

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GUAYNABO**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS  
with Independent Auditor's Report Thereon  
June 30, 2002**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

**CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES**

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
FOR THE YEAR ENDED JUNE 30, 2002**

**TABLE OF CONTENTS**

	<b><u>Pages</u></b>
<b>PART I - FINANCIAL SECTION</b>	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis .....	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities .....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Activities .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of Statement of Revenues, Expenditures and Changes Changes in Fund Balances Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Fund Balances – Budget and Actual - General Fund .....	16
Notes to Basic Financial Statements.....	17-52
Required Supplementary Information:	
Schedule of Funding Progress – Employees Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities .....	53
Schedule of Revenues, Expenditures and Changes in Fund Fund Balances – Budget and Actual – Debt Service Fund.....	54
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedules by Source .....	55
Schedule by Function and Activity.....	56
Schedule of Changes by Function and Activity .....	57

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
FOR THE YEAR ENDED JUNE 30, 2002**

**TABLE OF CONTENTS (CONTINUED)**

	<b><u>Pages</u></b>
<b>PART II – SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards .....	59-60
Notes to Schedule of Expenditures of Federal Awards .....	61
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	62-63
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	64-65
Schedule of Findings and Questioned Costs .....	66-76
Schedule of Status of Prior Year Audit Findings and Questioned Costs.....	77-78
<b>PART III – CORRECTIVE ACTION PLAN</b>	
Corrective Action Plan	

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**PART I**  
**FINANCIAL SECTION**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis O. Rivera Zúñiga

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

## **INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor, Members of the  
Municipal Legislature and People of  
the Municipality of Guaynabo  
Guaynabo, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guaynabo of the Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2002, which collectively comprise the Municipality's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental 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 require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guaynabo of the Commonwealth of Puerto Rico, as of June 30, 2002, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and the schedule of funding progress - Employees Retirement System of the Commonwealth of Puerto Rico and Its

Instrumentalities are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

San Juan, Puerto Rico  
December 23, 2002

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 1847873 was affixed  
to the original of this report



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the Municipality of Guaynabo of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2002, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued by the Governmental Accounting Standards Board (commonly known as "GASB 34"). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2002, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

**FINANCIAL HIGHLIGHTS**

- The Municipality's has reported assets and net assets amounting to \$1,098,593,616 and \$782,584,675, respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to \$904,786,147 (82 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$316,008,941, in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to \$177,735,304 (56 percent of total liabilities).
- The Municipality has reported total revenues amounting to \$146,266,559 in the accompanying statement of activities, of which property taxes and municipal licenses were the most significant revenues amounting to \$58,863,399 (40 percent of total revenues) and \$37,187,010 (25 percent of total revenues), respectively.
- The Municipality has reported a net change in net assets (excess of revenues over expenses) amounting to \$17,493,470 in the accompanying statement of activities.

- The Municipality's governmental funds reported combined ending fund balances of \$118,086,888 of which \$32,778,440 (28 percent) represent the fund balances of the general fund and debt service fund combined (both known as the Municipality's major funds)
- The Municipality has reported unreserved fund balance for the general fund amounting to \$15,766,932.
- The Municipality has reported an excess of revenues and other financing sources over expenditures and other financing uses amounting to \$11,003,659 in the governmental funds.
- The Municipality has reported in the statement of net assets and the governmental funds certain prior period adjustments to correct prior year's accounting errors consisting of a net understatement of liabilities as of June 30, 2001 amounting to \$68,545,018 (note 13).

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

### **Government-Wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance 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 the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2002 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

### **Statement of Net Assets**

The statement of net assets presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time,

increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

### **Statement of Activities**

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2002. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

### **Fund Financial Statements**

The Municipality's fund financial statements, which 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 and results of operations of the Municipality's governmental funds.

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

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same

functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (June 30, 2002). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has two major funds: (1) the general fund and (2) the debt service fund.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information consisting of: (1) a combining financial statements referred in connection to nonmajor governmental funds is presented, (2) a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund and (3) trend data on pension funding.

### **Government-wide Financial Statements Summary**

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$782,584,675 at June 30, 2002.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following is a condensed

presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

**Condensed Statement of Net Assets:**

Current and other assets	\$ 78,781,356
Noncurrent and other assets	<u>1,019,812,260</u>
Total assets	<u>1,098,593,616</u>
Long-term liabilities outstanding	236,159,819
Other liabilities	<u>79,849,122</u>
Total liabilities	<u>316,008,941</u>
Net assets/(liabilities):	
invested in capital assets, net of related debt	776,345,727
Restricted	21,900,784
Unrestricted	<u>(15,661,836)</u>
Total net assets	<u>\$ 782,584,675</u>

An additional portion of the Municipality's net assets (3 percent) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

### Condensed Statement of Activities:

Revenues:	
Program revenues:	
Operating grants and contributions	\$ 16,830,505
Capital grants and contributions	1,787,840
General revenues:	
Property taxes	58,863,399
Municipal license taxes	37,187,010
Construction excise taxes	7,822,888
Other	<u>23,774,918</u>
Total revenues	<u>146,266,560</u>
Expenses:	
General government	45,130,305
Public safety	8,177,399
Health and sanitation	17,672,727
Economic development	19,156,886
Culture and education	16,810,290
Public housing and welfare	11,370,997
Interest	<u>10,454,486</u>
Total expenses	<u>128,773,090</u>
Net increase in net assets	17,493,470
Net assets - at beginning of year	<u>765,091,205</u>
Net assets - at end of year	<u>\$ 782,584,675</u>

### **Fund Financial Statements Summary**

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

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

Total Assets - Major Funds	\$ 94,001,509
Total Assets - Nonmajor Funds	<u>102,306,328</u>
Total assets	<u>196,307,837</u>
Total Liabilities - Major Funds	61,223,069
Total Liabilities - Nonmajor Funds	<u>16,997,880</u>
Total liabilities	<u>78,220,949</u>

Fund Balances - Major Funds	32,778,440
Fund Balances - Nonmajor Funds	<u>85,308,448</u>
Total net assets	<u>\$ 118,086,888</u>

**Condensed Statement of Operations - Governmental funds:**

Total Revenues - Major Funds	\$ 123,601,696
Total Revenues - Nonmajor Funds	<u>20,230,382</u>
Total revenues	<u>143,832,078</u>
Total expenditures - Major Funds	111,243,402
Total expenditures - Nonmajor Funds	<u>21,585,017</u>
Total expenditures	<u>132,828,419</u>
Revenues Over Expenses - Major	12,358,294
Revenues Over Expenses - Nonmajor	<u>(1,354,635)</u>
Total net assets	<u>\$ 11,003,659</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Statement of Net Assets  
June 30, 2002

**ASSETS**

**Current Assets:**

Unrestricted cash and cash equivalents (note 1e and 3)		\$ 66,280,528
Receivables, net of allowance for doubtful accounts (note 1f):		
Taxes:		
Property taxes (notes 5 and 14)	\$ 1,111,587	
Municipal license taxes (note 4)	3,480,283	
Construction excise taxes	<u>1,141,817</u>	
Total taxes receivable	5,733,687	
Accrued interest on deposits (note 3)	425,716	
Intergovernmental, principally from the governments of the Commonwealth of Puerto Rico and United States of America (note 1f)	3,594,645	
Other miscellaneous	<u>2,746,780</u>	
Total receivables, net		<u>12,500,828</u>
Total current assets		78,781,356

**Noncurrent Assets:**

Temporarily restricted cash and cash equivalents (notes 1g and 3)	114,943,699	
Capital assets, net of accumulated depreciation and amortization (notes 1h, 1j, 7, 11 and 12)	904,786,147	
Debt issue costs, net of accumulated amortization (notes 1n and 10)	<u>82,414</u>	
Total noncurrent assets		<u>1,019,812,260</u>
Total assets		<u>\$ 1,098,593,616</u>

**LIABILITIES**

**Current Liabilities:**

Accounts payable and accrued liabilities (notes 8, 9 and 13)	30,555,714	
Accrued interests on bonds, notes and obligations under capital leases (notes 10, 11 and 13)	5,129,183	
Due to other governments	678,934	
Deferred revenues (notes 1k and 4)	30,784,183	
Accrued compensated absences, excluding long-term portion (notes 1m and 13)	4,571,167	
Claims and judgments (notes 12 and 14)	507,500	
Current portion of obligation under capital leases (notes 7 and 11)	1,085,906	
Bonds, notes and other long-term debt (notes 1n, 10, 13 and 14)	<u>6,536,535</u>	
Total current liabilities		79,849,122

**Noncurrent liabilities:**

Accrued compensated absences, excluding current portion (notes 1m and 13)	6,363,714	
Estimated liability for landfill closure and postclosure care costs (notes 9, 11, and 13)	6,416,432	
Obligation under capital leases, excluding current portion (notes 7 and 11)	45,624,369	
Bonds, notes and other long-term debt, excluding current portion (notes 1n, 10, 13, and 14)	<u>177,735,304</u>	
Total noncurrent liabilities		<u>236,159,819</u>
Total liabilities		316,008,941

**NET ASSETS**

Invested in capital assets, net of related debt	<u>776,345,727</u>	
Restricted for:		
Capital projects	5,713,559	
Debt service	14,941,539	
Advances and other specified purposes	<u>1,245,686</u>	
Total restricted net assets	<u>21,900,784</u>	
Unrestricted net liabilities (note 13)	<u>(15,661,836)</u>	
Total net assets		<u>\$ 782,584,675</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Statement of Activities  
Year Ended June 30, 2002

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue and Changes in Net Assets
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities (note 6):				
General government	\$ 45,130,305	\$ -	\$ -	\$ (45,130,305)
Public safety (note 1-1)	8,177,399	-	-	(8,177,399)
Health and sanitation (note 9 and 13)	17,672,727	-	-	(17,672,727)
Economic development	19,156,886	40,963	1,787,840	(17,328,083)
Culture and education	16,810,290	12,979,972	-	(3,830,318)
Public housing and welfare	11,370,997	3,809,570	-	(7,561,427)
Interest on bonds, notes, capital lease obligations and long-term debt (notes 10, 11 and 14)	<u>10,454,486</u>	-	-	<u>(10,454,486)</u>
<b>Total governmental activities</b>	<b>\$ 128,773,090</b>	<b>\$ 16,830,505</b>	<b>\$ 1,787,840</b>	<b>\$ (110,154,745)</b>

