

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

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

**MUNICIPALITY OF GUAYANILLA
COMMONWEALTH OF PUERTO RICO**

SINGLE AUDIT REPORT
For the Fiscal Year Ended June 30, 2013
(With Independent Auditor Report Thereon)

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Basic Financial Statements and
Supplemental Schedule
Single Audit Report
Fiscal Year Ended June 30, 2013

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PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of **Guayanilla**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Adverse Opinion on the Castillo del Niño Fund and on the Business-Type Activities

Management has not included the Castillo del Niño Fund in the Municipality's financial statements. Accounting principles generally accepted in the United States of America require that Castillo del Niño Fund to be presented as a major enterprise fund and financial information about the Castillo del Niño Fund to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the business-type activities and the omitted major fund has not been determined.

Adverse Opinion

In my opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on the Castillo del Niño Fund and on the Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Castillo del Niño Fund and the business-type activities of the Municipality, as of June 30, 2013, or the changes in financial position or cash flows thereof for the year then ended.

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not maintain a complete, updated and accurate capital assets subsidiary ledger, in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$28,399,451, net of accumulated depreciation of \$29,991,272. The Municipality's records do not permit the application of other auditing procedures to the capital assets.

Disclaimer of Opinion

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

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the Castillo del Niño Fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 17 and 72 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 6, 2014, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
July 6, 2014

Stamp O2698684 was affixed
to the original of this report.



Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

As management of the Municipality of Guayanilla (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2012. This MD & A is prepared in order to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.*" and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provides for an evaluation of its financial condition as of the end of fiscal year 2012-2013 compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- Total Net Position of the Municipality Governmental Activities as of the end of the indicated fiscal year amounted to \$5,912,239 or eighteen percent (18%) of total assets.
- The Municipality's Governmental Activities total Net Position decreased by \$37,728.
- At the end of fiscal year 2013, total liabilities of the Municipality Governmental Activities amounted to \$26,517,527. Out of said amount, \$22,882,449 corresponded to long-term liabilities of which \$16,139,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.

Governmental Funds' Highlights:

- As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of (\$689,478) (fund balances of \$1,842,441 in previous fiscal year 2011-2012).
- At the end of the current fiscal year, the fund deficit of the Municipality's General Fund amounted to \$4,131,070 or \$1,874,941 more than the previous fiscal year.
- The actual General Fund budgetary activities resulted in unfavorable balance of \$1,655,228.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2013. Because this 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.

The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS), (2) fund financial statements (FFS), and (3) notes to the basic financial statements (NBFS). This report also contains additional required information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below.

a) Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2013. The GWFS are prepared using methods that are similar to those used by most private businesses.

Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

1. Statement of Net Position

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

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

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

2. Statement of Activities

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

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

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

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

GWFS and FFS present all of the Municipality's governmental activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; public housing and welfare; and economic and urban development.

b) Fund Financial Statements

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

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

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

1. Governmental funds

Governmental funds are used to account for most of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of governmental funds in the FFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, governmental funds in FFS report the Municipality's operations in more detail than the GWFS.

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

Governmental funds FFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, governmental funds FFS focus on near-term inflows and outflows of expendable financial resources, consequently, they measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance or deficit, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of governmental funds FFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

The Municipality has six major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The six major governmental funds are: (1) general fund, (2) Community Development Block Grant – State Program, (3) Municipal Hospital Fund, (4) Commonwealth of Puerto Rico – Joint Resolutions, (5) Loans Fund and, (6) Debt Service Fund.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and FFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

The basic financial statements are followed by a section of other supplementary information consisting of budgetary comparison schedule – general fund.

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Guayanilla, governmental activities assets exceeded total liabilities by \$5,912,239 at the end of 2013, as compared with \$5,912,239 at the end of the previous year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the (\$37,728) decrease reflected in the governmental activities Net Position figure.

| | Governmental activities | |
|--|--------------------------------|--------------------------|
| | June 30, 2013 | June 30, 2012 |
| Assets: | | |
| Current assets | \$ 4,030,315 | \$ 5,394,879 |
| Non-current assets: | | |
| Capital assets, net | 28,399,451 | 27,713,674 |
| Total assets | <u>32,429,766</u> | <u>33,108,553</u> |
| Liabilities: | | |
| Current liabilities, excluding long-term obligations | 3,635,078 | 2,922,298 |
| Long-term obligations: | | |
| Due within one year | 1,097,228 | 1,046,485 |
| Due after one year | 21,785,221 | 23,189,803 |
| Total liabilities | <u>26,517,527</u> | <u>27,158,586</u> |
| Net position (deficit): | | |
| Invested in capital assets, net of related debt | 17,490,452 | 16,375,674 |
| Restricted | 3,451,330 | 4,665,309 |
| Unrestricted | (15,029,543) | (15,091,016) |
| Total net position | <u>\$ 5,912,239</u> | <u>\$ 5,949,967</u> |

The Statement of Activities reflects that for fiscal year 2013, the net effect of total expenses over the revenues derived from several programs plus current operating revenues, amounted to a decrease of \$37,728 in governmental activities. Approximately twenty-eight percent (28%) of the Municipality's governmental activities total revenue came from taxes, while fifty-eight percent (58%) resulted from grants and contributions, including federal aid. The Municipality's governmental activities expenses included items such as general government, health and welfare, public works, public safety, culture, recreation and education, community development, urban and economic development and interest on long term obligations.

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

Approximately thirty-three percent (33%) of total expenses resulted from general government, twenty-four percent (24%) resulted from health and welfare, twenty-three percent (23%) resulted from public works, six percent (6%) resulted from public safety, six percent (6%) resulted from culture, recreation and education, two percent (2%) resulted from community development, one percent (1%) resulted from urban and economic development and five percent (5%) resulted from interest on long term obligations. The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2013 and 2012:

| | Governmental activities | |
|---|--------------------------------|--------------------------|
| | June 30, 2013 | June 30, 2012 |
| Program revenues: | | |
| Program-specific operating grants and contributions | \$ 2,974,009 | \$ 3,381,095 |
| Program-specific capital grants and contributions | 1,938,831 | 1,571,765 |
| Charges for services | 1,752,518 | 1,760,445 |
| Total program revenues | 6,665,358 | 6,713,305 |
| General revenues: | | |
| Property taxes | 2,100,655 | 1,900,517 |
| Municipal license taxes | 933,010 | 2,580,888 |
| Sales taxes | 1,100,363 | 948,363 |
| Construction excise taxes | 159,141 | 302,776 |
| Unrestricted grants and contributions | 4,111,437 | 3,952,938 |
| Other general revenues (various sources) | 356,362 | 452,208 |
| Total general revenues | 8,760,968 | 10,137,690 |
| Total revenues | 15,426,326 | 16,850,995 |
| Program expenses: | | |
| General government | 5,123,029 | 3,145,874 |
| Health and welfare | 3,728,031 | 3,811,724 |
| Public works | 3,665,687 | 5,575,965 |
| Public safety | 864,961 | 1,173,014 |
| Culture, recreation and education | 958,324 | 1,364,383 |
| Community development | 348,994 | 1,086,066 |
| Urban and economic development | 30,653 | - |
| Interest on long-term obligations | 744,375 | 624,291 |
| Total expenses | 15,464,054 | 16,781,317 |
| Net increase (decrease) in net position | (37,728) | 69,678 |
| Net position, at beginning of fiscal year, as restated | 5,949,967 | 5,880,289 |
| Net position, at end of fiscal year | \$ 5,912,239 | \$ 5,949,967 |

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality'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 deficit amounting to (\$689,478), which represents a decrease of (\$2,531,919) when compared with the prior year. Out of the indicated balance, \$3,451,330 were restricted or committed for the following purposes: 1) to liquidate accounts payable with suppliers (\$9,738); (b) to pay debt service (\$784,430) and; (c) for capital projects and other special purposes (\$2,657,162). As of June 30, 2013, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of (\$4,140,808).

The following table presents the condensed financial position of governmental funds at June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---------------------|---------------------|
| <i>Assets:</i> | | |
| Total assets | \$ 5,765,000 | \$ 7,047,548 |
| Combined total assets | 5,765,000 | 7,047,548 |
| <i>Liabilities:</i> | | |
| Total liabilities and deferred inflows of resources | 6,454,478 | 5,205,107 |
| Combined total liabilities | 6,454,478 | 5,205,107 |
| <i>Fund balances (deficits):</i> | | |
| Restricted | 2,506,385 | 4,125,309 |
| Committed | 944,945 | - |
| Unassigned | (4,140,808) | (2,282,868) |
| Combined total fund balances | (689,478) | 1,842,441 |
| <i>Total liabilities deferred inflows of resources and fund balances</i> | \$ 5,765,000 | \$ 7,047,548 |

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

Major Governmental Funds

General Fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to \$498,769 at June 30, 2013. Such assets consist principally of: property taxes receivables (\$293,125) and short-term amounts due from other funds (\$117,791). The GF's total liabilities amounted to \$4,336,714 at June 30, 2013. Such liabilities are composed mainly of: accounts payable and accrued liabilities (\$687,606), intergovernmental payable (\$1,007,240), amounts due to other governmental funds (\$1,439,545) and unearned revenues (\$984,775). The GF's deferred inflows of resources amounted to \$293,125 at June 30, 2013, and consist in property taxes unavailable revenues. At the end of the current fiscal year, restricted fund balance reached \$9,738 and unassigned fund deficit of the GF amounted to (\$4,140,808), while total fund deficit reached (\$4,131,070).

Community Development Block Grant – State Program Fund (CDBG) – The CDBG's total assets amounted to \$93,699 at June 30, 2013, which consist of cash in commercial banks (\$19,766) and receivables from intergovernmental grants and contributions (\$73,933). The CDBG's total liabilities amounted to \$93,699 at June 30, 2013, which are composed of accounts payable and accrued liabilities (\$61,200) and short-term amounts due to other funds (\$32,499).

Municipal Hospital Fund (MHF) – The MHF's total assets amounted to \$162,700 at June 30, 2013, which consist of accounts receivables (\$146,180) and short-term amounts due from other funds (\$16,520). The MHF's total liabilities amounted to \$155,670 at June 30, 2013, which are composed of a bank overdraft (\$14,376) and accounts payable and accrued liabilities (\$141,294). At the end of the current fiscal year, restricted and total fund balance reached \$7,030.

Commonwealth of Puerto Rico – Joint Resolutions Fund – (JRF) – The JRF's total assets amounted to \$703,559 at June 30, 2013, which consist of cash in commercial banks (\$4,803) and short-term amounts due from other funds (\$698,756). The JRF's total liabilities amounted to \$292,179 at June 30, 2013, which are composed of short-term amounts due to other funds. At the end of the current fiscal year, restricted and total fund balance reached \$411,380.

Loans Fund (LF) – The LF's total assets amounted to \$1,038,723 at June 30, 2013, which consist of cash in fiscal agent. The LF's total liabilities amounted to \$93,778 at June 30, 2013, which consist of accounts payable and accrued liabilities. At the end of the current fiscal year, committed and total fund balance reached \$944,945.

Debt service fund (DSF) – The DSF's total assets amounted to \$1,744,485 at June 30, 2013, which consist of restricted cash in fiscal agent (\$1,672,576), property taxes receivables (\$10,062) and sales and use tax receivables (\$61,847). The DSF's total liabilities amounted to \$960,055 at June 30, 2013, which composed of: (1) matured bonds due and payable (\$640,000), and (2) matured interest due and payable (\$320,055). At the end of the current fiscal year, DSF's total and restricted fund balance reached \$784,430.

