

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GUAYNABO**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO

BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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Services Division

## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Municipal Legislature  
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, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the 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 as of June 30, 2003, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico  
December 11, 2003

The stamp 1908298 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, 2003. 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.

**FINANCIAL HIGHLIGHTS**

- The Municipality's has reported assets and net assets amounting to \$1,141,747,948 and \$794,029,431 respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to \$972,199,263 (85 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$347,718,517 in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to \$261,606,061 (75 percent of total liabilities). Such amount includes capital leases amounting \$45,624,369 and the landfill obligation for closing costs and postclosing care cost amounting \$16,312,915. Actually, the Municipality evaluates proposals for expansion of the landfill in order to extent the useful llife for a 10 to 15 years approximately.
- The Municipality has reported total revenues amounting to \$143,773,235 in the accompanying statement of activities, of which property taxes and municipal licenses were the most significant revenues amounting to \$53,113,432 (36 percent of total revenues) and \$36,852,480 (25 percent of total revenues), respectively.
- The Municipality has reported a net change in net assets (excess of revenues over expenses) amounting to \$20,677,662 in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of \$88,188,769 of which \$24,254,198 (27 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 \$10,173,389.

- The Municipality has reported a deficiency of revenues and other financing sources over expenditures and other financing uses amounting to \$31,545,402 in the governmental funds. From such amount, the 67% (\$21,373,873) correspond to other governmental funds. As a significant fact, the Municipality's outlays for capital projects during the year amounted \$36,926,056 while the loan proceeds for such purposes amounted only \$11,660,000. Such outlays over financing sources were the principal reason of the deficiency 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 estimated liability for closure and posclosure care costs of the Municipality's solid waste landfill amounting \$9,232,906 (See note 21).

## **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, 2003 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, 2003. 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, 2003). 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, and (2) a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

### **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 \$794,029,431 at June 30, 2003.

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:**

	<u>June 30, 2002</u>	<u>June 30, 2003</u>
Current assets	\$ 193,807,469	\$ 169,548,685
Capital assets	904,786,147	972,199,263
Total assets	<u>1,098,593,616</u>	<u>1,141,747,948</u>
Current liabilities	79,849,122	97,862,566
Non-current liabilities	236,159,819	249,855,951
Total liabilities	<u>316,008,941</u>	<u>347,718,517</u>
Net assets/(liabilities):		
Invested in capital assets, net of related debt	776,345,727	799,309,263
Restricted	21,900,784	75,614,891
Unrestricted	<u>(15,661,836)</u>	<u>(80,844,723)</u>
 Total net assets	 <u>\$ 782,584,675</u>	 <u>\$ 794,029,431</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:

	<u>June 30, 2002</u>	<u>June 30, 2003</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,898,631	\$ 1,904,118
Operating grants and contributions	16,830,505	18,004,165
Capital grants and contributions	1,787,840	4,341,589
General revenues:		
Property taxes	58,863,399	53,113,432
Municipal license taxes	37,187,010	36,852,480
Construction excise taxes	7,822,888	6,987,041
Other	21,876,287	22,570,410
Total revenues	<u>146,266,560</u>	<u>143,773,235</u>
Expenses:		
General government	45,130,305	38,772,722
Public safety	8,177,399	7,881,975
Health and sanitation	17,672,727	17,445,496
Economic development	19,156,886	26,493,459
Culture and education	16,810,290	18,438,559
Public housing and welfare	11,370,997	5,766,083
Interest	10,454,486	8,197,128
Total expenses	<u>128,773,090</u>	<u>122,995,422</u>
Loss on disposition of assets	-	(100,151)
Net increase in net assets	17,493,470	20,677,662
Net assets - at beginning of year	765,091,205	773,351,769
Net assets - at end of year	<u>\$ 782,584,675</u>	<u>\$ 794,029,431</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:

**Condensed Balance Sheet - Governmental funds:**

	<u>June 30, 2002</u>	<u>June 30, 2003</u>
Total Assets - Major Funds	\$ 94,001,509	\$ 92,154,450
Total Assets - Nonmajor Funds	102,306,328	82,326,684
Total assets	<u>196,307,837</u>	<u>174,481,134</u>
Total Liabilities - Major Funds	61,223,069	67,900,252
Total Liabilities - Nonmajor Funds	16,997,880	18,392,113
Total liabilities	<u>78,220,949</u>	<u>86,292,365</u>
Fund Balances - Major Funds	32,778,440	24,254,198
Fund Balances - Nonmajor Funds	85,308,448	63,934,571
Total net assets	<u>\$ 118,086,888</u>	<u>\$ 88,188,769</u>

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

Total Revenues - Major Funds	\$ 123,601,696	\$ 115,013,042
Total Revenues - Nonmajor Funds	20,230,382	23,355,719
Total revenues	<u>143,832,078</u>	<u>138,368,761</u>
Total expenditures - Major Funds	104,953,619	126,517,372
Total expenditures - Nonmajor Funds	48,769,800	55,056,791
Total expenditures	<u>153,723,419</u>	<u>181,574,163</u>
Other financing sources (uses) Mayor	(6,289,783)	1,332,805
Other financing sources (uses) Non-Mayor	27,184,783	10,327,195
Revenues Over Expenses - Major	12,358,294	(10,171,525)
Revenues Over Expenses - Nonmajor	(1,354,635)	(21,373,877)
Total net assets	<u>\$ 11,003,659</u>	<u>\$ (31,545,402)</u>

## **Financial Contact**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2<sup>nd</sup> floor of the Guaynabo City Hall, Guaynabo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF NET ASSETS  
JUNE 30, 2003**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Note 2)	\$ 63,110,220
Cash with fiscal agent (Note 2)	90,162,473
Accounts receivable:	
Municipal license taxes (Note 7)	2,823,283
Interests	222,088
Licenses and permits	459,667
Other	854,723
Due from other agencies (Note 8)	11,916,231
Capital assets, net (Note 10)	972,199,263
 Total assets	 \$ 1,141,747,948
<b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 28,785,232
Due to other agencies (Note 11)	4,803,715
Matured bonds and interest due and payable	7,896,247
Deferred revenues (Note 12):	
Municipal license tax	34,017,456
Federal government	2,412,678
Accrued interest	8,197,128
Noncurrent liabilities (Note 14):	
Due within one year	11,750,110
Due in more than one year	249,855,951
Total liabilities	347,718,517
<b>Net Assets</b>	
Investment in capital assets, net of related debt	799,309,263
Restricted for:	
Debt service	12,116,688
Capital projects	63,448,203
Unrestricted	(80,844,723)
 Total net assets	 \$ 794,029,431

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Licenses and Permits</u>	<u>Operating Grants and Contributions</u>	
General government	\$ 38,772,722	\$ 1,904,118	\$ 6,987,041	\$ -	\$ (29,881,563)
Public safety	7,881,975				(7,881,975)
Economic development	26,493,459			704,988	(23,830,137)
Health	17,445,496				(17,445,496)
Culture and recreation	18,438,559			14,586,778	(3,851,781)
Public housing and welfare	5,766,083			2,712,399	(670,429)
Interest on long-term debt	8,197,128				(8,197,128)
<b>Total</b>	<b>\$ 122,995,422</b>	<b>\$ 1,904,118</b>	<b>\$ 6,987,041</b>	<b>\$ 18,004,165</b>	<b>\$ (91,758,509)</b>
General revenues:					
Property taxes					53,113,432
Municipal license tax					36,852,480
Grants and contributions not restricted to specific programs					8,449,729
Interest, fines and penalties					3,355,856
Miscellaneous					10,764,825
Total general revenues					112,536,322
Loss on disposition of asset					(100,151)
Change in net assets					20,677,662
Net assets at beginning of year, as restated (Note 21)					773,351,769
Net assets at end of year					<b>\$ 794,029,431</b>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2003**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 54,142,485	\$ -	\$ 8,967,735	\$ 63,110,220
Cash with fiscal agent (Note 2)	331,742	19,998,240	69,832,491	90,162,473
Accounts receivable:				
Municipal license taxes (Note 7)	81,374			81,374
Interest	207,393	14,695		222,088
Due from other agencies (Note 8)	6,006,518		3,526,458	9,532,976
Due from other funds (Note 9)	11,372,003			11,372,003
 Total assets	 <u>\$ 72,141,515</u>	 <u>\$20,012,935</u>	 <u>\$ 82,326,684</u>	 <u>\$ 174,481,134</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2003**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>				
Account payable and accrued liabilities	\$22,217,914	\$ -	\$ 4,607,432	\$ 26,825,346
Matured bonds due and payable		7,896,247		7,896,247
Due to other funds (Note 9)			11,372,003	11,372,003
Due to other agencies (Note 11)	4,803,715			4,803,715
Deferred revenues: (Note 12)				
Municipal license tax	32,982,376			32,982,376
Federal government			2,412,678	2,412,678
Total liabilities	<u>60,004,005</u>	<u>7,896,247</u>	<u>18,392,113</u>	<u>86,292,365</u>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	1,964,121			1,964,121
Debt service		12,116,688		12,116,688
Capital projects			63,448,203	63,448,203
Unreserved fund balance	10,173,389		486,368	10,659,757
Total fund balance	<u>12,137,510</u>	<u>12,116,688</u>	<u>63,934,571</u>	<u>88,188,769</u>
Total liabilities and fund balance	<u>\$72,141,515</u>	<u>\$20,012,935</u>	<u>\$ 82,326,684</u>	<u>\$ 174,481,134</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2003**