General revenues:

Taxes:

Property taxes (note 5 and 14)	\$ 58,863,399
Municipal license taxes (note 4)	37,187,010
Construction excise taxes	<u>7,822,888</u>
Total taxes	<u>103,873,297</u>
Charges for services and rents	1,898,631
Intergovernmental contributions and reimbursements	9,865,741
Interest, fines and charges	5,535,747
Other revenues	<u>6,474,799</u>
Total general revenues	<u>127,648,215</u>
Net change in net assets	17,493,470
Net assets-beginning of fiscal year, as restated (note 13)	<u>765,091,205</u>
Net assets-end of fiscal year	<u>\$ 782,584,675</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**

Balance Sheet  
Governmental Funds  
June 30, 2002

	Major Funds		Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund		
<b>ASSETS</b>				
Unrestricted cash and cash equivalents (note 1e and 3)	\$ 56,523,909	\$ -	\$ 9,756,619	\$ 66,280,528
Receivables, net of allowance for doubtful accounts:				
Taxes:				
Property taxes (note 5 and 14)	1,111,587	-	-	1,111,587
Municipal license tax (note 4)	129,171	-	-	129,171
Accrued interest or deposits (note 3)	425,716	-	-	425,716
Other miscellaneous	1,113	-	-	1,113
Total taxes receivable	1,667,587	-	-	1,667,587
Intergovernmental, principally from the governments of the Commonwealth of Puerto Rico and United States of America (note 1e)	1,561,558	-	2,033,087	3,594,645
Due from other funds (note 6)	9,734,632	-	86,746	9,821,378
Total receivables, net	12,963,777	-	2,119,833	15,083,610
Total current assets				
Temporarily restricted cash and cash equivalents (note 1g and 3)	331,742	24,182,081	90,429,876	114,943,699
Total assets	<u>\$ 69,819,428</u>	<u>\$ 24,182,081</u>	<u>\$ 102,306,328</u>	<u>\$ 196,307,837</u>
<b>LIABILITIES</b>				
Account payable and accrued liabilities (notes 8, 9 and 13)	\$ 21,054,093	\$ -	\$ 6,160,119	\$ 27,214,212
Matured bonds due and payable (notes 1n, 10, 13 and 14)	-	9,240,542	-	9,240,542
Due to other funds (note 6)	66,016	-	9,755,362	9,821,378
Due to other governments	1,919,117	-	-	1,919,117
Deferred revenues (notes 1k and 4)	28,943,301	-	1,082,399	30,025,700
Total liabilities	51,982,527	9,240,542	16,997,880	78,220,949
<b>FUND BALANCES</b>				
Reserved for (note 10):				
Encumbrances	2,069,969	-	-	2,069,969
Capital assets	-	-	84,062,762	84,062,762
Advances and other specified purposes	-	-	1,245,686	1,245,686
Debt service	-	14,941,539	-	14,941,539
Unreserved	15,766,932	-	-	15,766,932
Total fund balances (note 13)	17,836,901	14,941,539	85,308,448	118,086,888
Total liabilities and fund balances	<u>\$ 69,819,428</u>	<u>\$ 24,182,081</u>	<u>\$ 102,306,328</u>	<u>\$ 196,307,837</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
 Reconciliation of the Governmental Funds  
 Balance Sheet to the Statement of Net Assets  
 June 30, 2002

The following is a reconciliation of the Governmental Funds  
 Balance Sheet to the Statement of Net Assets:

Total Funds Balances - Governmental Funds	\$ 118,086,888
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds financial statements	904,786,147
Some of the Municipality's tax and other revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures	7,238,594
The Municipality recognized the current portion of bonds and interest that will be paid from current available resources	9,240,542
The Municipality has associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.	82,414
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accounts payable and accrued liabilities	(3,341,501)
Accrued interest on bonds, notes and other long-term liabilities	(5,129,183)
Deferred revenues	(758,484)
Compensated absences	(10,954,881)
Claims and judgements	(507,500)
Capital leases	(46,710,275)
Landfill closure and post-closure costs	(6,416,432)
Bonds, notes and other long-term debt	<u>(184,271,839)</u> (258,090,095)
Other miscellaneous reconciling items	<u>1,240,185</u>
Net Assets of Governmental Activities	<u>\$ 782,584,675</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
Year Ended June 30, 2002

	Major Funds		Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Debt Service		
<b>REVENUES:</b>				
Taxes:				
Property taxes (notes 5 and 14)	\$ 38,129,989	\$ 20,733,410	\$ -	\$ 58,863,399
Municipal license taxes (note 4)	36,799,497	-	-	36,799,497
Construction excise taxes	6,681,071	-	-	6,681,071
<b>Total taxes</b>	<b>81,610,557</b>	<b>20,733,410</b>	<b>-</b>	<b>102,343,967</b>
Charges for services and rents	1,685,500	-	-	1,685,500
Intergovernmental contributions and reimbursements:				
Federal grants and contributions	-	-	17,926,323	17,926,323
State contributions	7,607,765	-	2,257,976	9,865,741
Interest, fines, and penalties	5,243,223	246,443	46,083	5,535,749
Other revenues	6,474,798	-	-	6,474,798
<b>Total revenues</b>	<b>102,621,843</b>	<b>20,979,853</b>	<b>20,230,382</b>	<b>143,832,078</b>
<b>EXPENDITURES:</b>				
Current (note 8):				
General government	42,781,005	-	-	42,781,005
Public safety (note 14)	7,213,507	-	-	7,213,507
Economic development	13,664,180	-	1,183,942	14,848,122
Health and sanitation (note 9 and 13)	16,956,766	-	-	16,956,766
Culture and education	2,866,650	-	13,579,083	16,445,733
Public housing and welfare	5,363,985	-	5,865,722	11,229,707
Capital outlays (note 12)	-	-	28,141,053	28,141,053
Debt service:				
Principal (notes 1n, 10, 13 and 14)	-	6,150,000	-	6,150,000
Interest on bonds and notes (notes 10 and 14)	-	9,937,526	-	9,937,526
<b>Total expenditures</b>	<b>88,866,093</b>	<b>16,087,526</b>	<b>48,769,800</b>	<b>153,723,419</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>13,755,750</b>	<b>4,892,327</b>	<b>(28,539,418)</b>	<b>(9,891,341)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from issuances of bonds (note 10)	-	-	20,895,000	20,895,000
Operating transfer-in from other funds (note 6)	4,400,675	5,555,183	9,028,342	18,984,200
Operating transfer-out to other funds (note 6)	(11,844,966)	(4,400,675)	(2,738,559)	(18,984,200)
<b>Total other financing sources (uses)</b>	<b>(7,444,291)</b>	<b>1,154,508</b>	<b>27,184,783</b>	<b>20,895,000</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>6,311,459</b>	<b>6,046,835</b>	<b>(1,354,635)</b>	<b>11,003,659</b>
<b>FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED (NOTE 13)</b>	<b>11,525,442</b>	<b>8,894,704</b>	<b>86,663,083</b>	<b>107,083,229</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 17,836,901</b>	<b>\$ 14,941,539</b>	<b>\$ 85,308,448</b>	<b>\$ 118,086,888</b>

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

**MUNICIPALITY OF GUAYNABO**  
**Reconciliation of Statement of Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2002**

Amounts reported for governmental activities in the accompanying statement are different because:

Net change in fund balances as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 11,003,659
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	22,054,066
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	2,434,271
Proceeds from debt issues are recorded as "other financing source" in the fund financial statements, however debt issues increase long-term liabilities in the statements of net assets.	(20,895,000)
Repayment of bond and notes principal is recorded as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	6,150,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditure is reported when due.	(516,960)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(2,736,566)</u>
Net change in net assets as reported in the accompanying statement of activities	<u>\$ 17,493,470</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL -  
GENERAL FUND  
YEAR ENDED JUNE 30, 2002**

	<u>Budgeted Amounts</u>		Actual Amounts	Positive
	Original	Final	(Budgetary Basis)	Variance with Final Budget
<b>REVENUES (note 2):</b>				
Taxes:				
Property taxes (notes 5 and 14)	\$ 35,233,945	\$ 35,233,945	\$ 37,018,402	\$ 1,784,457
Municipal license taxes (Note 4)	29,003,000	35,361,399	36,670,326	1,308,927
Construction excise taxes	<u>2,000,100</u>	<u>4,940,934</u>	<u>6,681,071</u>	<u>1,740,137</u>
Total taxes	66,237,045	75,536,278	80,369,799	4,833,521
Charges for services and rents	750,200	1,316,707	1,694,192	377,485
Intergovernmental contributions and reimbursements:				
State contributions	7,459,311	7,607,765	7,607,765	.
Interest, fines, and penalties	4,435,000	3,996,967	5,199,793	1,202,826
Other revenues	<u>105,000</u>	<u>10,336,394</u>	<u>10,885,223</u>	<u>548,829</u>
Total revenues	<u>78,986,556</u>	<u>98,794,111</u>	<u>105,756,772</u>	<u>6,962,661</u>
<b>EXPENDITURES (note 2):</b>				
Current:				
General government	38,926,636	49,940,684	47,768,162	2,172,522
Public safety (note 14)	7,732,870	7,296,853	7,208,020	88,833
Economic development	9,026,877	20,864,236	19,315,559	1,548,677
Health and sanitation (note 9 and 13)	15,978,785	16,849,304	16,695,136	154,168
Culture and education	3,563,537	3,401,134	3,104,473	296,661
Public housing and welfare	<u>3,757,851</u>	<u>5,561,438</u>	<u>5,385,674</u>	<u>175,764</u>
Total expenditures	<u>78,986,556</u>	<u>103,913,649</u>	<u>99,477,024</u>	<u>4,436,625</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(5,119,538)</u>	<u>6,279,748</u>	<u>11,399,286</u>
<b>OTHER FINANCING SOURCES (note 2):</b>				
Operating transfer-in from other funds (note 6)	<u>-</u>	<u>5,119,538</u>	<u>5,119,538</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>5,119,538</u>	<u>5,119,538</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,399,286</u>	<u>\$ 11,399,286</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**1. GOVERNMENTAL ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Financial Reporting Entity**

The Municipality of Guaynabo of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted with full legislative, fiscal and administrative powers to operate as an autonomous government under the provisions of Law No. 81 of August 30, 1991, as amended (commonly known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico). The Municipality assumes responsibility for public safety, health and sanitation, public housing and welfare, culture and education, economic development and many other general and administrative duties.