Other Governmental Funds – (OGF) – OGF's total assets amounted to \$1,523,065 at June 30, 2013, which consist principally of cash in commercial banks (\$384,019) and short-term amounts due from other funds (\$1,053,208). The OGF's total liabilities amounted to \$229,258 at June 30, 2013, which are composed of short-term amounts due to other funds (\$122,052) and unearned revenues (\$107,206). At the end of the current fiscal year, restricted and total fund balance reached \$1,293,807.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

Analysis of Operating Results of Governmental Funds

Major Governmental Funds

General fund– The total fund deficit of the GF increased by \$1,874,941 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$8,692,752, \$10,345,762, and (\$221,931), respectively, for the fiscal year ended June 30, 2013.

Approximately thirty-two percent (32%) (\$2,740,727) of the GF's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while sixty-four percent (64%) (\$5,578,948) resulted from intergovernmental grants and contributions.

The largest expenses of the GF for the fiscal year ended June 30, 2013 were related to: general administrative and operating costs (\$5,730,325), which were classified as "general government" and accounted for fifty-five percent (55%) of total expenses, and public works (\$2,552,266), which accounted for twenty-five percent (25%).

Community Development Block Grant – State Program Fund (CDBG) – The total revenues and expenditures of the CDBG for the current fiscal year amounted to \$1,521,980. Total revenues came from federal grants and contributions and total expenditures were for community development.

Municipal Hospital Fund (MHF) – The total revenues of the MHF for the current fiscal year amounted to \$1,769,236, and came from charges for service (\$1,523,511) and intergovernmental grants and contributions (\$245,725).

Total expenditures amounted to \$1,930,445 for the fiscal year ended June 30, 2013, and came from health and welfare.

Commonwealth of Puerto Rico – Joint Resolutions Fund – (JRF) – The total revenues of the JRF for the current fiscal year amounted to \$516,000, and came from intergovernmental grants and contributions.

Total expenditures amounted to \$117,246 for the fiscal year ended June 30, 2013, and came principally from public works (\$114,277).

Loans Fund (LF) – Total expenditures of the LF for current fiscal year amounted to \$913,325, and came principally from public works (\$314,037) and culture, recreation and education (\$558,163).

Debt service fund (DSF) – The total fund balance of the DSF increased by \$74,145 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to \$1,350,589, \$1,498,375 and \$221,931, respectively, for the fiscal year ended June 30, 2013.

Approximately forty-four percent (44%) (\$596,554) of DSF's total revenues for the current fiscal year came from restricted property taxes, while fifty-six percent (56%) (\$752,903) came from restricted sales and use taxes. Total expenditures for the current fiscal year came from principal and interests on bonds payable (\$1,498,375).

Other Governmental Funds – (OGF) – The total revenues of the OGF for the current fiscal year amounted to \$1,221,194, and came principally from federal grants and contributions (\$1,137,772).

Total OGF expenditures amounted to \$1,276,537 for the fiscal year ended June 30, 2013, and came principally from health and welfare (\$883,931) and culture, recreation and education (\$293,421).

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

BUDGETARY HIGHLIGHTS

a) General Fund

The original and the final budget of the general fund for the fiscal year ended June 30, 2013 amounted to \$11,695,331. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$8,708,501, which is 26% (\$2,986,830) lower than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2013 were \$10,363,729, which is 11% (\$1,331,602), lower than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in property, municipal license and construction excise taxes, which had actual revenues that were \$(426,609), \$(2,504,090) and \$(279,201) lesser than budgeted, respectively.

Also, the most significant fluctuations in actual expenditures and encumbrances occurred in general government and public works, which had actual expenditures and encumbrances that were \$1,355,417 more than budgeted, and \$1,688,940 lower than budgeted, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to \$28,399,451 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, improvements, machinery and equipment, and furniture and fixtures. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$685,777.

The major classes of capital assets (net of accumulated depreciation) were the following:

| Description | Amount |
|--|--------------------------|
| Land | \$ 2,092,789 |
| Construction in progress | 2,999,477 |
| Buildings | 17,718,935 |
| Buildings improvements | 4,558,099 |
| Infrastructure | 525,959 |
| Machinery and equipment, and furniture and fixtures | 248,492 |
| Licensed vehicles | <u>255,700</u> |
| Total Assets | <u>\$ 28,399,451</u> |

During the current year, construction in progress amounted to \$3,460,322 was reclassified to building, structures and improvements category.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

b) Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act establishes that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Funds and the annual amounts collected with respect to such Municipality's Sales and Use Tax and 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.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax and a Sales and Use 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 and the Sales and Use Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Funds, are not sufficient to cover such debt service. In the particular case of the Municipality of Guayanilla, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. 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.

At June 30, 2013, the Municipality's total bonded debt amounted to \$16,139,000, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2013:

- Bonds payable decreased by four percent (4%) (\$654,000) by the effect of total principal payments made during the current fiscal year.
- The Municipality has also certain outstanding notes payable due to Puerto Rico Department of Treasury (\$1,755,452). Such notes payable decreased by \$180,000 during the current fiscal year mainly due to the principal payments made during the same period.
- The Municipality has also certain outstanding notes payable due to CRIM (\$3,132,584). Such notes payable decreased by \$87,304 during the current fiscal year mainly due to the principal payments made during the same period.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2013-2014.

FINAL COMMENTS

The Municipality of Guayanilla is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community, urban and economic development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, sales taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government. Since the Municipality is significantly dependent on the intergovernmental grants and contributions received from the government of the Commonwealth of Puerto Rico and from property tax advances received from CRIM, the municipality could suffer a significant financial burden for certain scheduled intergovernmental revenues that could not be collected during the fiscal year 2013-2014.

REQUEST FOR INFORMATION

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 at P.O. Box 1875, Guayanilla, PR 00656, call (787) 835-2660, or visit our website at www.guayanillapr.net.

**Basic Financial Statements and
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Statement of Net Position
June 30, 2013

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Current assets: | |
| Cash in commercial banks | \$ 408,588 |
| Cash in fiscal agent | 2,730,967 |
| Accounts receivable, net of allowance for doubtful accounts: | |
| Property taxes | 303,187 |
| Intergovernmental | 146,610 |
| Sales tax | 91,176 |
| Construction excise taxes | 37,422 |
| Other | 312,365 |
| Total current assets | <u>4,030,315</u> |
| Noncurrent assets: | |
| Capital assets, net of accumulated depreciation and amortization of \$29,991,272 | <u>28,399,451</u> |
| Total noncurrent assets | <u>28,399,451</u> |
| Total assets | <u>\$ 32,429,766</u> |
| Current Liabilities (due within one year): | |
| Bank overdraft | \$ 231,924 |
| Accounts payable | 983,878 |
| Intergovernmental payables | 1,007,240 |
| Accrued interest payable on long-term debt | 320,055 |
| Deferred revenues | 1,091,981 |
| Current portion of long-term obligations: | |
| Bonds payable | 690,000 |
| Other debts | 407,228 |
| Total current liabilities | <u>4,732,306</u> |
| Total liabilities | <u>21,785,221</u> |
| Total liabilities | <u>26,517,527</u> |
| Deferred Inflows of Resources | <u>-</u> |
| Net position (liabilities): | |
| Invested in capital assets, net of related debt | 17,490,452 |
| Restricted for: | |
| Debt service | 784,430 |
| Other specified purposes | 2,666,900 |
| Unrestricted net position | (15,029,543) |
| Total net position | <u>\$ 5,912,239</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Statement of Activities
June 30, 2013

| <u>Functions/programs</u> | <u>Expenses</u> | <u>Charges for services</u> | <u>Program Revenues</u> | | <u>Net Expenses and Charges in Net Assets</u> |
|---|----------------------|-----------------------------|---|---|---|
| | | | <u>Operating grants and contributions</u> | <u>Capital grants and contributions</u> | |
| Governmental activities : | | | | | |
| General government | \$ 5,123,029 | \$ - | \$ - | \$ - | \$ (5,123,029) |
| Health and welfare | 3,728,031 | 1,523,512 | 1,162,266 | 35,211 | (1,007,042) |
| Public works | 3,665,687 | 133,914 | 1,472,035 | 432,840 | (1,626,898) |
| Public safety | 864,961 | 29,475 | 21,726 | - | (813,760) |
| Culture, recreation and education | 958,324 | 65,617 | 317,982 | - | (574,725) |
| Community Development | 348,994 | - | - | 1,470,780 | 1,121,786 |
| Urban and economic development | 30,653 | - | - | - | (30,653) |
| Interest on long-term obligation | 744,375 | - | - | - | (744,375) |
| Total governmental activities | <u>\$ 15,464,054</u> | <u>\$ 1,752,518</u> | <u>\$ 2,974,009</u> | <u>\$ 1,938,831</u> | <u>(8,798,696)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes | | | | | 2,100,655 |
| Municipal license taxes | | | | | 933,010 |
| Sales taxes | | | | | 1,100,363 |
| Construction excise taxes | | | | | 159,141 |
| Total taxes | | | | | <u>4,293,169</u> |
| Grants and contributions, not restricted to specific programs | | | | | 4,111,437 |
| Interests on deposits | | | | | 94,044 |
| Miscellaneous | | | | | 262,318 |
| Total general revenues | | | | | <u>8,760,968</u> |
| Net changes in net position | | | | | <u>(37,728)</u> |
| Net position at beginning of the year, as restated | | | | | <u>5,949,967</u> |
| Net position at the end of the year | | | | | <u>\$ 5,912,239</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

Balance Sheet
Governmental Funds
June 30, 2013

| | MAJOR FUNDS | | | | | | | Total Governmental Funds |
|--|--------------------|---|----------------------------|---|---------------------|----------------------|--------------------------------|--------------------------------|
| | General Fund | Community Development Block Grant - State Program Fund | Municipal Hospital Fund | Commonwealth of Puerto Rico - Joint Resolutions Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | |
| ASSETS | | | | | | | | |
| Cash in commercial banks | \$ - | \$ 19,766 | \$ - | \$ 4,803 | \$ - | \$ - | \$ 384,019 | \$ 408,588 |
| Cash in fiscal agent | 9,738 | - | - | - | 1,038,723 | 1,672,576 | 9,930 | 2,730,967 |
| Account receivable, net of doubtful accounts: | | | | | | | | |
| Property taxes | 293,125 | - | - | - | - | 10,062 | - | 303,187 |
| Construction excise taxes | 37,422 | - | - | - | - | - | - | 37,422 |
| Sales tax | 29,329 | - | - | - | - | 61,847 | - | 91,176 |
| Intergovernmental | - | 73,933 | 96,397 | - | - | - | 72,677 | 243,007 |
| Other | 11,364 | - | 49,783 | - | - | - | 3,231 | 64,378 |
| Due from other funds | 117,791 | - | 16,520 | 698,756 | - | - | 1,053,208 | 1,886,275 |
| Total assets | 498,769 | 93,699 | 162,700 | 703,559 | 1,038,723 | 1,744,485 | 1,523,065 | 5,765,000 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | | | | |
| Liabilities | | | | | | | | |
| Bank overdraft | 217,548 | - | 14,376 | - | - | - | - | 231,924 |
| Accounts payable and accrued liabilities | 687,606 | 61,200 | 141,294 | - | 93,778 | - | - | 983,878 |
| Intergovernmental | 1,007,240 | - | - | - | - | - | - | 1,007,240 |
| Due to other funds | 1,439,545 | 32,499 | - | 292,179 | - | - | 122,052 | 1,886,275 |
| Unearned revenues | 984,775 | - | - | - | - | - | 107,206 | 1,091,981 |
| Matured bonds due and payable | - | - | - | - | - | 640,000 | - | 640,000 |
| Matured interests due and payable | - | - | - | - | - | 320,055 | - | 320,055 |
| Total liabilities | 4,336,714 | 93,699 | 155,670 | 292,179 | 93,778 | 960,055 | 229,258 | 6,161,353 |
| Deferred inflows of resources | | | | | | | | |
| Unavailable revenues: | | | | | | | | |
| Property taxes | 293,125 | - | - | - | - | - | - | 293,125 |
| Total deferred inflows of resources | 293,125 | - | - | - | - | - | - | 293,125 |
| FUND BALANCE | | | | | | | | |
| Fund balance: | | | | | | | | |
| Restricted | 9,738 | - | 7,030 | 411,380 | - | 784,430 | 1,293,807 | 2,506,385 |
| Committed | - | - | - | - | 944,945 | - | - | 944,945 |
| Unassigned | (4,140,808) | - | - | - | - | - | - | (4,140,808) |
| Total fund balances (deficit) | (4,131,070) | - | 7,030 | 411,380 | 944,945 | 784,430 | 1,293,807 | (689,478) |
| TOTAL LIABILITIES AND FUND BALANCE (DEFICIT) | \$ 498,769 | \$ 93,699 | \$ 162,700 | \$ 703,559 | \$ 1,038,723 | \$ 1,744,485 | \$ 1,523,065 | \$ 5,765,000 |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2013