Total fund balances - governmental funds	\$ 88,188,769
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	972,199,263
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 4)</b>	( 269,803,189)
• 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.	6,439,554
• The Municipality recognized the current portion of bonds and interest that will be paid from current available resources.	( <u>2,994,966</u> )
Net assets of governmental activities	<u>\$794,029,431</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes (Note 6)	\$ 38,890,771	\$ 14,222,661	\$ -	\$ 53,113,432
Municipal license taxes (Note 7)	35,145,651			35,145,651
Licenses and permits	6,527,374			6,527,374
Charges for service and rents	1,449,395			1,449,395
Intergovernmental revenues (Note 13):				
Federal grants and contributions			19,962,499	19,962,499
State contributions	5,056,509		3,393,220	8,449,729
Interest, fines, and penalties	3,160,135	195,721		3,355,856
Other revenues	10,364,825			10,364,825
Total revenues	<u>100,594,660</u>	<u>14,418,382</u>	<u>23,355,719</u>	<u>138,368,761</u>
<b>EXPENDITURES</b>				
Current:				
General government	56,312,430			56,312,430
Public safety	7,799,633			7,799,633
Economic Development	22,713,765		5,723	22,719,488
Health	16,563,071			16,563,071
Culture and Recreation	2,931,395		15,412,613	18,344,008
Public Housing and Welfare	2,988,758		2,712,399	5,701,157
Capital outlays			36,926,056	36,926,056
Debt service:				
Principal retirement		6,950,193		6,950,193
Interest and other		10,258,127		10,258,127
Total expenditures	<u>109,309,052</u>	<u>17,208,320</u>	<u>55,056,791</u>	<u>181,574,163</u>
Deficiency of revenues over expenditures	<u>(8,714,392)</u>	<u>(2,789,938)</u>	<u>(31,701,072)</u>	<u>(43,205,402)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds			11,660,000	11,660,000
Transfers in	8,940,188	5,799,410	960,681	15,700,279
Transfers out	<u>(5,925,187)</u>	<u>(7,481,606)</u>	<u>(2,293,486)</u>	<u>(15,700,279)</u>
Total other financing sources (uses)	<u>3,015,001</u>	<u>(1,682,196)</u>	<u>10,327,195</u>	<u>11,660,000</u>
Deficiency of revenues and other sources over expenditures and other uses	<u>(5,699,391)</u>	<u>(4,472,134)</u>	<u>(21,373,877)</u>	<u>(31,545,402)</u>
<b>FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 21)</b>	<u>17,836,901</u>	<u>16,588,822</u>	<u>85,308,448</u>	<u>119,734,171</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 12,137,510</u>	<u>\$ 12,116,688</u>	<u>\$ 63,934,571</u>	<u>\$ 88,188,769</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds (\$31,545,402)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 61,802,171
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. ( 5,588,942)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. ( 11,660,000)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. 5,404,474
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 6,950,193
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. ( 100,151)
- Change in accrued interest expense which does not require the use of current financial resources. 2,060,999
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.
- Bad debt expense ( 1,215,668)
- Landfill obligation ( 663,577)
- Accrued vacation and bonus ( 1,959,886)
- Claims and judgments ( 1,974,131)
- Compensated absences ( 832,418)