The laws and regulations of the Commonwealth of Puerto Rico (the "Commonwealth") provide for separation of powers of the executive, legislative and judicial branches of the Commonwealth's and the Municipality's governments. The executive power of the Municipality is exercised by the elected Mayor, assisted by the Administrative Cabinet, while the legislative power is exercised by the elected Municipal Legislature. The judiciary power is exercised by the Justice General Court of the Commonwealth which have jurisdiction over the Municipality.

GAAP defines component units as those entities that: (1) are legally separate organizations for which the Municipality's elected officials are financially accountable, and (2) other organizations for which the nature and significance of their relationship with the Municipality are such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

Accordingly, in evaluating the Municipality as a financial reporting entity, management has addressed all potential entities and organizations that may be considered component units according to the criteria set forth by Statement No. 14, *The Financial Reporting Entity*, issued by the Governmental Accounting Standards Board. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
Notes to Basic Financial Statements  
June 30, 2002

The Municipality's management has concluded that there are no legally separate entities or organizations considered component units of the Municipality according to GAAP as of June 30, 2002 nor for the year then ended.

**b. New Financial Reporting Model**

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applicable to state and local governmental units located in the Commonwealth. Accordingly, on July 1, 2001, the Municipality adopted the provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (commonly known as "GASB 34"), issued by the Governmental Accounting Standards Board, which is the accepted standard-setting body for governmental accounting and financial reporting. This statement established a new financial reporting model for state and local governments, which is significantly different from the financial reporting model previously adopted by the Municipality until June 30, 2001.

In addition, on July 1, 2001 the Municipality also adopted the following required statements issued by the Governmental Accounting Standards Board:

- **Statement No. 33** – *Accounting and Financial Reporting for Nonexchange Transactions*
- **Statement No. 36** – *Recipient Reporting for Certain Shared Nonexchange Revenues*
- **Statement No. 37** – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- **Statement No. 38** – *Certain Financial Statements Note Disclosures*

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**c. Basis of Presentation**

**1) Government-Wide Financial Statements:**

Under the provisions of GASB 34, the Municipality is required to issue government-wide financial statements, which consist of the accompanying statement of net assets and the statement of activities. These statements are aimed at presenting a broad overview of the Municipality's finances by focusing on operational accountability through reporting the financial position and results of operations of the Municipality as a whole using methods that are similar to those used by most private businesses.

The statement of net assets provides short-term and long-term information about the Municipality's financial position, which assist management to determine the Municipality's economic condition at June 30, 2002 by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time, increases (mainly revenues) or decreases (mainly expenses) in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

The statement of activities presents financial information showing how the Municipality's net assets changed during the fiscal year ended June 30, 2002. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, segment or operational unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

revenues are reported instead as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. The Municipality does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the provisions of GASB 34, all activities carried out by the Municipality are considered governmental in nature for financial reporting purposes. As a result, no business-type activities are reported in the accompanying basic financial statements.

**2) Fund Financial Statements:**

The Municipality's fund financial statements report the financial position and results of operations of the Municipality's governmental funds. These financial statements consist of the balance sheet-governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's funds. The fund financial statements focus on: (1) financial accountability, (2) individual parts of the Municipality's government and (3) reporting the Municipality's operations in more detail than the government-wide financial statements.

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. The minimum number of funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its funds within the following governmental fund categories:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**General Fund** – The general fund is the primary operating fund of the Municipality which is used to account for all activities and financial transactions, except those required to be accounted for in another fund type.

**Special Revenue Funds** – The special revenue funds are used to account for the financial resources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted for specified purposes, mainly federal grants.

**Debt Service Fund** – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt's principal, interest and related costs. Long-term debt principal and accrued interests due on July 1 of the following fiscal year are accounted for as fund liabilities at June 30 if resources are available as of such date for its payment.

**Capital Projects Funds** – Capital projects funds are used to account for the financial resources used in the acquisition or construction of major capital projects and permanent improvements.

The Municipality has no significant operations or activities that: (1) are financed and operated primarily in a manner similar to private business enterprises, where the costs of providing goods or services to the general public if financed primarily through user charges, or (2) are fiduciary in nature. As a result, the Municipality does not report proprietary nor fiduciary funds in the accompanying fund financial statements. All Municipality's funds are classified as governmental.

**3) Major and Nonmajor Funds:**

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and nonmajor categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all nonmajor governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

- i. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- ii. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

Based on the abovementioned criteria, the general fund and the debt service fund are the only two funds that qualify as major funds for the fiscal year ended June 30, 2002, and accordingly, have been reported as major funds in the accompanying fund financial statements. All other governmental funds of the Municipality are considered nonmajor for financial reporting purposes.

**4) Measurement Focus and Basis of Accounting:**

The accompanying government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund activities have been eliminated from these government-wide financial statements.

The accompanying fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available (that is, earned and collected or expected to be collected within the next 90 days following the fiscal year-end) to pay liabilities of the current period.

In applying the susceptible to accrual concept to intergovernmental revenue in the accompanying fund financial statements, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, generally recognized as expenditures are incurred. For the other revenue, moneys are virtually unrestricted and

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

are generally revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In the accompanying fund financial statements, expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred, except for: (1) principal payment and interest on long-term obligations, which are recorded when due, except for principal and interest due in July 1 of the following fiscal year which are recorded when resources are available in the debt service funds (generally June 30); and (2) vacation leave, sick leave, Christmas bonuses, landfill closure and post-closure costs, obligations under capital leases, amounts subject to judgments under litigation, and other long-term obligations, which are recorded under the accrual basis of accounting in the accompanying government-wide financial statements.

In December 1998, the Governmental Accounting Standards Board issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB 33"), effective for financial statement for periods after June 15, 2000, which the Municipality adopted on July 1, 2001. This statement established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, a government 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. The statement groups nonexchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed nonexchange revenue; (c) government mandated nonexchange transactions; and (d) voluntary nonexchange transactions. The adoption of this statement did not alter significantly the basis of accounting used by the Municipality for the recognition of revenue and expenditures and related assets and liabilities, as described above.

**d. Statutory (Budgetary) Accounting**

The Municipality's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one 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.

Under the statutory basis of accounting, 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.

The accompanying statement of revenues, expenditures and changes in fund balances-budget and actual-general fund, only presents the information for the general fund, which is the only Municipality's fund with a legally adopted budget, as required by GAAP.

The following schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing and basis differences in the excess revenue and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 2002 is presented below for the general fund.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

	<b>General</b>
Excess of revenues and other sources over expenditures and other financing uses - budget basis	\$ 11,399,286
Entity differences:	
Excess of revenue and other sources over expenditures and other uses for:	
Reprogrammed funds	(5,119,538)
Non-GAAP amounts	(178,692)
Timing differences:	
Prior year encumbrances recorded as expenditures	2,280,372
Current year encumbrances	(2,069,969)
Excess of revenues and other financing sources over expenditures and financing uses - GAAP	\$ 6,311,459

**e. Cash and Cash Equivalents**

The Municipality follows the practice of pooling cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing deposits with the Government Development Bank for Puerto Rico ("GDB") and other private commercial banks. Cash equivalents consist of investments in certificates of deposit with original maturities of 90 days or less, which amounted to \$62,770,482 at June 30, 2002.

**f. Receivables**

Tax receivables in the general fund represent amounts owed by taxpayers principally for individual and corporate property taxes, municipal license taxes and construction excise taxes. A portion of these tax receivables is recognized when they become measurable and available based on actual collections during the 90 days following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers from taxable years prior to June 30, 2002, estimated to be collectible but not currently available, as a result of the adoption of GASB 33.

Accounts receivables are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables mainly represent

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

amounts owed to the Municipality by the Commonwealth and the federal government of the United States of America for: (1) intergovernmental charges, and (2) for reimbursement of expenditures incurred pursuant to federally funded programs, respectively.

In the accompanying government-wide financial statements, receivables consist principally of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include municipal license taxes, property taxes and construction excise taxes, among others.

Nonexchange transactions collectible but not available are deferred in the accompanying fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the accompanying government-wide financial statements in accordance with the accrual basis of accounting. Interest income is recorded when earned only if collected within 90 days after year-end since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**g. Temporarily Restricted Assets**

Certain cash and cash equivalents set aside by the general fund, the capital projects fund and the debt service fund are classified as temporarily restricted assets since their use is limited for: (a) the compliance with debt service requirements of bonds and notes payable as established in the respective debt agreements and, (b) the funding of construction and permanent improvement projects. Temporarily restricted cash and cash equivalents amounted to \$114,943,699 (note 3) at June 30, 2002.

**h. Housing Units and Land Lots Held for Sale**

Housing units and land lots held for sale are stated at their estimated net realizable value determined by management based on commitment values.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**i. Interfund Transactions**

Permanent reallocations of resources between the Municipality's funds are classified as interfund transfers. The Municipality has the following types of transactions recorded among funds in the accompanying fund financial statements:

- ***Operating Transfers*** – Legally required transfers that are reported when incurred as “operating transfers-in” by the recipient fund and as “operating transfer-out” by the disbursing fund.
- ***Interfund Payments (Quasi-external Transactions)*** – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditure of the disbursing fund.

