspections and Housing Quality Standards Enforcement</i></p> <p>During our examination of thirty (30) participant files, we noted the following situations:</p> <ol style="list-style-type: none">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.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.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.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. <p>In our current year examination, we did not encounter a similar situation.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-10	14.871	<u>Special Test</u> 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. 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. In our current year examination, we did not encounter a similar situation.
03-11	14.871	<u>Special Test-Utility Allowance Schedule</u> 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. In our current year examination, we did not encounter a similar situation.
03-13	14.228	<u>Allowable Activities</u> During our examination of five (5) housekeeping assistance project participant files, we noted the following situations: 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) 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.

No corrective action taken during 2003-2004.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-14	14.228	<u>Cash Management</u> 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. No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-III-01.
03-15	14.228	<u>Davis-Bacon Act</u> 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. In our current year examination, we did not encounter a similar situation.
03-16	14.228	<u>Equipment and Real Property Management</u> 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. No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 04-II-1.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-17	14.228	<u>Procurement and Suspension and Debarment</u> During our contract provision test, we noted the following situation: <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. In our current year examination, we did not encounter a similar situation.
03-18	14.228	<u>Program Income</u> 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: <ul 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. No corrective action taken during the year 2003-2004.
03-19	14.228	<u>Reporting</u> During our examination of reporting, we could not obtain evidence which assure us that the Financial Quarterly Reports of the fiscal year 2002-2003 were submitted on a timely basis. In our current year examination, we did not encounter a similar situation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
03-20	93.575	<p><u>Cash Management</u></p> <p>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.</p> <p>Similar situation noted during the current year. See finding 04-III-1.</p>
02-08	10.770	<p>The Municipality must implement controls and procedures in order to assure the accountability of all financial transactions.</p> <p>No corrective action has been taken.</p>
02-10	14.228	<p>The Municipality should maintain its cash management internal control procedures to assure compliance with the cash management requirement.</p> <p>No corrective action has been taken. The auditors reissued the finding for the 2003-04 fiscal year. Finding Reference 04-III-1.</p>
02-11	14.228	<p>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.</p> <p>In our current year examination, we did not encounter a similar situation.</p>
02-12	14.228	<p>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.</p> <p>No corrective action has been taken. The auditors reissued the finding for 2003-04 fiscal year. Finding Reference 04-II-1.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

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YEAR ENDED JUNE 30, 2004**

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
02-14	14.871	<p>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.</p> <p>No corrective action has been taken. The auditors reissued the findings for 2003-04 fiscal year. Finding Reference 04-III-1.</p>
02-15	14.871	<p>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.</p> <p>In our current year examination, we did not encounter a similar situation.</p>
02-17	14.871	<p>The Municipality should follow admission procedures established in 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.</p> <p>In our current year examination, we did not encounter a similar situation.</p>
02-19	14.871	<p>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.</p> <p>In our current year examination, we did not encounter a similar situation.</p>
02-20	14.871	<p>The Municipality should evaluate utility allowance rate each year as established in the federal regulations.</p> <p>In our current year examination, we did not encounter a similar situation.</p>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
02-21	14.871	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. In our current year examination, we did not encounter a similar situation.
01-07	14.855	<u>Cash Management</u> No corrective action has been taken. The auditors reissued the finding for 2002-03 fiscal year. Finding Reference 03-06.
01-08	14.855	Eligibility Test-lack of proper documentation (participants records) as required by program regulations. No corrective action has been taken. The auditors reissued the finding for 2002-03 fiscal year. Finding Reference 03-07.
01-10	14.855	Section 8 Waiting List-Selection from the Waiting List. In our current year examination, we did not encounter a similar situation.
01-11	14.855	Housing Quality Standards Inspections and Enforcement In our current year examination, we did not encounter a similar situation.
01-12	14.855	The determination of reasonable rent (reasonable rent certification) was not documented in the participant files. In our current year examination, we did not encounter a similar situation.
01-13	14.228	The funds received were not disbursed in a reasonable time. In our current year examination, we did not encounter a similar situation.
01-14	14.228	The Municipality did not apply monitoring procedures to assure contractors compliance with Davis Bacon Act. In our current year examination, we did not encounter a similar situation.

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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

<u>Original Finding Number</u>	<u>CFDA No.</u>	<u>Current Status of Prior Year Audit Federal Award Findings</u>
01-15	14.228	Inadequate Property Records No corrective action has been taken. The auditors reissued the finding for 2003-04 fiscal year. Finding Reference 04-II-1.
01-16	14.228 83.544	Procurement and Suspension and Debarment No corrective action has been taken. The auditors reissued the finding for 2002-03 fiscal year. Finding Reference 03-17.
01-17	83.544	The Municipality did not maintain files by project worksheet (PW) as required by the Office of Governor Authorized Representative (GAR). No corrective action has been taken.
01-18	83.544	The Municipality did not provide to us the quarterly progress reports. No corrective action has been taken.
2000-III-1	83.544	Reporting, Matching, level of effort and earmarking. No corrective action has been taken.
2000-III-3	14.228 14.855 14.857	Equipment and Real Property Management No corrective action has been taken. The auditors reissued the finding for 2003-04 fiscal year. Finding Reference 04-II-1.
2000-III-4	14.228	Cash Management No corrective action has been taken. The auditors reissued the finding for 2003-04 fiscal year. Finding Reference 04-III-1.
2000-III-5	14.228	Procurement, Suspension and Debarment In our current year examination, we did not encounter a similar situation.
2000-III-6	83.544	Allowable Cost/Cost Principles, Reporting No corrective action has been taken.
2000-III-7	14.855 14.857	Special Test and Provisions No corrective action has been taken. The auditors reissued the finding for 2002-03 fiscal year. Finding Reference 03-10.