Changes in net assets of governmental activities \$20,677,662

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$ 37,756,265	\$ 38,478,265	\$ 37,621,101	\$ (857,164)	\$ 12,622,871	\$ 12,622,871	\$ 14,222,661	\$ 1,599,790
Municipal license taxes	30,000,000	35,063,981	35,145,651	81,670				
Licenses and permits	2,000,100	5,994,999	6,527,374	532,375				
Charges for services and rent	600,200	1,317,321	1,449,395	132,074				
Intergovernmental revenues:								
State contributions	4,674,649	4,862,261	5,056,509	194,248				
Interest, fines and penalties	1,513,000	3,268,596	3,341,741	73,145			181,026	181,026
Other revenues	2,454,538	14,588,090	14,904,328	316,238				
Total revenues	<u>78,998,752</u>	<u>103,573,513</u>	<u>104,046,099</u>	<u>472,566</u>	<u>12,622,871</u>	<u>12,622,871</u>	<u>14,403,687</u>	<u>1,780,816</u>
<b>EXPENDITURES</b>								
Current:								
General government	40,012,163	60,983,543	60,106,392	877,151				
Public safety	7,306,293	7,867,175	7,799,633	67,542				
Economic development	7,941,948	23,642,457	22,713,765	928,692				
Health	16,762,783	16,762,783	16,563,071	199,712				
Culture and education	4,143,098	3,815,483	2,931,395	884,088				
Public housing and welfare	2,832,467	3,023,079	2,988,758	34,321				
Debt service:								
Principal					6,003,425	6,003,425	4,095,000	(1,908,425)
Interest					6,619,446	6,619,446	7,010,922	391,476
Total expenditures	<u>78,998,752</u>	<u>116,094,520</u>	<u>113,103,014</u>	<u>2,991,506</u>	<u>12,622,871</u>	<u>12,622,871</u>	<u>11,105,922</u>	<u>(1,516,949)</u>
<b>OTHER FINANCING SOURCES</b>								
Reprogramming funds		12,521,007	12,521,007	-				
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,464,092</u>	<u>\$ 3,464,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,297,765</u>	<u>\$ 3,297,765</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. ORGANIZATION**

The Municipality of Guaynabo, Puerto Rico (the "Municipality"), is a local government constituted with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

- Statement of Program Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

**a. Reporting Entity**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

**d. Cash, Cash with Fiscal Agent and Certificates of Deposits**

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the other governmental funds consist of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all certificates of deposit with an original maturity of three months or less to be cash equivalents.

**e. 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).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003). 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.

**f. Interfund Receivables and Payables**

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

**g. Capital Assets**

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. 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. Depreciation in capital

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings, structure, 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

**h. Reservation of Fund Balance**

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

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Project Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**i. Risk Financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$1.5 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.6 million for workers compensation insurance covering all municipal employees.

**j. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**k. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
39	Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statements No. 14.	2003-04
40	Deposit and Investment Risk Disclosures	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

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

**l. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

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

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

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

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

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general fund and debt service funds:

	<b>General Fund</b>	<b>Debt Service Fund</b>
Excess of revenues over expenditures - budgetary basis	\$ 3,464,092	\$3,297,765
Entity differences:		
Non-budgeted expenditures	( 2,025,377)	( 6,102,398)
Non-budgeted transfers in		5,799,410
Non-budgeted transfers-out		( 7,481,606)
Non-budgeted revenues	4,219,079	
Reprogramming funds	( 12,521,007)	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	( 2,069,969)	
Current year encumbrances recorded as expenditures for budgetary basis	1,964,121	
Basis of accounting differences:		
Net change in receivables	<u>1,269,670</u>	<u>14,695</u>
Deficiency of revenues over expenditures - GAAP basis	(\$ <u>5,699,391</u> )	(\$ <u>4,472,134</u> )

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**c. Legal Compliance**

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

**4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$270 million difference are as follows:

Bonds payable	\$172,890,000
Capital leases	45,624,369
Note payable	16,498,310
Landfill obligation	16,312,915
Compensated absences	8,306,336
Accrued interest payable	8,197,128
Claims and judgements	<u>1,974,131</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$269,803,189</u>

**5. DEPOSITS**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003. Risk categories are described as follows:

- Category 1:** Deposit is insured or collateralized with securities held by the Secretary of the Treasury's 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 Municipality's bank balances in commercial banks of \$67,007,982 were fully collateralized at June 30, 2003 (Category 1).