For the purposes of the accompanying government-wide statement of activities, all interfund transfers between individual governmental funds have been eliminated.

**j. Capital Assets**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Municipality as a whole, such as land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other intangible assets that are used in the operations of the Municipality and that have initial useful lives extending beyond a single reporting period (fiscal year). Infrastructure assets are generally immovable in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets. In the accompanying government-wide statement of net assets, all individual capital assets over the threshold amount of \$1,000 have been capitalized and depreciated.

In the accompanying government-wide statement of net assets, all capital assets are valued at their historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002. Interest costs

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

are capitalized during the construction period. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

All capitalized assets are depreciated over their estimated useful lives under the straight line method. All individual capital assets under the above mentioned capitalization threshold are charged directly to expense in the accompanying government-wide statement of activities. The estimated useful lives of major capital asset categories are:

Buildings, structures and improvements	50 years
Public domain infrastructure	50 to 60 years
System infrastructure	50 years
Motor vehicles	8 to 10 years
Office furniture, equipment and fixtures	5 to 20 years
Computer equipment and software	5 years

Capital assets are recorded as capital outlays expenditures in the acquiring fund for the purposes of the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds.

**k. Deferred Revenues**

The Municipality reports deferred revenue on its basic financial statements. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30. Deferred revenues also arise when resources are received by the Municipality before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

Deferred revenues at June 30, 2002 amounted to \$30,784,183 and \$30,025,700 in the accompanying government-wide statement of net assets and balance sheet – governmental funds, respectively.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**I. Landfill Closure and Postclosure Care Costs**

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

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In the accompanying government-wide statement of net assets, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and postclosing costs are made using current costs (costs that would be incurred if the closing date of the landfill would have been June 30, 2002). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

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

**m. Compensated Absences**

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board (GASB 16).

Compensated absences include paid time off made available to employees in connection with vacation and sick leave. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net assets is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2002, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others.

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 year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. 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 with the Municipality before reaching 10 years of services, such regular sick leave days are not paid to the employee. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time. At June 30, 2002, the Municipality has recorded a liability for compensated absences amounting to \$10,954,881 in the accompanying government-wide statement of net assets.

**n. Long-Term Debt**

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statement of net assets, except for principal and interest payment on long-term obligations due in July 1 of the following fiscal year, which is recorded in the fund financial statements when resources are available in the debt service fund (generally at June 30). Bonds and notes premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the debt in the accompanying government-wide financial statements.

Long-term debt for governmental funds is generally not reported as liabilities in the fund financial statements. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**o. Reservations of Fund Balances**

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. The Municipality has the following types of reservations of fund balances:

- ***Encumbrances*** – Represent future expenditures under purchase orders and other commitments. These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.
- ***Capital Assets*** - Represents net assets available to finance future acquisitions of capital assets.
- ***Advances and Other Specified Purposes*** – Represent the reservation of moneys set aside principally for long-term commitments related to federally-funded programs.
- ***Debt Service*** – Represents fund balances available to finance future debt service payments.

**p. Risk Financing**

The Municipality purchases commercial insurance covering casualty, theft, tort claims, and other losses. The Commonwealth, through its Department of Treasury, pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments. The current insurance policies have not been canceled or terminated. For workers' compensation and disability insurance, the Municipality obtain insurance coverage through the State Insurance Fund Corporation (a component unit of the Commonwealth) and the Occupational Disability Fund (which is a trust fund administered by the Department of Labor and Human Resources of the Commonwealth).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**q. Total Columns**

Total columns on the fund financial statements are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position or results of operations in conformity with GAAP. Such data is not comparable to a consolidation since interfund eliminations have not been made in the accompanying fund financial statements.

**r. Reclassifications**

Certain reclassifications have been made to the financial information presented in the accompanying fund financial statements in comparison with the 2001 fund financial statements, in order to comply with the new presentation requirements of GASB 34.

**s. Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the Municipality's management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The Municipality's general fund is the only governmental fund for which an annual budget is legally adopted. The Municipality's elected Mayor is legally required to prepare and submit to the elected Municipal Legislature an annual balanced budget for the ensuing fiscal year. The annual budget is prepared by the Municipality's Office of Management and Budget ("OMB") and the Department of Finance, and takes into consideration the advice provided by all municipal departments and divisions. The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year, unless the imposition of taxes sufficient to cover said appropriations is provided by law.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other financing resources of the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) municipal legislative measures proposed by the Mayor and submitted with the proposed budget, as well as the Mayor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year governmental plan adopted by the Municipality.

The Municipal Legislature may amend the budget 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. Upon approval by the Municipal Legislature, the budget is referred to the Mayor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Municipal Legislature and the Mayor. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

For budgetary purposes, encumbrance accounting is used. The encumbrances (principally purchase orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The encumbered balance of any appropriation of the general fund at the end of the fiscal year will lapse to the following fiscal year. In addition, the Municipal Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual department or division of the Municipality. However, the Municipality is statutorily required to satisfy the debt service requirements, regardless of whether such amounts are appropriated or not.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Appropriations are enacted for certain departments and divisions. Appropriations for capital projects are made for each bond/note issue and the authorization continues for the expected construction period.

The Municipality's OMB and Finance Department have the responsibility to ensure that budgetary spending control is maintained on an individual department/division basis. The OMB may transfer part or all of any encumbered balance within a department to another department subject to approval. Budgetary control is exercised through the Municipality's accounting system. This system ensures that encumbrances or expenditures are not processed if they exceed the department/division's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for the general fund expenditures, principal and interest due for the year for the debt service fund, and by bond/note authorization for capital expenditures.

**3. DEPOSITS**

The Municipality maintains its deposits of cash and cash equivalents in GDB (a governmental bank) and various commercial banks located in Puerto Rico. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$100,000 per depositor. However, under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance provided by the FDIC. All securities pledged as collateral are held by an agent of the Secretary of the Treasury of the Commonwealth in the name of the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Cash and cash equivalents at June 30, 2002 consist of the following:

	<u>Included in General Fund</u>	<u>Included in Debt Service Funds</u>	<u>Included in Other Governmental Funds</u>	<u>Total</u>
Unrestricted cash and cash equivalents in commercial bank	\$ 56,523,909	\$ -	\$ 9,756,619	\$ 66,280,528
Temporarily restricted cash and cash equivalents in GDB	331,742	24,182,081	90,429,876	114,943,699
<b>Total</b>	<u>\$ 56,855,651</u>	<u>\$ 24,182,081</u>	<u>\$ 100,186,495</u>	<u>\$ 181,224,227</u>

The Municipality's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2002. Risk categories are described as follows:

- Category 1:** Deposit is insured or collateralized with securities held by the Secretary of the Treasury' agents in the Municipality's name.
- Category 2:** Deposit is collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.
- Category 3:** Deposit is uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The carrying amount (book balance) of deposits with financial institutions of the Municipality at June 30, 2002 consist of the following:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Carrying amount of unrestricted deposits in commercial banks	\$ 66,280,528
Carrying amount of temporarily restricted deposits in GDB	<u>114,943,699</u>
 Total carrying amount of deposits as reported in the accompanying basic financial statements	 <u>\$181,224,227</u>

The Municipality's bank balances in commercial banks amounting to \$71,098,844 at June 30, 2002 were fully collateralized (Category 1). The bank balance of deposits in GDB, which is uninsured and uncollateralized (Category 3), amounted to \$116,937,462 as of June 30, 2002. Deposits in GDB represent the balance of interest and noninterest - bearing accounts.

#### **4. MUNICIPAL LICENSE TAXES**

The Municipality is authorized by law to impose and collect a municipal license taxes to: (1) any natural or legal person engaged in providing for profit any type of product or service in the territorial area of the Municipality. The applicable tax rates are established by the Municipality. With certain exceptions, the municipal license taxes imposed to any taxpayer generally cannot exceed 1.50 percent of the taxpayer's volume of business (generally gross income) generated in the territorial area of the Municipality. At June 30, 2002, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.50 percent for any other taxpayers. Any taxpayers which have been granted with partial tax exemptions under any of the incentive tax laws 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 his/her corresponding municipal license tax by declaring his/her volume of business through a tax return every April 15 based on the actual volume of business generated in the preceding calendar year. The tax can be paid by the taxpayer in two equal installments: (1) the first payment due at the filing date of the return (generally April 15), and (2) January 15 subsequent to the filing of the declaration. The first installment of the tax covers the taxable period (six months) ended December 31 subsequent to the filing date of the declaration, while the second installment of the tax covers the taxable period (six months) 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 (April 15), a 5 percent discount is granted automatically on the tax amount due.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Any municipal license taxes collected in advance are recorded as deferred revenues. As of June 30, 2002, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$3,480,283 and \$30,784,183, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2002 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$129,171 and \$30,025,700, respectively, in the accompanying fund financial statements.

**5. PROPERTY TAXES**

The Municipality is authorized by law to impose and collect personal and real property taxes. Personal property taxes can be imposed to any natural or legal person engaged in trade or business that at January 1 of each year is owner of personal property used in trade or business.

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 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. At June 30, 2002, the total personal property tax rate in force was 6.78 percent (of which 6.58 percent is paid by taxpayers and .20 percent is reimbursed by the Department of Treasury of the Commonwealth which has been negotiated for a fix amount of \$3,390,571 annually). Real property taxes are assessed by the Municipal Revenue Collection Center ("CRIM", by its Spanish Acronyms), a municipal corporation (not a component unit of the Commonwealth nor of the Municipality). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2002, the total real property tax rate in force was 8.78 percent (of which 8.58 percent is paid by taxpayers).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury of the Commonwealth assumes payment of the basic tax (4.00 and 6.00 percent for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when collections are received from the CRIM.