MAJOR FUNDS

| | General Fund | Community Development Block Grant - State Program Fund | Municipal Hospital Fund | Commonwealth of Puerto Rico - Joint Resolutions Fund | Loans Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------|---|----------------------------|---|------------|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | \$ 1,210,976 | \$ - | \$ - | \$ - | \$ - | \$ 596,554 | \$ - | \$ 1,807,530 |
| Municipal license taxes | 933,010 | - | - | - | - | - | - | 933,010 |
| Construction excise taxes | 249,281 | - | - | - | - | - | - | 249,281 |
| Sales tax | 347,460 | - | - | - | - | 752,903 | - | 1,100,363 |
| Charges of service | 229,006 | - | 1,523,511 | - | - | - | 58,967 | 1,811,484 |
| Intergovernmental grants and contributions: | | | | | | | | |
| Federal government | - | 1,521,980 | - | - | - | - | 1,137,772 | 2,659,752 |
| State government | 5,578,948 | - | 245,725 | 516,000 | - | - | 23,852 | 6,364,525 |
| Investment earnings | 92,309 | - | - | - | - | 1,132 | 603 | 94,044 |
| Miscellaneous | 51,762 | - | - | - | - | - | - | 51,762 |
| Total Revenues | \$ 8,692,752 | \$ 1,521,980 | \$ 1,769,236 | \$ 516,000 | \$ - | \$ 1,350,589 | \$ 1,221,194 | \$ 15,071,751 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| General government | 5,730,325 | - | - | - | - | - | - | 5,730,325 |
| Health and welfare | 905,130 | - | 1,930,445 | - | 41,125 | - | 883,931 | 3,760,631 |
| Public works | 2,552,266 | - | - | 114,277 | 314,037 | - | 36,367 | 3,016,947 |
| Public safety | 837,254 | - | - | - | - | - | 27,367 | 864,621 |
| Culture, recreation and education | 320,787 | - | - | 2,969 | 558,163 | - | 293,421 | 1,175,340 |
| Community Development | - | 1,521,980 | - | - | - | - | 35,451 | 1,557,431 |
| Debt service: | | | | | | | | |
| Principal | - | - | - | - | - | 754,000 | - | 754,000 |
| Interest | - | - | - | - | - | 744,375 | - | 744,375 |
| Total Expenditures | 10,345,762 | 1,521,980 | 1,930,445 | 117,246 | 913,325 | 1,498,375 | 1,276,537 | 17,603,670 |
| Excess (Deficiency) of Revenues over expenditures | (1,653,010) | - | (161,209) | 398,754 | (913,325) | (147,786) | (55,343) | (2,531,919) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfer in from other funds | - | - | - | - | - | 221,931 | - | 221,931 |
| Transfer out to other funds | (221,931) | - | - | - | - | - | - | (221,931) |
| Total Other Financing Sources (uses) | (221,931) | - | - | - | - | 221,931 | - | - |
| NET CHANGE IN FUND BALANCES (DEFICITS) | (1,874,941) | - | (161,209) | 398,754 | (913,325) | 74,145 | (55,343) | (2,531,919) |
| FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR | (2,256,129) | - | 168,239 | 12,626 | 1,858,270 | 710,285 | 1,349,150 | 1,842,441 |
| FUND BALANCE (DEFICIT) AT END OF YEAR | \$ (4,131,070) | \$ - | \$ 7,030 | \$ 411,380 | \$ 944,945 | \$ 784,430 | \$ 1,293,807 | \$ (689,478) |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Position
 June 30, 2013

| | |
|---|---------------------|
| Aggregate fund balance reported in the balance sheet - governmental funds | \$ (689,478) |
| Governmental activities' amounts reported in the statement of net position and the balance sheet - governmental funds are different because: | |
| | |
| Accounts receivables not collected within the current fiscal year or soon enough thereafter to pay current liabilities are not recognize in Governmental Funds, but these receivables are reported in the Governmental-Wide Statements of Activities and Changes in Net Position. | 151,590 |
| Some of the Municipality's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds | 293,125 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources, therefore, are not reported in the governmental funds | 28,399,451 |
| The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds: | |
| | |
| Bonds and notes payable | (15,499,000) |
| Note payable to Puerto Rico Treasury Department | (1,775,452) |
| Notes payable to Municipal Revenue Collection Center (CRIM) | (3,132,584) |
| Compensated absences | <u>(1,835,413)</u> |
| Net position as reported in the accompanying statement of net position | <u>\$ 5,912,239</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2013

Net change in fund balances- total governmental funds (2,531,919)

Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because:

Governmental funds report capital assets additions as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

| | | |
|--|--------------------|---------|
| Capital Assets Additions | 3,202,153 | |
| Depreciation Expense | <u>(2,516,376)</u> | |
| Excess of Capital Assets Additions over Depreciation Expense | | 685,777 |

Accounts receivables not collected within the current fiscal year or soon enough thereafter to pay current liabilities are not recognize in Governmental Funds, but these receivables are reported n the Government-Wide Statements of Activities and Change in Net Position.

| | | |
|----------------------|----------------|--------|
| Prior year revenues | (90,140) | |
| Curent year revenues | <u>151,590</u> | |
| Total | | 61,450 |

Some of the Municipality's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditure and therefore, are deferred in the funds: 293,125

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, the payments were:

| | | |
|---|----------------|------------------|
| Bonds and notes payable | 754,000 | |
| Note payable to Puerto Rico Treasury Department | 180,000 | |
| Notes payable to Municipal Revenue Collection Center (CRIM) | 87,304 | |
| Net change in compensated absences liability | <u>432,535</u> | |
| Total | | <u>1,453,839</u> |

Change in Net Position of Governmental Activities \$ (37,728)

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

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

The Municipality of Guayanilla, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1833 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

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

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

a) Financial Reporting Model

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

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. RSI is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

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

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

b) *Financial Reporting Entity*

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. The accompanying basic financial statements did not include the financial statements of Castillo del Niño, an operational unit and a business-type activity of the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

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

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality. Based on the application of the criteria outlined above, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

c) *Government-Wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements do not report fund information but rather report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses. The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability).

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Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity) and/or net liabilities (accumulated deficit). This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position (liabilities) is classified in the accompanying statement of net position within the following three categories:

- **Invested in capital assets, net of related debt** – This net position category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net position. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

- **Unrestricted net position** – This category consists of net position that are neither externally nor legally restricted, nor invested in capital assets. However, assets reported within unrestricted net liabilities often are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

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

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

General government:

- Municipal legislature
- Mayor's office
- Department of finance
- Department of human resources
- Department of municipal secretary
- Department of internal audit

Health and welfare:

- Department of health
- Department of elderly affairs

Public works:

- Department of public works
- Department of sanitation
- Department of recycling services
- Department of transportation

Public safety:

- Department of emergency management – civil defense
- Department of municipal police

Culture, recreation and education:

- Department of sports and recreation

Community Development:

- Office of federal programs

Urban and economic development:

- Office of federal programs

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

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

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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

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

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are primarily financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

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

These financial statements report the financial position and results operations of the Municipality's governmental funds and fund types by presenting sources, uses and balances of current and non-current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major governmental fund and fund types, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds and fund types according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds and fund types is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

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- **General fund** – The general fund is the Municipality’s main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality’s governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt service fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2013, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for in the general fund.

- **Special revenue funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality’s general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Capital projects funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The capital projects funds has been used only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality’s operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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The focus of the GFFS is on major governmental funds and fund types, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds and fund types between major and non-major categories within the GFFS. Major individual governmental and proprietary funds and fund types are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying FFS are: (1) the general fund, (2) the community development block grant – state program fund, (3) the municipal hospital fund, (4) the Commonwealth of Puerto Rico – joint resolutions fund, (5) the loans fund, and, (6) the debt service fund.

General fund – This is the fund used to account for all financial resources and governmental activities not accounted for and reported in another fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and others.

Community Development Block Grant – State Program Fund – This is the fund used to account for revenues derived from federal grants related to community development block grant – state program, granted by the Department of Housing and Urban Development (HUD). The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Municipal Hospital Fund – This is the fund used to account for all the transactions of the Municipality's Hospital. The primary objective of this fund is to provide to the medical services to the community.

Commonwealth of Puerto Rico – Joint Resolutions Fund – This is the fund used to account for revenues derived from state grants, granted by the Commonwealth of Puerto Rico – Legislature. The uses and limitations of each special revenue fund are specified by Municipality ordinances or state statutes.

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

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Debt service fund – This is the fund used to account for revenues derived from property and sales taxes are accumulated for the payment of, general long-term debt principal, interest, and related costs.

The accompanying GFFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

e) Measurement Focus and Basis of Accounting

Government-wide financial statements – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and rent) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values.

An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

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

In the case of **derived tax revenue transactions** (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of **imposed non-exchange revenue transactions** (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

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Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as “expenditure-driven awards”), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. The Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.
- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

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

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

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

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting.

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Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 90 days after June 30, 2013, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned (earned and unavailable) revenues at June 30, 2013.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as deferred (earned and unavailable) revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

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Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2013, which have been recorded as governmental fund liabilities at June 30, 2013, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

The measurement focus of the governmental funds financial statements is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities and the statement of revenues, expenses and changes in fund net position, but are not recorded in the accompanying governmental fund financial statements.

f) Stewardship, Compliance and Accountability

Budgetary Control

According to Law No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

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The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

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Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2013. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2013. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general and debt service funds' budgetary bases and GAAP actual amounts are presented at the bottom of the respective budgetary comparison schedules.

The Municipality does not legally adopt budgets for the special revenue fund – federal grants and special revenue fund – state and local grants. The financial resources received by these funds are not subject to budgeting by the Municipality since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

g) Unrestricted and Restricted Deposits

The Municipality's deposits are composed of: (1) cash on hand, (2) demand deposits in commercial banks, (3) demand deposits in the Government Development Bank for Puerto Rico (fiscal agent) and (4) cash equivalents in commercial banks.

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The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

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

Cash in commercial banks of the special revenue fund – federal grants, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain federal financially assisted programs.

Cash in commercial banks and cash in fiscal agent of the special revenue fund – state and local grants, represents the balance of interest bearing and non-interest bearing accounts restricted to finance the operations of certain state and local financially assisted programs.

Cash in commercial bank and cash in fiscal agent in the capital project fund – state and local grants, consists principally of the balance of interest bearing and non-interest bearing accounts related to state and local grants, and unspent proceeds of bonds, which are restricted for the acquisition, construction or improvement of major capital assets.

Cash in fiscal agent in the debt service fund consists of cash related to property tax and sales and use tax collections, which are restricted for the payment of the Municipality's debt service of bonds payable, as required by law.

h) Unrestricted and Restricted Accounts and Notes Receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2013. Major receivable balances for the governmental activities include property taxes municipal license and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property, construction excise and sales taxes. Restricted tax receivables in the debt service fund consist of uncollected property and sales taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental receivables are composed of amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs.