The deposits at GDB of \$70,366,880 that are restricted principally for capital projects, and the \$19,998,240 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks (Category 3).

The Municipality maintains its deposits in four (4) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

**6. PROPERTY TAXES**

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.78% for real property and 6.78% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.75%	1.75%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.78%</u>	<u>6.78%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

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Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for \$6,947,191. This amount will be repaid through advances from property taxes (refer to Note 14).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2002-03, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2003, the amount received in advances from CRIM exceeded the amount collected from taxpayers and charges by CRIM for the same period by \$1,269,670. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements. (Refer to Note 8).

**7. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2003. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Guaynabo, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Guaynabo, are as follows:

Financial institutions	= 1.5%
Other organizations	= .5%

The amounts collected in advance are recorded as deferred revenues in the General Fund. Any municipal license taxes collected in advance are recorded as deferred revenues. As of June 30, 2003, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$2,823,283 and \$34,017,456, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2003 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$81,374 and \$32,982,376, respectively, in the accompanying fund financial statements.

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority (Contribution in lieu of taxes)	\$ 4,736,848
Other governmental funds	3,526,458
Puerto Rico Electric Power Authority (Settlement of legal case)	2,383,255
Municipal Revenue Collection Center	<u>1,269,670</u>
Total	<u>\$11,916,231</u>

Due from other agencies in the government-wide statements includes approximately \$2.4 million related to the settlement of a legal case with the Puerto Rico Electric Power Authority, which was received on October 23, 2003.

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**9. INTERFUND TRANSACTIONS**

**a. Due from/to Other Funds:**

The due from and due to other fund balances as of June 30, 2003, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	<u>\$11,372,003</u>

The balance of approximately \$11.4 million due to the general fund from other governmental funds resulted from loans made to construction projects that will be paid during the subsequent year.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2003 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 7,481,606
Debt Service	General	4,964,506
General	Other Governmental Funds	1,458,582
Other Governmental Funds	General	960,681
Debt Service	Other Governmental Funds	<u>834,904</u>
		<u>\$15,700,279</u>

The transfer from the debt service fund to the general fund of \$7,481,606 represents the withdrawal of the excess of ad valorem taxes over the actual debt service requirement as established by Law No. 28 of May 4, 2001. The Municipality withdrew this amount and transferred the amount to the general fund for working capital purposes.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection

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the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**10. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 602,491,975	\$ 8,276,059	\$ 1,093,464	\$ 609,674,570
Construction in progress	88,175,922	67,535,598	71,748,745	83,962,775
Total capital assets, not being depreciated	<u>690,667,897</u>	<u>75,811,657</u>	<u>72,842,209</u>	<u>693,637,345</u>
Capital assets, being depreciated:				
Buildings and building improvements	118,495,931	26,911,425		145,407,356
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	22,037,631	3,002,939	1,566,364	23,474,206
Infrastructure	105,421,702	40,218,397		145,640,099
Total capital assets, being depreciated	<u>245,955,264</u>	<u>70,132,761</u>	<u>1,566,364</u>	<u>314,521,661</u>
Less accumulated depreciation for:				
Buildings and building improvements	10,270,365	1,626,104		11,896,469
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	14,503,926	1,956,331	1,466,213	14,994,044
Infrastructure	7,062,723	2,006,507		9,069,230
Total accumulated depreciation	<u>31,837,014</u>	<u>5,588,942</u>	<u>1,466,213</u>	<u>35,959,743</u>
Total capital assets, being depreciated, net	<u>214,118,250</u>	<u>64,543,819</u>	<u>100,151</u>	<u>278,561,918</u>
Governmental activities capital assets, net	<u>\$ 904,786,147</u>	<u>\$ 140,355,476</u>	<u>\$ 72,942,360</u>	<u>\$ 972,199,263</u>