37  
**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

The CRIM is required to remit 1.03 percent of the personal and real property tax collected to the Commonwealth to be used for partially funding the debt service requirements on general obligations and notes payable of the Commonwealth. In addition, 1.75 percent of the total personal and real property taxes collected by CRIM is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

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

- a. Thirty five percent (35%) 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 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.
- b. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform is covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Advances made by CRIM to the Municipality are estimated based on the amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections received from taxpayers. CRIM periodically informs the Municipality of the amounts collected which are applied to the outstanding uncollected balances. Advances in excess of collections during the fiscal year ended June 30, 2000 amounted to \$6,621,839 (note 10), which were refinanced by CRIM through a loan granted by GDB to the Municipality. These advances in excess of collections, as refinanced, which are recorded within bonds, notes and other long-term debt in the accompanying government-wide statement of net assets. At June 30, 2002 the property tax receivable (net of the reserve for

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

doubtful accounts) are recorded in the accompanying fund and government-wide financial statements amounted to \$1,111,587.

**6. INTERFUND BALANCES**

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2002 consisted of the following:

Transfers to:	Transfer from:				Total
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
General fund	\$ -	\$4,400,675	\$ -	\$ -	\$ 4,400,675
Debt service fund	4,685,877		869,306		5,555,183
Other governmental funds	<u>7,159,089</u>			<u>1,869,253</u>	<u>9,028,342</u>
<b>Total</b>	<u>\$ 11,844,966</u>	<u>\$4,400,675</u>	<u>\$ 869,306</u>	<u>1,869,253</u>	<u>18,984,200</u>

Due To:	Due From:			Total
	General Fund	Capital Project Fund	Other Governmental Funds	
General fund	\$ -	\$ 9,414,508	\$ 320,124	\$ 9,734,632
Other governmental funds	<u>66,016</u>	<u>-</u>	<u>20,730</u>	<u>86,746</u>
<b>Total</b>	<u>\$ 66,016</u>	<u>\$ 9,414,508</u>	<u>\$ 340,854</u>	<u>\$ 9,821,378</u>

At June 30, 2002 all amounts due to among funds are considered collectible by the Municipality's management.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**7. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance at June 30, 2001	Additions	Reclassifications	Balance at June 30, 2002
<b>COST BASIS:</b>				
Cost basis of capital assets, not subject to depreciation and amortization:				
Infrastructure land	\$ 501,169,408	\$ 60,368,876	\$ -	\$ 561,538,284
Other land	30,642,234	10,311,457	-	40,953,691
Construction in progress	<u>53,950,460</u>	<u>57,883,412</u>	<u>(23,657,950)</u>	<u>88,175,922</u>
Total cost basis of capital assets, not subject to depreciation and amortization	<u>585,762,102</u>	<u>128,563,745</u>	<u>(23,657,950)</u>	<u>690,667,897</u>
Cost basis of capital assets, subject to depreciation and amortization:				
Building, structures and improvements (including building and warehouses under capital leases)	118,155,504	340,427	-	118,495,931
Infrastructure:				
Roads	6,555,303	163,922	91,782	6,811,007
Parks	36,438,667	-	3,244,284	39,682,951
Street drainage	2,752,050	4,813,401	308,873	7,874,324
Driveway	27,182,202	1,738,956	19,749,231	48,670,389
Bridges	2,119,250	-	263,780	2,383,030
Vehicles, equipment, furniture and fixtures (including equipment under capital leases)	<u>19,937,665</u>	<u>2,099,967</u>	<u>-</u>	<u>22,037,632</u>
Total cost basis of capital assets subject to depreciation and amortization	<u>213,140,641</u>	<u>9,156,673</u>	<u>23,657,950</u>	<u>245,955,264</u>
	Balance at June 30, 2001	Depreciation and Amortization Expense	Reclassifications	Balance at June 30, 2002
<b>ACCUMULATED DEPRECIATION AND AMORTIZATION:</b>				
Less: accumulated depreciation and amortization				
Building, structures and improvements	(7,949,716)	(2,320,649)	-	(10,270,365)
Infrastructure:				
Roads	(548,290)	(127,103)	-	(675,393)
Parks	(1,999,251)	(764,342)	-	(2,763,593)
Street drainage	(227,955)	(139,952)	-	(367,907)
Driveway	(2,311,912)	(684,716)	-	(2,996,628)
Bridges	(211,542)	(47,660)	-	(259,202)
Vehicles, equipment, furniture and fixtures	<u>(12,641,824)</u>	<u>(1,862,102)</u>	<u>-</u>	<u>(14,503,926)</u>
Total accumulated depreciation and amortization	<u>(25,890,490)</u>	<u>(5,946,524)</u>	<u>-</u>	<u>(31,837,014)</u>
<b>CAPITAL ASSETS, NET</b>	<u>\$ 773,012,253</u>	<u>\$ 131,773,894</u>	<u>\$ -</u>	<u>\$ 904,786,147</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

Depreciation and amortization expense was charged to functions in the accompanying government-wide statement of activities as follows:

General government	\$ 1,521,298
Public safety	33,844
Public housing and welfare	47,582
Culture and education	54,679
Health and sanitation	58,590
Economic development	<u>4,230,531</u>
Total depreciation and amortization expense	<u>\$ 5,946,524</u>

#### **8. EMPLOYEES RETIREMENT SYSTEM**

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issue publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are the only required to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth nor the Municipality will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

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

**Funding Policy:**

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275 of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

42  
ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

During the fiscal year ended June 30, 2002 the employer's contributions paid by the Municipality to both retirement systems amounted to \$1,842,297. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more year of service and 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reaches the normal retirement age. Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, any actuarial deficiency that may exist or arise related to the Municipality's participating employees will be assumed by the Commonwealth since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above.

**9. LANDFILL CLOSURE AND POSTCLOSURE COSTS**

On July 1, 2001, the Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board*. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws or regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. The Municipality has determined that the present value of total estimated closing costs and post closing care costs amount to \$2,378,163 and \$7,451,265, respectively, as of June 30, 2002.

Of these estimated costs, the Municipality has recorded a liability amounting to \$6,416,432, which is the amount required by GAAP for accrual as of June 30, 2002. The liability was recorded in the accompanying government-wide financial statements with: (1) a charge to health and sanitation expenses for \$273,040, and

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

(2) a restatement (charge) to beginning net assets for \$6,143,392 (see note 13) related to the portion of the accrual corresponding to prior years that was not recorded as of June 30, 2001 in the general long-term debt account group. The most recent study indicated that the remaining useful life of the landfill is one year. The Municipality had received a proposal for expansion of the landfill. The expansion extent the useful life for a 10 to 15 years approximately.

**10. LONG-TERM DEBT**

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

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

There is not legal limitation on the amount of debt that the Municipality may guarantee so long as the 10 percent limitation is not exceeded. At June 30, 2002, the Municipality is in compliance with the debt limitation requirements.

The general long-term debt activity for the year ended June 30, 2002 was as follows:

	<u>Balance at June 30, 2001</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2002</u>
Principal	<u>\$ 169,948,599</u>	<u>\$ 20,895,000</u>	<u>\$ (6,571,760)</u>	<u>\$ 184,271,839</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

General long-term debt obligations at June 30, 2002 is composed of the following debts:

**General Obligation Bonds:**

\$10,500,000 series of 2000, payable in annual installments of \$155,000 to \$880,000 until July 1, 2024, interests from 7.29% to 7.50%	\$ 10,000,000
---	---------------

\$6,675,000 series of 2002, payable in annual installments from \$770,000 to \$1,160,000 until July 1, 2008, interests from 5.00% to 6.50%	5,905,000
	15,905,000

**Public Improvement Bonds:**

\$10,300,000 series of 1991, payable in annual installments of \$335,000 to \$1,205,000 until July 1, 2005, interests from 3.26% to 6.38%	3,305,000
---	-----------

\$2,040,000 series of 1992, payable in annual installments of \$70,000 to \$225,000 until July 1, 2007, interests from 4.16% to 6.41%	965,000
---	---------

\$11,845,000 series of 1995, payable in annual installments of \$260,000 to \$1,120,000 until July 1, 2013, interests from 5.00% to 7.71%	8,615,000
---	-----------

\$15,965,000 series of 1995, payable in annual installments of \$385,000 to \$1,540,000 until July 1, 2013, interests from 6.11% to 7.71%	11,870,000
---	------------

\$1,500,000 series of 1995, payable in annual installments of \$35,000 to \$150,000 until July 1, 2013, interests from 6.11% to 7.71%	1,120,000
---	-----------

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

\$26,235,000 series of 1997, payable in annual installments of \$355,000 to \$2,275,000 until July 1, 2021, interests from 4.70% to 6.63%	23,605,000
\$21,100,000 series of 1997, payable in annual installments from \$305,000 to \$66,000 until July 1, 2022, interests from 6.69% to 7.50%	19,300,000
\$8,115,000 series of 1998, payable in annual installments from \$115,000 to \$675,000 until July 1, 2023, interests from 6.00% to 7.50%	7,585,000
\$16,355,000 series of 1998, payable in annual installments from \$240,000 to \$1,365,000 until July 1, 2023, interests from 6.00% to 7.50%	15,275,000
\$39,645,000 series of 2001, payable in annual installments from \$535,000 to \$3,440,000 until July 1, 2025, interests from 6.13% to 8.00%	38,530,000
\$10,455,000 series of 2001, payable in annual installments from \$145,000 to \$910,000 until July 1, 2025, interests from 5.00% to 8.00%	10,155,000
\$2,760,000 series of 2002, payable in annual installments from \$45,000 to \$220,000 until July 1, 2026, interests from 5.00% to 7.00%	2,715,000
\$3,835,000 series of 2002, payable in annual installments from \$60,000 to \$315,000 until July 1, 2026, interests from 5.00% to 7.00%	3,775,000
\$4,625,000 series of 2002, payable in annual installments from \$65,000 to \$385,000 until July 1, 2026, interests from 5.00% to 7.50%	<u>4,560,000</u>
	<u>151,375,000</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

**Notes Payable:**

\$9,870,265 note payable to U.S. Federal Financial Bank. The term of the loan is for twenty years and the principal is payable annually each August 30, started in August of 1997. During the first two years the Municipality had a moratorium. The annual installments are from \$500,000 to \$587,000, at the fluctuating interest established by the U.S. Department of Treasury.