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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Activities among 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 GFFS, 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.

i) Other Current Assets

Other current assets in the accompanying statement of net position and the balance sheet – governmental funds consist principally of prepaid costs, which are capitalized rather than charged to operations.

j) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities and the statement of revenues, expenses and changes in fund net position. In the governmental funds, all capital assets are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

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Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

| | <u>Years</u> |
|--------------------------------|--------------|
| Building and site improvements | 40 |
| Infrastructure | 40 |
| Work of art | 10 |
| Vehicles | 5 |
| Furniture and fixtures | 5 |
| Machinery and equipment | 3 to 5 |

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

k) Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when one of the following situations occur:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned and unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for unearned revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

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l) Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2013, the Municipality has no deferred outflows of resources.

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

m) Compensated Absences

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2013 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is in the statement of net position. A liability for compensated absences is reported in the governmental fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

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n) Long-term Debt

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due in July 1 of the following fiscal year are recorded as fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

o) Accounting for Pension Costs

On July 1, 2007, the Municipality adopted the provision of GASB Statement No. 50, *Pension Disclosures* (GASB No. 50), which amended GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27) requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

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

p) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

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The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2013 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2013. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

q) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds. According these provisions, the fund balances are reported in five categories:

- ***Nonspendable*** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ***Restricted*** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.

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- **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality’s highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- **Assigned** – Amounts that are constrained by the Municipality’s intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- **Unassigned** – Represent the residual classification for the Municipality’s General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

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

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

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

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

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

r) Inter-fund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

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- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.
- **Inter-fund transfers (transfers-in/out)** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- **Inter-fund reimbursements** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

s) **Use of Estimates**

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

t) **Future Adoption of Accounting Pronouncements**

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

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

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- *GASB Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement is effective for periods beginning after June 15, 2013.
- *GASB Statement No. 71 Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB 68.* This statement is effective for periods beginning after June 15, 2014.

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

u) Adoption of New Accounting Pronouncements

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

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

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

2. Deposits

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3.* This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

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

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

- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2013, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2013, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$2,730,967 at June 30, 2013, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2013. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2013, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

Cash and cash equivalents at June 30, 2013, are classified in the accompanying balance sheet – governmental funds a follows:

| | General fund | Community Development Block Grant – State Program | Commonwealth of Puerto Rico – Joint Resolutions | Loans Fund | Debt service fund | Other Governmental Funds | Total |
|------------------------------|-----------------|---|---|---------------------|---------------------|--------------------------|--------------------|
| Cash in commercial banks | \$ - | \$ 19,766 | \$ 4,803 | \$ - | \$ - | \$ 384,019 | \$ 408,588 |
| Cash in GDB, as fiscal agent | 9,738 | - | - | 1,038,723 | 1,672,576 | 9,930 | 2,730,967 |
| Total | \$ 9,738 | \$ 19,766 | \$ 4,803 | \$ 1,038,723 | \$ 1,672,576 | \$ 393,949 | \$3,139,555 |

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3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Guayanilla. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2013, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed and due five (5) working days after April 15 of each year, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration before the due date ended five (5) working days after April 15 of each year.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (five (5) working days after April 15), a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the general fund. Unearned municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to \$984,775 at June 30, 2013. Those unearned municipal license revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, therefore, generally cannot be used to pay obligations of the fiscal year 2012-2013.

4. Sales and Use Taxes

The Municipality is authorized by Law No. 117 of July 4, 2006, as amended by Law No. 80 of July 29, 2007, to impose and collect sales and uses taxes of one point five (1.5) percent to substantially all products and services sold or provided within the territorial limits of the Municipality. The mentioned Laws establish the applicable tax rate.

At June 30, 2013, the municipal sales and uses tax rate imposed by the Municipality was 1.50, from which the Municipality collect one (1) percent, and the Puerto Rico Secretary of the Treasury collect the remaining point five (.5) percent without including food and food ingredients as defined in Section 2301(a) of the Act No. 107, on behalf of the Municipality.

The point five (.5) percent collected by the Puerto Rico Treasury Department and belonging to the Municipality it is distributed through three separate funds: municipal development fund (up to .2%, at the discretion of the Municipality), municipal redemption fund (from .2% to .4%%, at the discretion of the Municipality) and municipal improvements fund (.1%).

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The Municipality has elected to restrict a portion of the sales tax amounting .4% for the payment of long-term debt and is recorded in the debt service fund. The remaining portion is recorded in the general fund since is available for general operating purposes.

The tax collected by merchants during a given month is due and must be paid accompanied by a sales and use tax return to the Municipality and to the Puerto Rico Treasury Department on or before the 10th day of the following month.

The resources collected by the Municipality due to this tax assessment will be used in local activities like improvements in health services, improvements in the control and management of solid waste disposal and recycling programs, public improvements, improvements of public safety, and maintenance of all public facilities of the Municipality.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available base on actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

Sales and use tax receivable in the general and debt service funds at June 30, 2013, of \$29,329 and \$61,847, respectively, represent actual collection during the 30 days following the fiscal year-end related to sales and use tax returns due before year end.

5. Property Taxes

The Municipality is authorized by Law No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year.

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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end. If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during for the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year. Property taxes receivable of \$293,125 in the general fund at June 30, 2013 represents excess of collection over 2012-2013 CRIM advances, as per final settlement.

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Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2013 was 6.58 percent (of which taxpayers pay 6.38 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2013 was 8.58 percent (of which 8.38 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

According to Law No. 81, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 6.58 percent and 8.58 percent, respectively, there is a portion of the tax rate in the amount of 1.75 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through the Puerto Rico Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (4) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (5) certain notes payable to CRIM and to the Puerto Rico Department of Treasury and, (6) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS. The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

The Additional Lottery System of the Commonwealth of Puerto Rico (the Additional Lottery) is an operational unit reported as an enterprise fund in the Commonwealth of Puerto Rico's basic financial statements, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every fiscal year to distribute a portion of its excess of revenues over expenses as follows:

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- Thirty five percent of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of Puerto Rico, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the thirty-five percent corresponding to the municipalities of the Commonwealth of Puerto Rico. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to PRHSA.

6. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

| | General Fund | Community Development Block Grant – State Program Fund | Municipal Hospital Fund | Other Governmental Funds | Total |
|--|---------------------|---|-------------------------------|--------------------------------|---------------------|
| <i>Intergovernmental receivables:</i> | | | | | |
| Entity: | | | | | |
| Puerto Rico Office of the Commissioner of Municipal Affairs | \$ - | \$ 73,933 | \$ - | \$ - | \$ 73,933 |
| State Health Department | - | - | 96,397 | - | 96,397 |
| Puerto Rico Administration for Integral Care and Development of Children | - | - | - | 48,729 | 48,729 |
| Puerto Rico Office of the Elderly | - | - | - | 23,948 | 23,948 |
| Total intergovernmental receivables | <u>\$ -</u> | <u>\$ 73,933</u> | <u>\$ 96,397</u> | <u>\$ 72,677</u> | <u>\$ 243,007</u> |
| <i>Intergovernmental payables:</i> | | | | | |
| Puerto Rico Department of Labor | \$ 294,212 | \$ - | \$ - | \$ - | \$ 294,212 |
| Employees Retirement System of the Government of the Commonwealth of Puerto Rico | 366,779 | - | - | - | 366,779 |
| Puerto Rico Department of Treasury | 35,486 | - | - | - | 35,486 |
| Employees Association of the Commonwealth of Puerto Rico | 25,545 | - | - | - | 25,545 |
| United States Treasury Department | 8,376 | - | - | - | 8,376 |
| General Services Administration | 664 | - | - | - | 664 |
| Puerto Rico Aqueduct and Sewer Authority | 276,178 | - | - | - | 276,178 |
| Total intergovernmental payables | <u>\$ 1,007,240</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,007,240</u> |

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

7. Bank Overdraft

The General Fund and the Municipal Hospital Fund presented bank overdraft of \$217,548 and 14,376, respectively. These amounts represented the excess of check issued over available adjusted cash balance at June 30, 2013.

8. Accounts Payable and Accrued Liabilities

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

| | General fund | Community Development Block Grant – State Program | Municipal Hospital Fund | Loans Fund | Total |
|---------------------|-------------------|---|-------------------------|------------------|-------------------|
| Accounts payable | \$ 451,527 | \$ 61,200 | \$ 141,294 | \$ 93,778 | \$ 747,799 |
| Accrued liabilities | 236,079 | - | - | - | 236,079 |
| Total | \$ 687,606 | \$ 61,200 | \$ 141,294 | \$ 93,778 | \$ 983,878 |

9. Inter-fund Transactions

The composition of inter-fund balances at June 30, 2013 and for the fiscal year then ended is as follows:

| Due/advances to: | Due / advances from: | | | | |
|--|----------------------|--------------------------|---|--------------------------|--------------------------|
| | General fund | Municipal Hospital Fund | Commonwealth of Puerto Rico – Joint Resolutions | Other Governmental Funds | Total Governmental Funds |
| General fund | \$ - | \$ - | \$ 684,513 | \$ 55,032 | \$ 1,439,545 |
| Community Development Block Grant – State Program Fund | 26,502 | - | - | 5,997 | 32,499 |
| Commonwealth of Puerto Rico – Joint Resolutions | - | - | - | 292,179 | 292,179 |
| Other Governmental Funds | 91,289 | 16,520 | 14,243 | - | 122,052 |
| Total | \$ 117,791 | \$ 16,520 | \$ 698,756 | \$ 1,053,208 | \$ 1,886,275 |
| Transfer out: | | | | | |
| Transfers in: | General fund | Total Governmental Funds | | | |
| Debt Service Fund | \$ 221,931 | \$ 221,931 | | | |
| Total | \$ 221,931 | \$ 221,931 | | | |

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The principal purposes of inter-fund receivables and payables are to recognize in the outstanding balance of the loans granted, the effect of the practice of pooling cash in a current account, and to temporarily cover the payroll and other operating costs of several federally, and local and state funded programs.

The principal purposes of inter-fund transfers are to make a routinary transfer of resources from the general fund to the debt service fund to cover the principal and interest payment on certain bond.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2013.

10. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2013:

a) Governmental Activities

| | Cost basis at beginning of fiscal year | Additions | Reductions/ Reclassifications | Cost basis at end of fiscal year |
|---|---|--------------------|----------------------------------|---|
| <i>Cost basis:</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,720,789 | \$ 372,000 | \$ - | \$ 2,092,789 |
| Construction in progress | 3,460,322 | 2,999,477 | 3,460,322 | 2,999,477 |
| Total capital assets, not being depreciated | 5,181,111 | 3,371,477 | 3,460,322 | 5,092,266 |
| Capital assets, being depreciated: | | | | |
| Buildings | 23,613,057 | 3,015,322 | - | 26,628,379 |
| Buildings improvements | 8,605,806 | - | - | 8,605,806 |
| Infrastructure | 9,590,149 | 73,000 | - | 9,663,149 |
| Machinery and equipment, and furniture and fixtures | 3,343,406 | 48,329 | - | 3,391,735 |
| Licensed vehicles | 4,855,041 | 154,347 | - | 5,009,388 |
| Total capital assets, being depreciated | 50,007,459 | 3,290,998 | - | 53,298,457 |
| Total cost basis of capital assets | \$ 55,188,570 | \$ 6,662,475 | \$ 3,460,322 | \$ 58,390,723 |
| | Accumulated depreciation at beginning of fiscal year | Additions | Reductions/ Reclassifications | Accumulated Depreciation at end of fiscal year |
| Accumulated depreciation: | | | | |
| Buildings | \$ 8,232,957 | \$ 676,487 | \$ - | \$ 8,909,444 |
| Buildings improvements | 3,787,737 | 259,970 | - | 4,047,707 |
| Infrastructure | 7,826,879 | 1,310,311 | - | 9,137,190 |
| Machinery and equipment, and furniture and fixtures | 3,026,153 | 117,090 | - | 3,143,243 |
| Licensed vehicles | 4,601,170 | 152,518 | - | 4,753,688 |
| Total accumulated depreciation | 27,474,896 | 2,516,376 | - | 29,991,272 |
| Net capital assets, governmental activities | \$ 27,713,674 | \$4,146,099 | \$ 3,460,322 | \$ 28,399,451 |

**MUNICIPALITY OF GUAYANILLA,
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The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2013.

Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2013 was charged to functions/programs in the accompanying statement of activities as follows:

| Activities | Amount |
|--|---------------------|
| General government | \$ 103,867 |
| Public safety | 29,107 |
| Economic and urban development | 30,653 |
| Health and welfare | 73,972 |
| Community development | 536,617 |
| Public works | 1,196,120 |
| Culture, recreation, and education | 546,040 |
| Total depreciation and amortization expense | \$ 2,516,376 |

11. Unearned Revenues

At June 30, 2013, unearned revenues recorded in the GWFS and the governmental fund financial statements are as follows:

| | General Fund | Other Governmental Fund | Total |
|--|-------------------|-------------------------------|---------------------|
| <i>Unearned revenues:</i> | | | |
| Municipal licenses taxes | \$ 984,775 | \$ - | \$ 984,775 |
| Intergovernmental grants and contributions | - | 107,206 | 107,206 |
| Total unearned revenues | \$ 984,775 | \$ 107,206 | \$ 1,091,981 |

12. Deferred Inflows of Resources

Deferred inflows of resources in the General Fund were unavailable revenues related to property taxes amounting to \$293,125 that represents the final liquidation of the property taxes of the fiscal year 2012-2013. This amount was not collected by the Municipality at June 30, 2013.

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**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

13. Long-Term Obligations

The general long-term debt activity for the fiscal year ended June 30, 2013 is as follows:

| | <u>Balance at beginning of fiscal year</u> | <u>Borrowing or additions</u> | <u>Payment and deductions</u> | <u>Balance at end of fiscal year</u> | <u>Balance due within one year</u> |
|--|--|---------------------------------------|---------------------------------------|--|--|
| <u>Governmental activities:</u> | | | | | |
| Bonds payable: | | | | | |
| General obligation and public improvement bonds | \$ 16,793,000 | \$ - | \$ 654,000 | \$ 16,139,000 | \$ 690,000 |
| Notes payable: | | | | | |
| Puerto Rico Department of Treasury: | | | | | |
| Financing agreement for payment of the excess of property tax advances over collections through 1992 | 1,955,452 | - | 180,000 | 1,775,452 | 180,000 |
| Municipal Revenue Collection Center: | | | | | |
| Law No. 42 of January 26, 2000 | 3,118,163 | - | 82,218 | 3,035,945 | 87,384 |
| Law No. 146 of October 11, 2001 – Delinquent property tax accounts sold | 101,725 | - | 5,086 | 96,639 | 5,086 |
| Compensated absences | 2,267,948 | 792,351 | 1,224,886 | 1,835,413 | 134,758 |
| Totals for governmental activities | \$ 24,236,288 | \$ 792,351 | \$ 2,146,190 | \$ 22,882,449 | \$ 1,097,228 |

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Department of Treasury, compensated absences and any other long-term liabilities other than bonds.

a) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

b) Bonds Payable

The Municipality issues general obligation and public improvement serial bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

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The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds payable. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose and collect sales and uses taxes of one point five (1.5) percent, of which the Municipality has elected to restrict a portion amounting .4% for the payment of long-term bonds. The collections of this sales and use tax are recorded in the Municipality's debt service fund.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2013:

| | <u>Outstanding balance</u> |
|--|--------------------------------|
| <u>General Obligation and Public Improvement Bonds:</u> | |
| 1996 serial bonds (face amount of \$238,000) due in annual principal installments ranging from \$7,000 to \$18,000; plus interests due in annual installments at fixed rate (4.5%) through January, 1, 2020. | \$ 112,000 |
| 1998 serial bonds (face amount \$122,000) due in annual principal installments ranging from \$3,000 to \$9,000; plus interests due in semiannual installments at fixed rate (4.5%) through January, 1, 2012. | 69,000 |
| 1998 serial bonds (face amount \$715,000) due in annual principal installments ranging from \$10,000 to \$70,000; plus interests due in semiannual installments at variable rates (4.4% at June 30, 2013) through July 1, 2023. | 495,000 |
| 2001 serial bonds (face amount \$1,300,000) due in annual principal installments ranging from \$20,000 to \$115,000; plus interests due in semiannual installments at variable rates (1.3% at June 30, 2013) through July 1, 2025. | 960,000 |
| 2003 serial bonds (face amount of \$1,230,000) due in annual principal installments ranging from \$20,000 to \$100,000; plus interests due in semiannual installments at variable rates (4.62% at June 30, 2013) through July 1, 2027. | 955,000 |

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

| | Outstanding balance |
|---|--------------------------------|
| <u>General Obligation and Public Improvement Bonds:</u> | |
| 2003 serial bonds (face amount of \$405,000) due in annual principal installments ranging from \$5,000 to \$30,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2027. | 315,000 |
| 2003 serial bonds (face amount of \$875,000) due in annual principal installments ranging from \$15,000 to \$65,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2027. | 635,000 |
| 2004 serial bonds (face amount of \$330,000) due in annual principal installments ranging from \$5,000 to \$25,000; plus interests due in semiannual installments at variable rates (4.62% at June 30, 2013) through July 1, 2028. | 260,000 |
| 2005 serial bonds (face amount of \$730,000) due in annual principal installments ranging from \$15,000 to \$55,000; plus interests due in semiannual installments at variable rates (4.62% at June 30, 2013) through July 1, 2024. | 525,000 |
| 2005 serial bonds (face amount of \$525,000) due in annual principal installments ranging from \$35,000 to \$65,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2015. | 190,000 |
| 2006 serial bonds (face amount of \$835,000) due in annual principal installments ranging from \$15,000 to \$70,000; plus interests due in semiannual installments at variable rates (4.62% at June 30, 2013) through July 1, 2025. | 655,000 |
| 2007 serial bonds (face amount of \$150,000) due in annual principal installments ranging from \$5,000 to \$10,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2031. | 120,000 |
| 2007 serial bonds (face amount of \$205,000) due in annual principal installments ranging from \$25,000 to \$35,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2013. | 35,000 |
| 2008 serial bonds (face amount of \$185,000) due in annual principal installments ranging from \$25,000 to \$35,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2014. | 70,000 |

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

| | <u>Outstanding balance</u> |
|---|--------------------------------|
| <u>General Obligation and Public Improvement Bonds:</u> | |
| 2007 serial bonds (face amount of \$560,000) due in annual principal installments ranging from \$10,000 to \$50,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2027. | 485,000 |
| 2008 serial bonds (face amount of \$3,190,000) due in annual principal installments ranging from \$50,000 to \$265,000; plus interests due in semiannual installments at variable rates (6.5% at June 30, 2013) through July 1, 2032. | 2,960,000 |
| 2009 serial bonds (face amount of \$560,000) due in annual principal installments ranging from \$40,000 to \$75,000; plus interests due in semiannual installments at variable rates (1.55% at June 30, 2013) through July 1, 2018. | 380,000 |
| 2010 serial bonds (face amount of \$2,760,000) due in annual principal installments ranging from \$40,000 to \$230,000; plus interests due in semiannual installments at variable rates (7% at June 30, 2013) through July 1, 2034. | 2,630,000 |
| 2010 serial bonds (face amount of \$625,000) due in annual principal installments ranging from \$10,000 to \$65,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2034. | 595,000 |
| 2010 serial bonds (face amount of \$198,000) due in annual principal installments ranging from \$20,000 to \$38,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2016. | 128,000 |
| 2011 serial bonds (face amount of \$2,565,000) due in annual principal installments ranging from \$35,000 to \$215,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2035. | 2,490,000 |
| 2011 serial bonds (face amount of \$1,110,000) due in annual principal installments ranging from \$15,000 to \$95,000; plus interests due in semiannual installments at variable rates (6% at June 30, 2013) through July 1, 2035. | <u>1,075,000</u> |
| Total bonds payable | <u>\$ 16,139,000</u> |

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Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

Interest expense on bonds payable amounted to \$744,375 for the fiscal year ended June 30, 2013.

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

| Fiscal year ending June 30, | Principal | Interest | Total |
|--|----------------------|----------------------|----------------------|
| 2014 | \$ 690,000 | \$ 1,092,752 | \$ 1,782,752 |
| 2015 | 682,000 | 1,048,484 | 1,730,484 |
| 2016 | 697,000 | 1,004,198 | 1,701,198 |
| 2017 | 686,000 | 957,705 | 1,643,705 |
| 2018 | 695,000 | 910,943 | 1,605,943 |
| 2019-2023 | 3,784,000 | 3,840,864 | 7,624,864 |
| 2024-2028 | 4,140,000 | 2,475,007 | 6,615,007 |
| 2029-2033 | 3,360,000 | 1,197,750 | 4,557,750 |
| 2034-2038 | 1,405,000 | 171,400 | 1,576,400 |
| Totals | \$ 16,139,000 | \$ 12,699,103 | \$ 28,838,103 |

c) Notes Payable to Puerto Rico Department of Treasury

- **Financing Agreement for Payment of the Excess of Property Tax Advances over Collections** – On August 14, 2002 the Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The face amount of the loan was \$2,421,452, and bears no interest. The note is payable in monthly installments through December 1, 2023. At June 30, 2017, the balance of this note amounted to \$1,775,452.

| <u>Year Ending June 30,</u> | <u>Principal Amount</u> |
|--|------------------------------------|
| 2014 | \$ 180,000 |
| 2015 | 180,000 |
| 2016 | 180,000 |
| 2017 | 180,000 |
| 2018 | 210,000 |
| 2019-2023 | 845,452 |
| Total | \$ 1,775,452 |

**MUNICIPALITY OF GUAYANILLA,
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d) Notes Payable to Municipal Revenue Collection Center

The Municipality had the following notes payables to Municipal Revenue Collection Center (CRIM, by its Spanish acronym) at June 30, 2013:

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

In addition, on February 12, 2002, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$3,035,945, at June 30, 2013.

| <u>Year Ending</u> <u>June 30,</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Amount</u> |
|---------------------------------------|-----------------------------------|----------------------------------|
| 2014 | \$ 87,384 | \$ 186,518 |
| 2015 | 92,875 | 181,027 |
| 2016 | 98,710 | 175,192 |
| 2017 | 104,913 | 168,990 |
| 2018 | 111,504 | 162,398 |
| 2019-2023 | 671,843 | 697,669 |
| 2024-2028 | 911,152 | 458,359 |
| 2029-2033 | <u>957,564</u> | <u>138,050</u> |
| Total | <u>\$ 3,035,945</u> | <u>\$ 2,168,203</u> |

- **Law No. 146 - Financing of delinquent property tax accounts sold** – On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001, as amended (Law No. 146). The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of the Government Development Bank for Puerto Rico, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse.

The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years.

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During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest, except for property tax receivables collections related to the transaction explained in the above paragraph, which will be applied as principal payment to reduce the debt balance. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. Interest payments on this financing agreement are accounted for in the general fund. The outstanding principal of the note payable to CRIM amounted to \$96,639, at June 30, 2013.

| <u>Year Ending</u> <u>June 30,</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Amount</u> |
|---------------------------------------|-----------------------------------|----------------------------------|
| 2014 | \$ 5,086 | \$ 6,011 |
| 2015 | 5,086 | 5,694 |
| 2016 | 5,086 | 5,378 |
| 2017 | 5,086 | 5,062 |
| 2018 | 5,086 | 4,745 |
| 2019-2023 | 25,432 | 18,982 |
| 2024-2028 | 25,432 | 11,073 |
| 2029-2033 | 20,345 | 3,164 |
| Total | \$ 96,639 | \$ 60,109 |

e) Compensated Absences

At June 30, 2013, the government-wide statement of net position includes a liability amounting \$1,835,413, of which \$1,049,376 represents accrued sick leave benefits, and \$786,037 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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Notes to Basic Financial Statements
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14. Employees' Retirement Systems

a) Plan Description

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed.

ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

- *Retirement Annuity*

ERS members are eligible for a retirement annuity upon reaching the following age:

| | |
|--------------------------------------|--------------------------------------|
| Policemen and firemen: | Other employees: |
| 50 with 25 years of credited service | 55 with 25 years of credited service |
| 58 with 10 years of credited service | 58 with 10 years of credited service |

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

- *Merit Annuity*

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

- *Deferred Retirement Annuity*

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

- *Coordinated Plan*

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.

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- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

- ***Non-Coordinated Plan***

On the non-coordinated plan the participating employee and does not have any change on the pension benefits upon receiving social security benefits.

- ***Reversionary Annuity***

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

- ***Occupational Disability Annuity***

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50 percent of the compensation received at the time of the disability.

- ***Nonoccupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

- ***Death Benefits***

Occupational:

- (a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.
- (b) **Children** - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

Post-retirement:

Beneficiary with surviving spouse age 60 or over and a child, 18 or under, up to 30 percent (60 percent, if not covered under Title II of the Social Security Act) (increased to 50 percent effective January 1, 2005) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$750.

- ***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

- ***Cost of Living Adjustment for Pension Benefits***

Public Act No. 10 of May 21, 1992 (Act No. 10) provided for increases of 3 percent every three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years subject to the presentation of actuarial studies regarding its costs and the source of financing. To protect the financial health of ERS, the increase granted during 2001 and the one granted on January 1, 2005 are being financed by the Municipality and the other participating employers.

To avoid any economic impact on ERS, the employers are responsible for contributing to ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the participants covered until the participants reach the normal retirement age.

- ***Amendment to Act No. 447 effective January 1, 2000 to create a Defined Contribution Plan***

On September 24, 1999, Public Act No. 305, an amendment to Act No. 447, was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the original plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives.

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Notes to Basic Financial Statements
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Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

Historically, the state government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

- ***Recent Amendments to Act No. 447***

The Senate and the House of Representatives of the Commonwealth of Puerto Rico have the authority for establishing or amending the contribution requirements of System 2000 by approving the necessary amendments or laws, subject to the final approval of the Governor of the Commonwealth of Puerto Rico.

In June and July 2003, the Governor of the Commonwealth signed three Public Acts that provided the following certain benefits to retirees:

- (a) Increase in minimum monthly pension payments to \$300, effective January 1, 2005.
- (b) Triennial 3 percent increase in all pensions, effective January 1, 2005.
- (c) Increase in widow and/or beneficiaries to 50 percent of the benefit received by the deceased pensioner, effective January 1, 2005.

All the benefits granted will be funded through budgetary assignments in the Municipality's general fund with respect to its retired employees.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

**MUNICIPALITY OF GUAYANILLA,
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

b) Funding Policy

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | |
| Employees: | 9.28 percent of applicable payroll |
| Coordination plan: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |
| Supplementation plan: | 8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors |

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

| | |
|----------------------------------|---|
| Municipality and other employers | 9.28 percent of applicable payroll |
| Employees: | 5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600. |

c) Annual Contribution

The actual combined employer and employee contributions to ERS and System 2000 for the current and past two years, which are equal to the statutory required contributions, are as follows:

| <u>Fiscal year ended June 30,</u> | <u>Act No. 447</u> | <u>System 2000</u> | <u>Total</u> |
|---------------------------------------|--------------------|--------------------|-------------------|
| 2013 | \$ 73,682 | \$ 188,138 | \$ 261,820 |
| 2012 | 65,742 | 143,972 | 209,714 |
| 2011 | 94,927 | 152,516 | 247,443 |
| Totals | <u>\$ 234,351</u> | <u>\$ 484,626</u> | <u>\$ 718,977</u> |

During the fiscal years ended June 30, 2011, 2012, and 2013, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The authority under which obligations to contribute to ERS and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions) are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Commonwealth of Puerto Rico.

Readers can obtain copies of the audited basic financial statements (GAAP basis) of ERS and System 2000 by writing to Mr. Hector M. Mayol Kauffmann, Executive Director of the Retirement Systems Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 42004, Minillas Station, Santurce, Puerto Rico 00940.

**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

15. Commitments, Contingencies and Uncertainties

Claims and Judgments

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are allowed to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

The Municipality also is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities. With respects to pending or threatened litigation, the Municipality has reported no liabilities as of June 30, 2013. Management believes, 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.

Federal Financially Assisted Programs

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality

Commitments

At June 30, 2013 the general fund had commitments of approximately \$12,799 for executory purchase orders or contracts that will be honored during the subsequent year.

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

16. Fund Balance (Deficit)

As of June 30, 2013, fund balance (deficit) is comprised of the following:

| Fund balances (deficit) | General Fund | Municipal Hospital Fund | Commonwealth of Puerto Rico -- Joint Resolutions | Loans Fund | Debt Service Fund | Other Governmental Fund | Total |
|--------------------------------------|----------------------|-------------------------|--|-------------------|-------------------|-------------------------|--------------------|
| <i>Restricted for:</i> | | | | | | | |
| General government | \$ 9,738 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,738 |
| Health and welfare | - | 7,030 | - | - | - | 348,836 | 355,866 |
| Public works | - | - | 411,380 | - | - | 691,938 | 1,103,318 |
| Culture and recreation and education | - | - | - | - | - | 253,033 | 253,033 |
| Debt service | - | - | - | - | 784,430 | - | 784,430 |
| <i>Committed for:</i> | | | | | | | |
| Public works | - | - | - | 576,819 | - | - | 576,819 |
| Culture and recreation and education | - | - | - | 368,126 | - | - | 368,126 |
| <i>Unassigned</i> | (4,140,808) | - | - | - | - | - | (4,140,808) |
| Total fund balances (deficit) | \$(4,131,070) | \$ 7,030 | \$ 411,380 | \$ 944,945 | \$ 784,430 | \$ 1,293,807 | \$(689,478) |

17. Subsequent Events

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

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**MUNICIPALITY OF GUAYANILLA,
COMMONWEALTH OF PUERTO RICO**

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2013

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

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

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

Management has evaluated subsequent events through July 6, 2014, the date the financial statements were available to be issued.

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2013**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2013

| | Budgeted amounts | | Actual amounts (budgetary basis) | Variance with final budget – |
|---|------------------|--------------|--|---------------------------------|
| | Original | Final | (See Note A) | over (under) |
| Revenues: | | | | |
| Property taxes | \$ 1,637,585 | \$ 1,637,585 | \$ 1,210,976 | \$ (426,609) |
| Municipal license taxes | 3,440,376 | 3,440,376 | 936,286 | (2,504,090) |
| Sales taxes | 350,000 | 350,000 | 349,236 | (764) |
| Construction excise taxes | 525,500 | 525,500 | 246,299 | (279,201) |
| Intergovernmental grants and contributions | 5,420,870 | 5,420,870 | 5,578,948 | 158,078 |
| Interest on deposits | 100,000 | 100,000 | 101,646 | 1,646 |
| Charges for services | 95,000 | 95,000 | 229,006 | 134,006 |
| Miscellaneous | 126,000 | 126,000 | 56,104 | (69,896) |
| Total revenues | 11,695,331 | 11,695,331 | 8,708,501 | (2,986,830) |
| Expenditures, encumbrances and other financing uses: | | | | |
| General government | 4,246,518 | 4,170,944 | 5,526,361 | (1,355,417) |
| Health and welfare | 1,653,083 | 1,808,528 | 905,130 | 903,398 |
| Public works | 4,359,853 | 4,241,206 | 2,552,266 | 1,688,940 |
| Public safety | 998,571 | 943,084 | 837,254 | 105,830 |
| Culture, recreation and education | 360,756 | 455,019 | 320,787 | 134,232 |
| Transfer out to other governmental funds | 76,550 | 76,550 | 221,931 | (145,381) |
| Total expenditures, encumbrances and other financing uses | 11,695,331 | 11,695,331 | 10,363,729 | 1,331,602 |
| Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing sources (uses) | \$ - | \$ - | \$ (1,655,228) | \$ (1,655,228) |
| Reconciliation of differences: | | | | |
| Sources/inflows of financial resources: | | | | |
| Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule | | | | \$ 8,708,501 |
| Differences - budgetary basis to GAAP: | | | | |
| Differences in bases of accounting: | | | | |
| GAAP adjustment to revenues | | | | (15,749) |
| Total revenues and as reported on the statement of revenues, expenditures and changes in fund balances | | | | \$ 8,692,752 |
| Uses/outflows of financial resources: | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | | | | \$ 10,363,729 |
| Differences - budgetary basis to GAAP: | | | | |
| Prior year expenditure are not outflows of budgetary resources, but are expenditure for financial purposes | | | | 216,763 |
| Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes | | | | (12,799) |
| Transfer to other funds are outflows of budgetary resources but are not expenditure for financial reporting purposes | | | | (221,931) |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances | | | | \$ 10,345,762 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Notes to Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2013

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

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

The Municipality prepares its annual budget including the operations of the General Fund.

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Entity Identifying Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | | |
| Pass-through the Department of Education of the Commonwealth of Puerto Rico: | | | |
| Child and Adult Care Food Program | 10.558 | N/AV | \$ 14,954 |
| Total U.S. Department of Agriculture | | | <u>14,954</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Programs: | | | |
| Section 8 Housing Choice Vouchers Program | 14.871 | | 601,942 |
| Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico: | | | |
| Community Development Block Grants/ State's Program | 14.228 | 27-AB/ 27-FC/ 27-DR/ 27-DREF | 1,521,980 |
| Pass-through the State Department of the Family of the Commonwealth of Puerto Rico: | | | |
| Homelessness Prevention and Rapid Re- housing Program (Recovery Act Funded) | 14.257 | 272-1220000- 04F-2009- S08DC72001 | <u>81,854</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,205,776</u> |
| U.S. DEPARTMENT OF ENERGY: | | | |
| Pass-Through – Office of the Energy Affairs Administration of the Commonwealth of Puerto Rico: | | | |
| Energy Efficiency and Conservation Block Grant Program | 81.128 | N/AV | <u>35,451</u> |
| Total U.S. Department of Energy | | | <u>35,451</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

| Federal Grantor / Pass-Through Grantor / Program or Cluster Title | Federal CFDA Number | Entity Identifying Number | Federal Expenditures |
|---|----------------------------|----------------------------------|-----------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE: | | | |
| Pass-Through the Office of the Elderly: | | | |
| Special Program for the Aging, Title III, Part C | 93.045 | 130414R2/ 120199R2 | 99,834 |
| Pass-Through the Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico: | | | |
| Child Care and Development Block Grant | 93.575 | 241-2013-000062 | <u>246,791</u> |
| Total U.S. Department of Health and Human Service | | | <u>346,625</u> |
| DEPARTMENT OF HOMELAND SECURITY | | | |
| Pass-Through the Municipality of Ponce: | | | |
| Homeland Security Grant Program | 97.067 | N/AV | <u>27,367</u> |
| Total Department of Homeland Security | | | <u>27,367</u> |
| TOTAL EXPENDITURE OF FEDERAL AWARDS | | | <u>\$ 2,630,173</u> |

See accompanying Notes to Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

NOTE 1 – GENERAL

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 – MAJOR PROGRAMS

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

PEDRO C. ORTIZ LEDEE

CERTIFIED PUBLIC ACCOUNTANT

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of **Guayanilla**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated July 6, 2014. An adverse opinion was issued for the business-type activities and for the enterprise fund because management did not included the Castillo del Niño fund in the Municipality's financial statements. Also, I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Finding 2013-002, 2013-003 and 2013-004.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 2013-001.