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

General government	\$1,354,304
Public safety	82,342
Public housing and welfare	64,926
Culture and education	94,551
Health	218,848
Economic development	<u>3,773,971</u>
 Total depreciation and amortization expense	 <u>\$5,588,942</u>

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2003 are as follows:

Puerto Rico Electric Power Authority	\$4,193,049
Employee's Retirement System Administration	359,382
Puerto Rico Regulation and Permits Administration	206,152
General Services Administration	19,362
Puerto Rico Water and Sewer Authority	13,638
Puerto Rico Labor Department	9,353
Puerto Rico Environmental Quality Board	<u>2,779</u>
 Total	 <u>\$4,803,715</u>

**12. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$32,982,376 in the general fund related to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04 (Refer Note 7).

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**b. Federal Government**

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to the following federal programs/grants:

**Program/Grant Description**

Child Care and Development Block Grant (HHS)	\$ 694,014
Section 8 Housing Voucher (HUD)	934,397
Loan Guarantee (HUD)	390,946
Other governmental funds	<u>393,321</u>
	<u>\$2,412,678</u>

**13. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and other governmental funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

**14. LONG-TERM DEBTS**

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:

- a. 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
- b. 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.

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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, 2003, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2003 are as follows:

**General Obligation Bonds**

\$10,500,000 series of 2000, payable in annual installments of \$755,000 to \$2,380,000 until July 1, 2024, interest ranging from 7.29% to 7.50%.	\$ 9,810,000
\$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%	2,305,000
\$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%	800,000
\$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%	8,100,000
\$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%	11,155,000
\$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%	1,055,000
\$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%	23,035,000

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\$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%	\$ 18,855,000
\$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%	14,955,000
\$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%	9,990,000
\$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%	2,670,000
\$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%	4,485,000
\$2,920,000 series of 2003, payable in annual installments from \$50,000 to \$225,000 until July 1, 2027, interests from 2.70% to 5.60%.	2,870,000
\$2,715,000 series of 2003, payable in annual installments from \$45,000 to \$215,000 until July 1, 2027, interests from 5.00% to 6.50%.	2,670,000
\$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 6.50%.	3,710,000
\$6,025,000 series of 2003, payable in annual installments from \$95,000 to \$465,000 until July 1, 2028, interests at 6.50%.	6,025,000
\$6,675,000 series of 2002, payable in annual installments from \$770,000 to \$1,160,000 until July 1, 2028, interests from 5.00% to 6.50%.	5,080,000

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\$8,115,000 series of 1999, payable in annual installments from \$115,000 to \$675,000 until July 1, 2023, interests from 6.00% to 7.00%.	\$ 7,425,000
\$39,645,000 series of 2001, payable in annual installments from \$535,000 to \$3,440,000 until July 1, 2025, interests from 5.00% to 6.50%.	<u>37,895,000</u>
Total bonds payable	<u>172,890,000</u>

**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.	6,551,119
\$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
\$7,028,503 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.	<u>6,947,191</u>
Total notes payable	<u>16,498,310</u>

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**Claims and Judgements**

\$1,824,131 payable to Triple S Insurance for claims and judgement, on semiannual installments of \$364,826, until January 15, 2005.

\$ 1,824,131

Total other payable

1,824,131

Total bonds, notes and other long-term debt

\$191,212,441

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2003, are as follows:

	<b><u>Bonds</u></b>		<b><u>Note Payable</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2004	\$ -	\$ 5,240,826	\$ 760,720	\$ 863,204
2005	6,640,000	10,718,092	856,379	853,603
2006	7,175,000	10,295,212	862,381	842,608
2007	6,425,000	9,875,129	868,745	830,482
2008	6,920,000	9,458,428	875,493	817,388
2009-2013	36,470,000	40,337,529	4,493,849	3,858,300
2014-2018	37,720,000	27,767,162	2,526,469	2,504,454
2019-2023	48,075,000	15,109,123	1,769,128	1,424,147
2024-2028	23,000,000	2,544,780	1,708,215	858,110
2029-2032	465,000	15,113	1,776,931	276,133
	<u>\$ 172,890,000</u>	<u>\$ 131,361,394</u>	<u>\$ 16,498,310</u>	<u>\$ 13,128,429</u>

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As described in Note 6, the Municipality levies an annual special tax of 1.48% of the assessed value of real property. The proceeds of this 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 and retained by the CRIM.