7,370,000

\$3,000,000 note payable to Chase Chemical Bank. The term of the loan is for twenty years and the principal is payable annually each August 1, starting in August of 2004. During the first year the Municipality has a moratorium. The annual installments are \$167,000, at an approximate rate of 4.50%.

3,000,000  
10,370,000

**Other Long-Term Debt:**

Excess of property tax advances over collections during fiscal year 1999-2000 (note 5)

6,621,839

Total bonds, notes and other long-term debt

\$ 184,271,839

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

The annual debt service requirements of bonds, notes and other at June 30, 2002 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 6,536,535	\$ 10,743,185	\$ 17,279,720
2004	7,026,580	11,958,521	18,985,101
2005	7,718,937	11,528,068	19,247,005
2006	7,049,626	11,037,967	18,087,593
2007	34,690,666	10,586,462	45,277,128
2008-2012	40,317,862	46,542,263	86,860,125
2013-2017	47,695,929	31,897,910	79,593,839
2018-2022	29,674,341	17,968,267	47,642,608
2023-2027	1,532,827	3,708,324	5,241,151
2028-2031	2,028,536	386,832	2,415,368
	<u>184,271,839</u>	<u>156,357,799</u>	<u>340,629,638</u>
Current portion	<u>6,536,535</u>	<u>10,743,185</u>	<u>17,279,720</u>
Long-term portion	<u>\$ 177,735,304</u>	<u>\$ 145,614,614</u>	<u>\$ 323,349,918</u>

As described in Note 5, the Municipality levies an annual additional special tax of 1.75% of the assessed value of personal and real property. The proceeds of this additional special tax are required to be credited to the debt service fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected by CRIM as agent of the Municipality (see note 5).

## 11. CAPITAL LEASES

The Municipality is obligated under several capital lease agreements with third parties that will expire at different years until 2027. These capital lease obligations are related to lease building facilities and office equipment recorded as capital assets in the accompanying government-wide statement of net assets. These lease agreements qualify as capital leases for financial reporting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2002 is as follows:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

<u>Year ending June, 30</u>	<u>Amount</u>
2003	\$ 3,237,929
2004	3,290,287
2005	3,303,800
2006	3,278,003
2007	3,293,988
2008-2012	17,031,252
2013-2017	18,565,400
2018-2022	18,928,791
2023-2027	<u>3,324,199</u>
Total minimum lease payments schedule under agreements	74,253,649
Less:	
Interests to be paid through expiration dates of lease agreements	<u>27,543,374</u>
Present value of minimum lease payments	46,710,275
Less: Current portion of obligation under capital leases	<u>1,085,906</u>
Long-term portion of obligation under capital leases	<u>\$ 45,624,369</u>

The activity of obligation under capital leases for the year ended June 30, 2002 was as follows:

	<u>Balance at June 30, 2001</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2002</u>
Principal (note 13)	\$ 47,123,377	\$ 460,075	\$ (873,177)	\$ 46,710,275

**12. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2002, the Municipality has several outstanding or planned non-cancellable construction projects amounting to \$140,816,186, of which \$88,175,921 have been incurred and paid as of June 30, 2002 and \$52,640,265 remain outstanding to incur through the end of each project. These projects are evidenced by contractual commitments with contractors and are accounted for in the capital projects fund.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

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 authorized 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.

With respects to pending or threatened litigation, the Municipality has reported liabilities of \$507,500 (note 14) for awarded and anticipated unfavorable judgments as of June 30, 2002. This amount was reported within claims and judgements liabilities in the government-wide statement of net assets. Management believes that the ultimately liability in excess of amounts provided, if any, would not be significant.

### **13. RESTATEMENTS AND CORRECTIONS OF PRIOR YEAR FUND BALANCES**

On July 1, 2001, the Municipality recorded the following prior-period adjustments in the accompanying government-wide and/or fund financial statements to correct prior year accounting errors consisting of a net understatement of liabilities as of June 30, 2001 amounting to \$68,545,018:

- An adjustment to beginning net assets amounting to \$47,123,377 to recognize the obligation under capital leases which was not recorded in the general long-term debt account group in the 2001 general purpose financial statements.
- An adjustment to beginning net assets amounting to \$6,143,392 (note 9) to recognize a liability for the unrecorded portion of the estimated liability for closure and postclosure care costs of the Municipality's solid waste landfill, which was not recorded in the general long-term debt account group in the 2001 general purpose financial statements.
- An adjustment to beginning net assets amounting to \$3,673,318 to recognize an underaccrual of compensated absences (vacations and sick leave), which should have been recorded as of June 30, 2001 in the general long-term debt account group.

50

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

- An adjustment to beginning net assets amounting to \$1,205,335 to recognize an unrecorded Christmas bonuses accrual, which should have been recorded as of June 30, 2001 in the general long-term debt account group.
- An adjustment to beginning fund balance of the debt service fund in the amount of \$9,240,542 to recognize, as of June 30, 2001, the principal and interest payments of bonds that were due and payable as of June 30, 2001, which were erroneously recorded as expenditure when paid in July 1, 2001.
- An adjustment to beginning net assets amounting to \$1,159,054 to recognize unrecorded debt service payments of bonds, notes and other long-term liabilities that were not recorded in the general long-term debt account group as of June 30, 2001.

#### **14. SUBSEQUENT EVENTS**

Act No. 146 of October 11, 2001 authorized CRIM to obtain financing, through a line of credit from GDB, for the advance repayment of the outstanding balance of certain defective tax liens bonds issued by GDB through its subsidiary, Public Finance Corporation ("PFC"). The source of repayment of this line of credit is made through the assignment, by several consenting municipalities (including the Municipality) of their corresponding share to the increase of 0.48 percent in the municipal subsidy provided by the general fund of the Commonwealth, pursuant to Act. No. 99 of August 10, 2001. The increase in the municipal subsidy from 2.02 percent to 2.50 percent became effective during fiscal year 2001. The repayment schedule of the line of credit will commence with interest payments for the first five years, at the end of which time the balance will be restructured into equal principal and interest installments over a period of 25 years. Collections ultimately realized by CRIM from defective tax liens, will be applied to the principal of the line of credit. Any resulting deficiency in the servicing of this line of credit will be provided by the operational funds of the participating municipalities of the Commonwealth.

On September 20, 2002, the Municipal Legislature and the Municipality's Mayor approved a resolution by which the Municipality authorized CRIM to borrow, on behalf of the Municipality, a maximum amount of \$5,257,763, as it share of the transaction previously mentioned. The line of credit matures on December 1, 2032

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
Notes to Basic Financial Statements  
June 30, 2002

and bears interests at a fixed rate of 6.50% during the first five years and at a variable rate from the sixth year to the maturity date.

On November 26, 2002, the Municipal Legislature approved a resolution for the payment of \$507,500 (note 12) related to a legal judgment made by the Appeals Board of Personnel Administration System of the Commonwealth of Puerto Rico in favor of certain employees of the Municipality. This amount has been recorded as of June 30, 2002 within claims and judgments liabilities in the accompanying government-wide statement of net assets.

On August 7, 2002, the Municipality issued general obligations serial bonds in the amount of \$2,920,000 in accordance with Law No. 64 of July 3, 1996, as amended, commonly known as the "Municipal Financing Act of Puerto Rico". These bonds have yearly maturities of principal and accrued interests commencing in 2003 through 2027. The proceeds of these bonds will be used for permanent capital projects.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**Schedule of Funding Progress - Employees Retirement System of  
the Commonwealth of Puerto Rico and its Instrumentalities  
June 30, 2002**

Schedule of Funding Progress:

<b>Actuarial valuation date</b>	<b>Actuarial value of assets</b>	<b>Actuarial accrued liability ("AAL")</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded ratio</b>	<b>Covered payroll</b>	<b>UAAL as a percentage of covered payroll</b>
July 1, 2000	\$ 2,041,800	\$ 9,459,300	\$ 7,417,500	22%	\$ 2,463,400	301%
July 1, 1999	1,858,000	8,308,000	6,450,000	22%	2,275,000	284%
July 1, 1998	1,675,000	7,638,000	5,963,000	22%	2,366,000	252%

The above funding progress schedule is presented for the Employees Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities as a whole, in which the Municipality's employees participate and the Municipality is co-sponsor. The above table presents the three most recent funding information available at June 30, 2002. Contributions were made in accordance with actuarial determined contribution requirements. See note 8.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES- BUDGET AND ACTUAL -  
DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2002**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
Property taxes (notes 5 and 14)	\$ 13,474,571	\$ 13,474,571	\$ 20,733,410	\$ 7,258,839
Interest, fines, and penalties	-	-	246,443	246,443
Total revenues	<u>13,474,571</u>	<u>13,474,571</u>	<u>20,979,853</u>	<u>7,505,282</u>
<b>EXPENDITURES:</b>				
Current:				
Debt service:				
Principal (notes 1n, 10, 13 and 14)	6,920,332	6,920,332	6,150,000	770,332
Interest on bonds and notes (notes 10 and 14)	6,554,239	6,554,239	9,937,526	(3,383,287)
Total expenditures	<u>13,474,571</u>	<u>13,474,571</u>	<u>16,087,526</u>	<u>(2,612,955)</u>
Excess of revenues over expenditures	-	-	4,892,327	4,892,327
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfer-in from other funds (note 6)	-	-	5,555,183	5,555,183
Operating transfer-out to other funds (note 6)	-	-	(4,400,675)	(4,400,675)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,154,508</u>	<u>1,154,508</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,046,835</u>	<u>\$ 6,046,835</u>

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

54  
ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
Capital Assets Used in the Operations of Governmental Funds  
Comparative Schedule by Sources  
Year Ended June 30, 2002**

Governmental funds' capital assets:

Land	\$ 602,491,975
Building, structures and improvements	118,495,931
Vehicles, equipment, furniture & fixtures	22,037,632
Infrastructure	73,584,687
Construction in progress	<u>88,175,922</u>
 Total governmental funds' capital assets	 <u><u>\$ 904,786,147</u></u>