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

Compliance and Other Matters

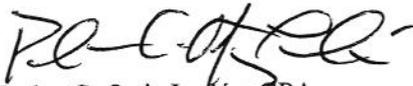
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002, 2013-003 and 2013-004.

Municipality's Response to Findings

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

Purpose of this Report

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



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
July 6, 2014

Stamp O2698685 was affixed
to the original of this report.



PEDRO C. ORTIZ LEDEE
CERTIFIED PUBLIC ACCOUNTANT

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Major Federal Programs

As identified in the findings numbers listed in the table below and described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding the following:

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

Basis for Qualified Opinion on Major Federal Programs (continued)

| Awarding Agency | Federal Program | Compliance Requirement | Finding Number |
|-------------------------------|--|--|-----------------------|
| Housing and Urban Development | 14.228- CDBG- State’s Program | Procurement and Suspension and Debarment | 2013-006 |
| Housing and Urban Development | 14.228- CDBG- State’s Program | Reporting | 2013-007 |
| Housing and Urban Development | 14.871- Section 8 Housing Choice Voucher | Eligibility | 2013-008 |
| Housing and Urban Development | 14.871- Section 8 Housing Choice Voucher | Reporting | 2013-009 |
| Housing and Urban Development | 14.871- Section 8 Housing Choice Voucher | Special Test- Utility Allowance Schedule | 2013-010 |

Compliance with such requirements is necessary, my opinion, for the Municipality to comply with the requirements applicable to the programs.

Qualified Opinion on Major Federal Programs

In my opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Major Federal Programs” paragraph, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs listed in the “Basis for Qualified Opinion on Major Federal Programs” paragraph for the year ended June 30, 2013.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-005. My opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

Report on Internal Control over Compliance (continued)

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. I considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-006, 2013-007, 201-008, 2013-009 and 2013-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-005 to be significant deficiencies.

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

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



Pedro C. Ortiz Ledée, CPA
License Number 5200

Guayama, Puerto Rico
July 6, 2014

Stamp O2698686 was affixed
to the original of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on the basic financial statements:

Opinion Units

Type of Opinions

| | |
|---|------------|
| Governmental activities | Disclaimer |
| Business-type activities | Adverse |
| General Fund | Unmodified |
| Community Development Block Grant- State’s Fund | Unmodified |
| Municipal Hospital Fund | Unmodified |
| Commonwealth of P.R.- Joint Resolutions Fund | Unmodified |
| Loans Fund | Unmodified |
| Debt Service Fund | Unmodified |
| Aggregated remaining fund | Unmodified |
| Castillo del Niño Fund- enterprise fund | Adverse |

Internal Control over financial reporting:

| | | |
|---|---|---------------|
| Material weakness identified? | Yes <input checked="" type="checkbox"/> | No |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |
| Noncompliance material to financial statements noted? | Yes <input checked="" type="checkbox"/> | No |

Federal awards

Internal Control over major programs:

| | | |
|--------------------------------------|---|---------------|
| Material weakness identified? | Yes <input checked="" type="checkbox"/> | No |
| Significant deficiencies identified? | Yes <input checked="" type="checkbox"/> | None reported |

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

Qualified Opinion

| | | |
|---|---|----|
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes <input checked="" type="checkbox"/> | No |
|---|---|----|

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|-------------|--|
| 14.228 | Community Development Block Grants – State’s |
| 14.871 | Section 8 Housing Choice Voucher Program |

Dollar threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|--------------------|---|
| FINDING | 2013-001 |
| REQUIREMENT | ACCOUNTING RECORDS AND REPORTING SYSTEM |
| CONDITION | The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP). |
| CONTEXT | During my examination of the accounting cycle, I noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. During my examination of the accounting records, I noted that the Municipality does not summarize the transactions in a formal accounting system in order to properly record and account for the transactions of the general fund and special revenue funds. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements. |
| CRITERIA | Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets. |
| CAUSE | The Municipality did not maintain effective internal control over the accounting records from where the financial information is obtain for the preparation of the financial statements in accordance with generally accepted accounting principles. |
| EFFECT | The lack of a reliable accounting system did not permit the preparation of the financial statements in a timely manner and affects the ability of the Municipality to measure the performance and results of the operations of the general fund and the special revenue funds of the Municipality. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING

2013-001 (CONTINUED)

REQUIREMENT

ACCOUNTING RECORDS AND REPORTING SYSTEM

RECOMMENDATION

I recommend management to establish the necessary internal controls and procedures in the finance department in order to maintain a complete set of accounting records that provides accurate financial information related to the assets, liabilities, revenues and expenditures. Also, these records should provide trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance of the capital assets and the general long term debt of the Municipality.

**MANAGEMENT RESPONSE
AND CORRECTIVE ACTION**

We are considering alternatives for the acquisition of a new accounting software, and therefore, we will hope to solve our accounting system condition in a near future. But it's important to comment that, in addition to the uniform computerized accounting system provided in the past and required by the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs (OCAM), we are using the Peachtree accounting software as an alternate tool in order to record daily cash basis transactions, in order to maintain monthly reconciled records of all of our funds.

Implementation Date: June 2015

Responsible Person: Mr. Adán Feliciano
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|--|--|
| FINDING NUMBER | 2013-002 |
| REQUIREMENT | ACCOUNTING RECORDS- INTERFUND TRANSACTIONS |
| CONDITION | The Municipality transfer funds of special revenue funds to the General Fund without adequate supporting documentation. |
| CONTEXT | During my examination of the accounting records, I noted that during the fiscal year 2012-2013, the Municipality transfer funds to the General Fund bank account, amounting to approximately \$389,000, of state assignments and grants. This amounts were pooled with the unrestricted resources of the General Fund. Such state assignments and grants are restricted by Joint Resolutions of both the State House of Representative and Senate. |
| CRITERIA | Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991, states that the restricted funds received by the Municipality should be only used for the purposes established by these resources. |
| CAUSE | The General Fund cash resources have been reduced over the past years due to the excess of expenditures over revenues and has caused a liquidity problem to meet the payment of its current obligations and services. This situation caused that the General Fund uses resources from other funds. |
| EFFECT | The Municipality at this moment did not count with the sufficient resources to comply with the projects or activities for which such funds were obtained and restricted. |
| RECOMMENDATION | The Municipality should either reimburse immediately all resources obtained from the transfers of those funds, or obtain an authorization from the State House of Representative and Senate for the re-program of such funds. The Municipality should continue strengthening its internal controls to avoid subsequent appropriations of other funds whose uses are restricted. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | We will transfer the funds mentioned in the Condition from Current Bank Account to the Special Funds Bank Account as soon as possible. |

Implementation Date: December 2014

Responsible Person: Mr. Adán Feliciano
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|--|--|
| FINDING | 2013-003 |
| REQUIREMENT | ACCOUNTING RECORDS- CAPITAL ASSETS |
| CONDITION | The Municipality does not have an effective system to account for capital assets, including the infrastructure assets. |
| CONTEXT | During my examination of the property records, I noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2013. |
| CRITERIA | Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records. |
| CAUSE | The lack of an adequate capital assets subsidiary ledger, for financial reporting purposes, did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality. |
| EFFECT | The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position. |
| RECOMMENDATION | I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | <p>The Municipality's Finance Department staff plan to continue your effort in order to update the capital assets subsidiary ledger, principally the infrastructure assets.</p> <p>Implementation Date: June 2015</p> <p>Responsible Person: Mr. Adán Feliciano Finance Department Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENTS FINDINGS