	Beginning Balance	Additions	Payments	Adjustment	Ending Balance	Due within One Year
Bonds payable	\$ 167,280,000	\$ 11,660,000	\$ (6,050,000)		\$ 172,890,000	\$ 4,365,000
Notes payable	16,991,839	406,664	(900,193)		16,498,310	760,720
<b>Total long-term debt</b>	<b>184,271,839</b>	<b>12,066,664</b>	<b>(6,950,193)</b>		<b>189,388,310</b>	<b>5,125,720</b>
Capital leases	46,710,275		(1,085,906)		45,624,369	1,197,189
Claims and judgements	507,500	1,974,131	(507,500)		1,974,131	729,652
Landfill obligation	6,416,432	663,577		9,232,906	16,312,915	
Compensated absences	10,954,882	832,418	(3,480,964)		8,306,336	4,697,549
<b>Total other liabilities</b>	<b>64,589,089</b>	<b>3,470,126</b>	<b>(5,074,370)</b>	<b>9,232,906</b>	<b>72,217,751</b>	<b>6,624,390</b>
<b>Total noncurrent liabilities</b>	<b>\$ 248,860,928</b>	<b>\$ 15,536,790</b>	<b>\$ (12,024,563)</b>	<b>\$ 9,232,906</b>	<b>\$ 261,606,061</b>	<b>\$ 11,750,110</b>

**15. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

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ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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No benefit is payable if the participant receives a refund of his accumulated contributions.

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

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

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was \$1,883,459. The Municipality's payroll for employees covered by ERS was \$20,306,835. The Municipality total payroll for all employees was approximately \$40,711,625.

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

**16. RISK MANAGEMENT**

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

**17. LEASES**

**a. 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

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payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2003 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2004	\$ 3,290,287
2005	3,303,800
2006	3,278,003
2007	3,293,988
2008	3,277,620
2009-2013	17,301,487
2014-2018	18,803,794
2019-2023	16,871,728
2024-2027	<u>1,595,012</u>
Total minimum lease payments schedule under agreements	71,015,719
Less:	
Interests to be paid through expiration dates of lease agreements	<u>25,391,350</u>
Present value of minimum lease payments	45,624,369
Less: Current portion of obligation under capital leases	<u>1,197,189</u>
Long-term portion of obligation under capital leases	<u>\$44,427,180</u>

The activity of obligation under capital leases for the year ended June 30, 2003 was as follows:

	<u>Balance at June 30, 2002</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2003</u>
Principal	<u>\$46,710,275</u>	<u>\$ -</u>	<u>(\$1,085,906)</u>	<u>\$45,624,369</u>

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**b. Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- 1) The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- 2) Total income from leases during the year ended June 30, 2003 was approximately \$656,541.
- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**18. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**19. LANDFILL CLOSURE AND POSTCLOSURE COSTS**

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

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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 \$3,120,000 and \$13,192,915, respectively, as of June 30, 2003.

Of these estimated costs, the Municipality has recorded a liability amounting to \$16,312,915, which is the amount required by GAAP for accrual as of June 30, 2003. The liability was recorded in the accompanying government-wide financial statements with: (1) a charge to health and sanitation expenses for \$663,577, and (2) a liability accumulated for \$16,312,915 corresponding to prior years. 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.

**20. COMMITMENTS**

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$25.6 million.

**21. RESTATEMENTS**

On July 1, 2002, 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, 2002 amounting to \$10,880,188:

- a. An adjustment to beginning net assets amounting to \$9,232,906 (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 2002 government-wide financial statements.

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- b. An adjustment to beginning fund balance of the debt service fund in the amount of \$1,647,282 to recognize, as of June 30, 2002, the interest payments of bonds that were due and payable as of June 30, 2002, which were erroneously recorded as expenditure when paid in July 1, 2002.