Investments in governmental funds' capital assets (by source):

General fund	\$ 215,120,403
Special revenue fund	17,891,922
Capital projects funds	120,383,628
Donations	<u>551,390,194</u>
 Total governmental funds' capital assets	 <u><u>\$ 904,786,147</u></u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule By Function and Activity**  
**June 30, 2002**

Function's Activity	Land	Buildings, structures and improvements	Vehicles, equipment, furnitures, and fixtures	Infrastructure	Construction in Progress	Total
General government	\$ 1,252,690	\$ 5,506,019	\$ 17,460,824	\$ -	\$ -	\$ 24,219,533
Public safety	-	-	381,375	-	-	381,375
Economic development	601,239,285	112,989,912	839,492	73,584,687	88,175,922	876,829,298
Health and sanitation	-	-	1,827,471	-	-	1,827,471
Culture and education	-	-	799,308	-	-	799,308
Public housing and welfare	-	-	729,162	-	-	729,162
<b>Total governmental funds' capital assets</b>	<b><u>\$ 602,491,975</u></b>	<b><u>\$ 118,495,931</u></b>	<b><u>\$ 22,037,632</u></b>	<b><u>\$ 73,584,687</u></b>	<b><u>\$ 88,175,922</u></b>	<b><u>\$ 904,786,147</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
Required Supplementary Information**

**Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes By Function and Activity  
Year Ended June 30, 2002**

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30, 2001</u>	<u>Additions</u>	<u>Governmental Funds Capital Assets June 30, 2002</u>
General government	\$ 21,445,776	\$ 2,773,757	\$ 24,219,533
Public safety	325,775	55,600	381,375
Economic development	748,184,661	128,644,637	876,829,298
Health and sanitation	1,715,621	111,850	1,827,471
Culture and education	740,908	58,400	799,308
Public housing and welfare	599,512	129,650	729,162
Total governmental funds capital assets	<u>\$ 773,012,253</u>	<u>\$131,773,894</u>	<u>\$ 904,786,147</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**PART II**  
**SINGLE AUDIT SECTION**

58

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/pass Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Grant Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Section 8-Rental Voucher Program Community Development Block Grant Program/Entitlement Grants	14.871	RQ46-E016-001-007	\$ 1,970,226
Urban Development Action Grant	14.218	B-92-MC-72-0006	918,623
HOME Investment Partnership Program	14.221		75,219
Pass through Municipality of San Juan:	14.239		786,237
Housing Opportunity for Persons with AIDS	14.241		<u>95,965</u>
Subtotal U.S. Department of HUD			<u>3,846,270</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Pass-through Governor's Office of Child Services and Community Development:			
Head Start	93.600	02-CH-0483	6,966,034
Pass-through the Puerto Rico Elderly Commission:			
Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	309,307

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO (CONTINUED)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor/pass Through Grantor Program Title</b>	<b>CFDA Number</b>	<b>Agency or Pass-through Grant Number</b>	<b>Federal Disbursements/ Expenditures</b>
Pass through State of Governor- Office of Economic Opportunity of Human Development Community Services Block Grant	93.569		\$ <u>6,024</u>
Subtotal U.S. Department of HHS			<u>7,281,365</u>
 <b>U.S. Department of Agriculture</b>			
Pass through Governor's Office of Child Services and Community Development: Child and Adult Care Food Program	10.558		<u>182,482</u>
Subtotal U.S. Department of Agriculture			<u>182,482</u>
 <b>U.S. Department of Labor</b>			
Pass through State Office of the Governor's Office of Economic Opportunity: Work Investment Act Adult	17.258		2,059,689
Youth Activities	17.259		1,834,604
Dislocated Workers	17.260		<u>2,716,507</u>
Subtotal U.S. Department of Labor			<u>6,610,800</u>
<b>TOTAL</b>			<u>\$17,920,917</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Guaynabo's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The expenditures of the schedule are included in the Municipality's basic financial statements within the other nonmajor governmental funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Expenditures per basic financial statements:

Other Non Major governmental Funds	\$48,769,800
Less non-federal expenditures included within the Other nonmajor governmental funds	<u>30,848,883</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$17,920,917</u>



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis O. Rivera Zúñiga

**Members:**  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

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

We have audited the financial statements of Municipality of Guaynabo as of and for the year ended June 30, 2002 and have issued our report thereon dated December 23, 2002, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Municipality of Guaynabo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that have reported to management of the Municipality of Guaynabo in a separate letter dated December 23, 2002.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Municipality of Guaynabo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide

assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Guaynabo, in a separate letter dated December 23, 2002.

This report is intended solely for the information and use of the Commissioner Office of Municipal Affairs, management and legislative body of the Municipality of Guaynabo, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 23, 2002

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 1847874 was affixed  
to the original of this report.





**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera  
CPA Marco Antonio Rivera Zúñiga  
CPA Luis O. Rivera Zúñiga

Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

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

Compliance

We have audited the compliance of Municipality of Guaynabo with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality of Guaynabo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Guaynabo's management. Our responsibility is to express an opinion on Municipality of Guaynabo's compliance based on our audit.

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

In our opinion, Municipality of Guaynabo complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as conditions number 02-1 to 02-3.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commissioner Office of Municipal Affairs, management and legislative body of the Municipality of Guaynabo, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 23, 2002

The stamp 1847873 was affixed  
to the original of this report



*Rodriguez, Rivera & Co.*

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDITORS' RESULTS**

We have audited the basic financial statements of the Municipality of Guaynabo, Puerto Rico as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of the *U.S. Office of Management and Budget (OMB) Circular A-133*. The results of our audit are as follows:

**Financial Statements:**

- Type of auditor's report issued on the basic financial statements: Unqualified Opinion
- There were no reportable conditions in internal controls over financial reporting that were considered to be material weaknesses.
- Instances of noncompliance considered non-material to the financial statements were disclosed by the audit.

**Federal Awards:**

- Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weaknesses.
- The independent auditor's report on compliance with requirements applicable to major federal award programs expressed a unqualified opinion.
- The audit disclosed findings required to be reported by OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

- Major Programs:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA No.</u>
U.S. Department of Housing	Section 8 Housing Choice Voucher	14.871
U.S. Department of Housing	Section 8 – Project-Based Cluster: Lower Income Housing Assistance Program - Section 8 Rental Certificate Program	14.857
U.S. Department of Housing	Home	14.239
U.S. Department of Labor	Workforce Investment Act Adult Program	17.258
U.S. Department of Labor	Workforce Investment Act Youth Activities	17.259
U.S. Department of Labor	Workforce Investment Act Dislocated Workers	17.260
U.S. Department of Health and Human Services	Head Start	93.600
U.S. Department of Health and Human Services	Administration for Children, Youth and Special Programs for the Aging Title III	93.045

- A threshold of \$733,379 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- The Municipality qualifies as a low-risk auditee as that term is defined in OMB Circular A-133.

## 2. FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

## 3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

The findings and recommendations as defined in pages 68 to 70 which are summarized in the schedule below, have been reviewed with representatives of the Municipality. In the title of each finding is a parenthetical disclosure indicating the first year that the finding was reported, and the finding number from the previous year audit report. The corrective action plans and responses to the findings and recommendations have been provided by the Municipality's representatives and reflect plans and responses as of March 28, 2003 and are included in Part III. These responses and corrective action plans were delivered to us after completion of our field work and, accordingly, our procedures with respect to such corrective action

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

plans consisted of reading the Municipality's response and including them within the body of the findings. Although the responses may indicate that the supporting documentation is available for examination, the finding is not eliminated because such evidence was found after we concluded the fieldwork.

The findings and recommendations often refer to the provisions of various authoritative documents, laws and regulations. To avoid repetition, following are the authoritative documents with their respective titles and purposes, quoted in the findings and recommendations:

- **“Single Audit Act Amendments of 1996”** - The Single Audit Act Amendments of 1996, Public Law 104-156, enacted on July 5, 1996, by the Senate and House of Representatives of the United States of America in Congress. The Act was established to a) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities; b) establish uniform requirements for audits of Federal awards administered by non-Federal entities; c) promote the efficient and effective use of audit resources; d) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and e) ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by this Act).
- **“OMB Circular A-133”** - Circular Letter A-133 issued by the Executive Office of the President, Office of Management and Budget, titled “Audits of States, Local Governments, and Non-Profit Organizations” dated June 30, 1997. This Circular Letter establishes the audit requirements for States, Local governments and Non-Profit Organizations that receive Federal aid, and defines Federal responsibilities for implementing and monitoring those requirements. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.
- **“OMB Circular A-87”** - Circular Letter A-87 issued by the Executive Office of the President, Office of Management and Budget, titled “Cost Principles for State, Local and Tribal Governments,” dated May 4, 1995. This Circular Letter establishes the principles for determining the allowable costs of programs administered by State, Local, and federally recognized Indian tribal governments under grants from and contracts with the Federal government.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

- **“OMB Circular A-102”** - Circular Letter A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled “Grants and Cooperative Agreements with State and Local Governments,” dated March 3, 1988. This Circular Letter establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, Local, and federally recognized Indian tribal governments.
- **“CFR”** - This is the “Code of Federal Regulations” issued by the Federal Government. The CFR is a codification of the general and permanent rules published by the Federal Government. The Code is divided into 50 titles that represent broad areas subject to Federal regulation. Each title is divided into chapters that usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
- **“Common Rule”** - The Common Rule refers to the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” which establishes uniform administrative rules for Federal grants and cooperative agreements and subawards to State, local, and Indian Tribal governments.
- **“Basic Standards”** - “Revised Regulation on Basic Standards for the Municipalities of Puerto Rico” approved by the Office of the Commissioner of Municipal Affairs. The Basic Standards were created under Article 19.011 of Law 81, enacted on August 30, 1991, “Autonomous Municipalities Law of the Commonwealth of Puerto Rico”. It establishes the rules and operational standards applicable to the municipalities in relation to the accountability of funds, property and other financial and fiscal matters administered by the municipalities of Puerto Rico. Its main purpose is to allow for the efficient use and administration of the municipal operations.
- **“Autonomous Municipalities Law of the Commonwealth of Puerto Rico”** - The “Autonomous Municipalities Law of the Commonwealth of Puerto Rico”, Law 81 of August 30, 1991, as amended, was enacted to establish standard rules and regulations regarding the creation, organization, administration and functions of the municipal governments in Puerto Rico. It establishes the main guidelines and requirements that governs all the municipal functions and activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Reportable Conditions:**

The findings listed on pages 71 through 76 have been reported in accordance with the requirements of Government Auditing Standards, issued by the Comptroller General of the United States and the Statements on Auditing Standards 60 and 74, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. These standards require the communication of all reportable conditions regarding the entity's internal controls.