| | |
|--|--|
| FINDING NUMBER | 2013-004 |
| REQUIREMENT | SINGLE AUDIT SUBMISSION |
| CONDITION | The Municipality did not comply with the required due date for the submission of the Single Audit Report and the Data Collection Form. |
| CONTEXT | The Municipality did not submit, in a timely manner, the Single Audit Reporting package for the fiscal year ending on June 30, 2013. The due date for this report was no later than March 31, 2014. |
| CRITERIA | OMB Circular A-133, Subpart C, Section 320 (a) states that all audits shall be completed and submitted to the Federal Audit Clearinghouse and the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit report. |
| CAUSE | Due to the lack of adequate accounting records, the Municipality did not comply with the requirements established in OMB Circular A-133. |
| EFFECT | The Municipality is not in compliance with OMB Circular A-133, Subpart C, Section 320 (a). Also, the Municipality could be sanctioned by the Federal Government for the noncompliance of this requirement. |
| RECOMMENDATION | I recommend management to establish adequate accounting records that allow for the timely completion of its financial statements and performance of the Single Audit. |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | We engage on March 2014 the Single Audit services for the fiscal year 2013-2014, and we expect that this audit shall be completed and submitted to the Federal Audit Clearinghouse and the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit report. Implementation Date: July 2014 Responsible Person: Mr. Adán Feliciano Finance Department Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING NUMBER | 2013-005 |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | CASH MANAGEMENT |
| CONDITION | The Program did not minimize the time between the receiving of the request of funds from the pass-through entity and the disbursement of funds. |
| CONTEXT | <p>During my cash management test, I examined ten (10) requests of funds, amounting \$1,388,865, made by the Program to the pass-through entity during fiscal year ended June 30, 2013. I found that three (3) requests took between five (5) and thirty-one (31) days from the moment the funds were deposited and the issuance of the checks.</p> <p>Also, I noted that the Program maintained an average cash balance of \$13,414 in books, during the fiscal year ended June 30, 2013.</p> |
| CRITERIA | Code of Federal Regulations 24, Section 570.489 (c) states that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee. |
| CAUSE | The Federal Programs and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to the pass-through agency only for immediate needs. |
| EFFECT | The Program is not in compliance with Code of Federal Regulations 24, CFR 570.489 (c). |
| RECOMMENDATION | I recommend management that the finance department should give priority to the disbursements that will be paid with the federal funds received by the pass-through entities. Once these requests are received, the finance department should continue minimizing the time between the transfers of funds by the pass-through entity and the disbursements. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|--|
| FINDING NUMBER | 2013-005 (CONTINUED) |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | CASH MANAGEMENT |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | <p>As part of our corrective action plan, we are going to start the disbursement process when the requisitions of funds are submitted to the Office of the Commissioner of Municipal Affairs (OCAM) in order to assure that when the funds are transferred by the Pass-through Grantor the program will disburse them immediately.</p> <p>Implementation Date: July 2014</p> <p>Responsible Person: Mr. Adán Feliciano Finance Department Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING NUMBER | 2013-006 |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM |
| REQUIREMENT | INTERNAL CONTROL AND COMPLIANCE |
| NONCOMPLIANCE | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| CONDITION | The Municipality formalized two (2) contracts without all the required contract clauses and did not verify if the contractors were suspended or debarred by the Federal government. In addition, the Program disbursed funds without following adequate procurement procedures. |
| CONTEXT | <p>In testing compliance with the procurement requirement, I examined two (2) contracts for construction projects and noted that the contracts did not include the following clauses:</p> <ul style="list-style-type: none">▪ contractual legal remedies when contractor violates term and termination by grantee for default;▪ clauses regarding retention of all required records for three years after grantees makes final payment and all other pending matters are closed;▪ provisions for compliance with Clear Air and Clear Water Act;▪ provisions for compliance with Energy Policy and Conservation Act;▪ provisions for suspension and debarment. <p>Also, I did not found evidence that the Program verified the Excluded Parties List System (EPLS) maintained by the General Service Administration, nor obtained a certification from the contractors, to assure that these contractors were not suspended or debarred by the Federal government.</p> <p>In addition, the Program was unable to provide me, evidence of an analysis of adjudication for a contract for professional services. Also, written quotations related to this contract were not available for my examination.</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|--|
| FINDING NUMBER | 2013-006 (CONTINUED) |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM |
| REQUIREMENT | INTERNAL CONTROL AND COMPLIANCE |
| NONCOMPLIANCE | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| CRITERIA | Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) states that subgrantee's contract must contain provisions in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy. In addition, Code of Federal Regulations 24, Subpart C, Section 85.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs subject to 2 CFR part 2424. Also, Code of Federal Regulation 24, Subpart 85, Section 85.36 (b) (9) states that grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection and the basis for the contract price. |
| CAUSE | The Contract Division of the Municipality failed to assure that the contracts formalized with contractors, included the required clauses. Also, effective internal controls were not established to assure that the contracts formalized with Federal funds were not awarded to suspended or debarred parties. In addition, the Program does not performed an appropriate procurement process because failed to document adequately and maintained the supporting documents of the acquisition process. |
| EFFECT | The Municipality could have adjudicated contracts to entities or individuals that are suspended or debarred which could result in cost disallowances by the Federal awarding agency. In addition, procurement policies were not followed adequately and could result in higher costs for the professional services charges to the Program. |
| RECOMMENDATION | I recommend management to update the contract model according with the federal requirements and to obtain the EPLS in printed or electronic format, every time the Municipality formalized a contract with Program's funds. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|--|
| FINDING NUMBER | 2013-006 (CONTINUED) |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS – OCAM |
| CATEGORY | INTERNAL CONTROL AND COMPLIANCE |
| NONCOMPLIANCE | PROCUREMENT AND SUSPENSION AND DEBARMENT |
| RECOMMENDATION | In addition, management should continue strengthening the existing procedures in order to obtain and maintain all the required documentation regarding the acquisition process. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | <p>To correct the condition reported by the external auditor about the contract clauses, we will modify our master contract with all of general clauses required by Federal, State and Local laws and regulations pending to be included in it. Also, we will improve our procurement procedures in order to include a step to verify through the electronic version available on the Internet (http://epls.arnet.gov) whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. In relation to the condition related to the procurement of professional services, we will strength our internal control and procedures related to the acquisition of professional services in order to document properly the history of the procurement process.</p> <p>Implementation Date: July 2014</p> <p>Responsible Person: Mrs. Lumari Torres Pérez Federal Programs Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|------------------------|---|
| FINDING NUMBER | 2013-007 |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM |
| REQUIREMENT | INTERNAL CONTROL AND COMPLIANCE |
| NONCOMPLIANCE | REPORTING |
| CONDITION | The Program accounting records were not updated as of June 30, 2013. |
| CONTEXT | <p>During my reporting test, I noted that the accounting records of the Program, were not updated as of June 30, 2013. Also, I found that the accumulative expenditures reported in the quarterly report for the month ended June 30, 2013, submitted to the pass-through entity (OCAM), did not reconcile with the accounting records (check register) for the amount of \$80,759.</p> <p>In addition, I did not find evidence of the submission of the program income quarterly reports to the pass-through entity, for the fiscal year 2012-2013.</p> |
| CRITERIA | <p>Code of Federal Regulations 24, Section 85.20 (a) (2) requires that fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Code of Federal Regulations 24, Section 85.20 (b) (2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>The Program is required by OCAM to report quarterly, any and all program income generated, as per Circular Memorandum Num. 2013-14.</p> |
| CAUSE | The Program accounting personnel did not record all the financial transactions of the Program for the fiscal year 2012-2013 in the accounting records. Also, the accounting staff failed to comply with the quarterly submission of the program income reports to the pass-through agency. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|--|
| FINDING NUMBER | 2013-007 (CONTINUED) |
| FEDERAL PROGRAM | COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM |
| REQUIREMENT | INTERNAL CONTROL AND COMPLIANCE |
| NONCOMPLIANCE | REPORTING |
| EFFECT | The Program submit quarterly reports, to the pass-through agency, that were not supported with adequate accounting records. In addition, the pass-through agency did not received, in a timely manner, the program income information for the fiscal year 2012-2013. |
| RECOMMENDATION | The Program should continue improving its internal control over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity is adequately supported and recorded in adequate accounting registers. Also, the Program should implement procedures to assure the submission of the program income quarterly reports to the pass-through entity. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | Instructions were given to the Program staff responsible for the accounting records, in order to update and reconcile them, to assure that each quarterly report submitted to the pass-through entity be properly supported by the accounting records, and permit timely submission of required reports. Implementation Date: September 2014 Responsible Person: Mrs. Lumari Torres Pérez Federal Programs Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|-------------------------|--|
| FINDING NUMBER | 2013-008 |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | ELIGIBILITY |
| CONDITION | The Program did not document adequately the third party income verification. |
| CONTEXT | During my eligibility test, I examined twenty (20) participant's files, and noted that in nine (9) participant's files, subjected to annual reexaminations, the Enterprise Income Verification (EIV) was not available for my examination. |
| CRITERIA | Code of Federal Regulation 24, Section 982.516 (a) (1) states that the PHA must conduct a reexamination of family income and composition at least annually; (2) the PHA must obtain and document in the tenant file third party verification of the following factors or must document in the file why third party verification was not available: (A) reported family annual income; (B) the value of assets; (C) expenses related to deductions from annual income; and (D) other factors that affects the determination of adjusted income. |
| CAUSE | The Program management failed to document appropriately the use of the EIV System during the mandatory annual and interim reexaminations as a third party income verification of the family income. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 24, Section 982.516 (a) (1), (2). |
| RECOMMENDATION | I recommend management to continue strengthening the internal controls and procedures designed to verify the family income and composition using the EIV system in each mandatory reexamination of the participants. |
| QUESTIONED COSTS | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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| FINDING NUMBER | 2013-008 (CONTINUED) |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | <p>We will review the documentation protocol and will instruct the Program's Staff in order to strength our internal control and procedures to comply with the required verification hierarchy. It's important to comment that the purpose of HUD's EIV System is to make integrated income data available from one source income verification during required income reexaminations; in other words, to verify tenant employment and income information during mandatory reexaminations of family composition and income; EIV is not available for verifying of income of applicants (new participants). Our Municipality will implement PIH Notice 2010-19 as indicated by HUD setting forth procedures to verify EIV 120 days after admission.</p> <p>Implementation Date: July 2014</p> <p>Responsible Person: Mrs. Lumari Torres Pérez Federal Programs Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|------------------------|---|
| FINDING NUMBER | 2013-009 |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | REPORTING |
| CONDITION | The Program did not maintain accurate accounting records of the financial transactions. |
| CONTEXT | <p>During my reporting test, I noted that the Program did not maintain adequate accounting records, and did not summarize the information of all the financial transactions, related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger. In addition, I noted that the balances of the administrative fee and HAP equities reported in the Voucher Management System (VMS) have differences with the equities reported in the unaudited submission to the REAC.</p> <p>In addition, the audited financial information for the fiscal year 2012-2013, due in March 31, 2013, was not submitted in a timely manner, to HUD through the FASS-PH system.</p> |
| CRITERIA | Code of Federal Regulations 24, Section 982.158 (a) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. Also, the PHA must comply with the financial reporting requirements in 24 CFR part 5 Subpart H. In addition, CFR 24, Section 5.801 (b) (1) states that submission of financial information must be prepared in accordance with Generally Accepted Accounting Principles; (2) submitted electronically to HUD through the internet, or in such other electronic format designated by HUD, or in such non-electronic format as HUD may allow if the burden or cost of electronic reporting is determined by HUD to be excessive. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|---|
| FINDING NUMBER | 2013-009 (CONTINUED) |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | REPORTING |
| CAUSE | The Program failed to establish adequate internal controls over the accounting records. In addition, the Program is not complying with the due dates established by HUD to submit the audited reports. |
| EFFECT | The Program did not submit to HUD, the required reports, in a timely manner and adequately supported, in order to comply with the Federal regulation. |
| RECOMMENDATION | The Program should implement adequate accounting records to ensure that the financial information submitted to HUD in its monthly reports agrees with the accounting records and are properly supported. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | <p>In order to solve in a short term the condition reported by the external auditor, we are considering the implementation of an accounting software to summarize the information of all the financial transactions, related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger. Also, we will make the corrections in the VMS, and we will submit the audited financial information for the fiscal year 2012-2013 to HUD through the FASS-PH system, as soon as the Single Audit Report is finally issued.</p> <p>Implementation Date: December 2014</p> <p>Responsible Person: Mrs. Lumari Torres Pérez Federal Programs Director</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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|--|---|
| FINDING NUMBER | 2013-010 |
| FEDERAL PROGRAM | SECTION 8 HOUSING CHOICE VOUCHERS (CFDA 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| REQUIREMENT | COMPLIANCE AND INTERNAL CONTROL |
| NONCOMPLIANCE | SPECIAL TEST- UTILITY ALLOWANCE SCHEDULE |
| CONDITION | The Program did not maintain an updated utility allowance schedule. |
| CONTEXT | During my utility allowance schedule test, I noted that the Program has not reviewed the utility rates data within the last twelve (12) months to ascertain if there has been a change of ten percent or more in utility rates. |
| CRITERIA | Code of Federal Regulations, 24 CFR, Section 982.517 (4) (c) states that the PHA must review its schedule of utility allowance each year, and must revise its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule. |
| CAUSE | The Program does not established procedures to ensure the accuracy of its utility allowance schedule. |
| EFFECT | The Program is not in compliance with Code of Federal Regulation 24, Section 24 CFR, Section 982.517 (4) (c). |
| RECOMMENDATION | I recommended management to revise and update annually, if necessary, its utility allowance schedule as required by this compliance requirement. |
| QUESTIONED COSTS | None |
| MANAGEMENT RESPONSE AND CORRECTIVE ACTION | We will revise the allowance for a utility schedule in order to determine if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. Implementation Date: December 2014 Responsible Person: Mrs. Lumari Torres Pérez Federal Programs Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
 Summary of Prior Year Audit Findings
 Fiscal Year Ended June 30, 2013

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2013. The following legend indicates the current status of the prior years' audit findings:

| FINDING NUMBER | CFDA NUMBER | DESCRIPTION |
|-------------------|----------------|--|
| 12-03 | 14.228 | Procurement standards- Contract clauses No corrective action has been taken. Finding reference 2013-006. |
| 12-03 | 14.228 | Suspension and debarment No corrective action has been taken. Finding reference 2013-006. |
| 11-03 | 14.228 | Cash management No corrective action has been taken. Finding reference 2013-005. |
| 11-05 | 14.228 | Suspension and debarment No corrective action has been taken. Finding reference 2013-006. |
| 11-06 | 14.228 | Procurement No corrective action has been taken. Finding reference 2013-006. |
| 10-03 | 14.228 | Suspension and debarment The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
Summary of Prior Year Audit Findings
Fiscal Year Ended June 30, 2013

| FINDING NUMBER | CFDA NUMBER | DESCRIPTION |
|---------------------------|------------------------|--|
| 10-05 | 14.228 | Procurement The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 10-06 | 14.228 | Procurement The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |
| 09-03 | 14.228 | Suspension and debarment The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse. |

Gobierno Municipal de Guayanilla
Oficina de Finanzas



Hoja de Trámite

Atención: Lcdo. Carlos M. Santini Rodríguez
Comisionado
OCAM

Recibí de la Oficina del Director de Finanzas y de su secretaria los siguientes documentos:

- **SINGLE AUDIT REPORT**
YEAR ENDED JUNE 30, 2013

Fecha Recibido: _____

Recibido por: _____

División o Departamento: _____

Hora: _____

Gracias.

14 JUN 13 VII 8:34
MAYORADO MUNICIPAL DE GUAYANILLA