Reportable conditions are those matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and in reports applicable to its federal financial assistance programs. Such deficiencies may involve aspects of the internal control structure elements of (a) control environment; (b) the accounting system; or (c) control procedures.

<u>Reportable Condition/Noncompliance</u>	<u>Known Questioned Costs</u>	<u>Likely Questioned Costs</u>	<u>CFDA No.</u>
<u>Finding Related to Federal Programs That Have a Separate Accounting Department and Administrative Unit</u>			
SA 02- 1 Lack of reconciliation procedures	N/A	N/A	All Federal Programs
<u>Workforce Investment Act</u>			
SA 02- 2 Inadequate cash management procedures	N/A	N/A	17.258, 17.259, 17.260
SA 02- 3 Ineffective controls over preparation and submission of federal financial reports	N/A	N/A	17.258, 17.259, 17.260

**A. Federal Programs that Have a Separate Accounting Department and Administrative Unit**

**1) Finding SA-02-01: Lack of Reconciliation Procedures (First Reported 2002):**

Condition:

Balances reported by program accountants do not agree with records maintained by the Municipality. Funds received from the U.S. Department of

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

Housing and Urban Development for the Community Development Block Grant and Section 8 Clusters; from the U.S. Department of Health and Human Services for the Head Start; and from the U.S. Department of Labor for the Workforce Investment Act and Welfare-to-Work Programs, are managed by their own administrative personnel including their own accounting departments. Each maintains a separate set of accounting records kept on a double entry system. However, the Municipality's central accounting department, has not established the necessary policies and procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department.

Criteria:

The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.

Cause:

The Finance Department should improve the control procedure to verify that the accounting records maintained by each program have an accurate reconciliation with those maintained by the Municipality.

Effect:

This condition results in the possibility of not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality's financial operations.

Questioned Costs: None.

Recommendation:

The Municipality should implement monthly reconciliations of the transactions recorded in each of the programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**B. Workforce Investment Act ("WIA") (CFDA # 17.258,17.259, 17.260)**

***Program Description***

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

There are three program categories under Subtitle B of Title I: Adult; Dislocated Worker; and Youth Activities. Programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment, thereby improving the quality of the workforce, reducing welfare dependency, and enhancing national productivity and competitiveness. Subtitle B Youth activities seek to increase the attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Workforce Investment Act financial assistance program.

**1) Finding 02-02: CFDA 17.258, 17259, 17260: Cash Management**

**Condition:**

The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.

We requested two deposits dated October 17, 2001 (\$277,063.35) and November 15, 2001 (\$485,104.51) to select a sample of disbursements to

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

test the time that elapse from the deposit and when the disbursement was made.

The Consortium Accounting Department was unable to produce the back up documentation for the funds requested to subsequently trace them to the corresponding disbursement date.

Criteria:

Cash management always applies to federal programs. An exception would be a federal award that operates on a costs reimbursement basis only with no cash being advanced.

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U. S. Treasury and disbursement by the recipients. When advance payment procedures are used, recipients must establish similar procedure for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients as cash balances and cash disbursements in sufficient time to enable the pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amounts as apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State, nonprofit entities on federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, PO Box 6021, Rockville, MD 20852.

Cause:

The above delays are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

Effect:

The delays caused by the design of the cash management system, obstruct the consortium to complied with federal and local applicable laws and regulation, and the ability to meet the cash management requirement. Also, the cash forecasting process is not effective since is not based upon accurately future expenditures causing the Consortium the possibility to returned over estimated not expended funds. The continued occurrence of this condition may expose the Municipality to the assessment of interest costs relating to the excess cash on hand which would be paid from local funds. When applicable, identification of question costs and how they were computed.

Questioned Costs: None

Recommendation:

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Also, they should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by WIA regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

**2) Finding SA 02-03: CFDA 17.258, 17259, 17260 - Reporting**

Condition:

The Municipality does not have effective system of internal control to ensure the accurate preparation and timely submission of federal financial reports of the Program.

We requested a sample of reports of the WIA program and they did not comply with the reporting dates submission requirements and the accounting records did not agree with the financial report data. They don't reconciled the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

accounting records with the report submitted to The Human Resources and Occupational Development Council.

Report	Date Included	Date to be Submitted	Date Submitted	According to Law	
				Yes	No
Closing Report	06-30-02	07-31-02	08-13-02		x
Closing Report	06-30-02	07-31-02	08-13-02		x
Closing Report	06-30-02	07-31-02	08-13-02		x
Closing Report	06-30-02	07-31-02	08-14-02		x

Criteria:

45 CFR Section 92.41-(b)(3) requires federal fund recipients to periodically monitor the performance of grant-supported activities to assure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, management shall prepare accurate and timely federal financial reports. In addition, Common Rule, Paragraph 20-(b)(1) establishes that federal fund recipients shall have a financial management system that will provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. The same shall be the underlying record to support the amounts included in the financial reports submitted to federal grantor. Also, 45 CFR Section 74.74 states that the Federal Cash Transaction Report must be submitted no later than 45 working days following the end of each quarter.

Each recipient must report program outlays and program income on a cash or accrual basis as prescribed by the federal awarding agency. If the federal awarding agency requires accrual information and the recipients accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. (Certain open ended entitlement programs require quarterly reports.)

The reporting requirements for subrecipients are specified by the pass-through entity. In many cases, these will be the same as or similar to the following requirements for recipients.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

Cause:

The conditions described above result from the preparation of federal financial reports without ensuring that the amounts reported agree with the underlying accounting records, and the failure of management to detect these differences during their review and approval of the federal financial reports.

Effect:

The delays caused by the design accounting system, obstruct the Consortium to complied with federal and local applicable laws and regulation, and the ability to meet the dead line for the reporting requirement. Also, the accounting process is not effective since is not reconciled with the reports submitted to The Human Resources and Occupational Development.

The continued failure to file accurate financial reports may result in actions by the federal grantor against the Municipality, such as grant payment withholdings resulting from the misstatement of the financial performance of the program and possible lost of funds.

Questioned Cost: None

Recommendation:

The Consortium should expedite the internal process preparing and sending the actual list of expenditures disbursed during the period and establish and effective follow up system to reconciled the income and expenditures report with the accounting records. They must comply with the reporting accuracy requirement of the disbursed funds within the required time period.

The reviewer of these reports should ensure that amounts reported agree with the underlying accounting records before submission to the federal grantor. Also, the Municipality should implement a reporting calendar to keep all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the Municipality in complying with the required reporting deadlines.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Head Start CFDA No. 93.600</b>	<b>Condition 01-1</b>  We observed the Federal Cash Transactions Report (SF-272) and the Financial Status Report (SF-269) were sent late.	Condition was corrected.
<b>WIA CFDA No. 17.255</b>	<b>Condition 01-2</b>  The federal program does not submit the required reports on time.	Condition still prevails.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



## Municipio Autónomo de Guaynabo

---

Hon. Héctor O'Neill García  
Alcalde

Carmen Febo  
Directora  
Departamento de Finanzas

### CORRECTIVE ACTION PLAN

March 28, 2003

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2002

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2002

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

#### **FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

##### **Finding 02-1: All Federal Programs**

Reportable Condition: See Condition 02-1

##### Recommendation

The Municipality should implement monthly reconciliations of the transactions recorded in each of the programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.

### Action Taken

The Municipality establishes control procedures to maintain communication between the accountants of the different programs and the Finance Department accountants, in order to reconcile the financial information necessary to prepare the financial reports.

### **Finding 02-2: Work Investment Act (WIA) - CFDA No. 17.258, 17.259, and 17.260**

Reportable Condition: See Condition 02-2

### Recommendation

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Also, they should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by WIA regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

### Action Taken

The Municipality establishes internal control procedures of request the federal funds only when the disbursement documents were in the Finance Department and approved, in order to minimize the time elapsing into receiving the funds and disburse them.

### **Finding 02-3: Work Investment Act (WIA) - CFDA No. 17.258, 17.259, and 17.260**

Reportable Condition: See Condition 02-3

### Recommendation

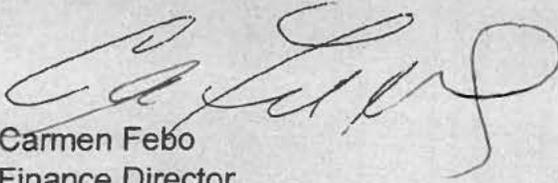
The Consortium should expedite the internal process preparing and sending the actual list of expenditures disbursed during the period and establish an effective follow up system to reconcile the income and expenditures report with the accounting records. They must comply with the reporting accuracy requirement of the disbursed funds within the required time period.

Action Taken

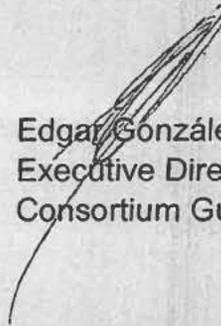
The Human Resources and Occupational Development Council approved an extension to submit the closing reports; but it was verbally. For this reason, the Municipality does not have evidence to support it.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Carmen Febo, Finance Director, at (787) 720-4040.

Cordially,



Carmen Febo  
Finance Director



Edgar González  
Executive Director  
Consortium Guaynabo-Toa Baja