

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

**MUNICIPIO DE GUAYNABO**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS  
with Independent Auditor's Report Thereon  
June 30, 2004**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
FOR THE YEAR ENDED JUNE 30, 2004**

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF GUAYNABO**

**PART I**

**FINANCIAL SECTION**

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

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Public Accountants  
Management Consulting  
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, 2004, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 the 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, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

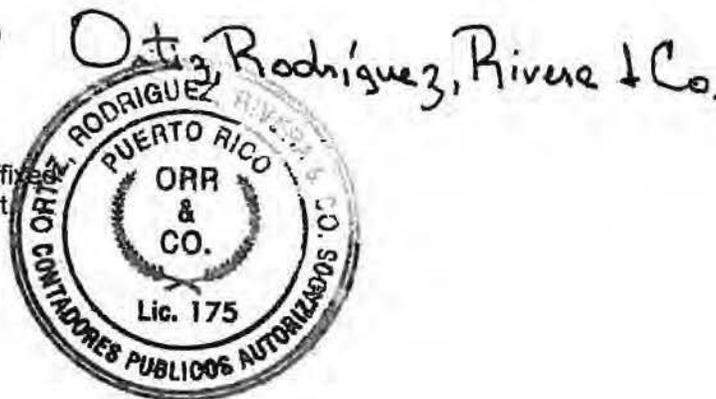
In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 opinions 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 also not a required part of the basic financial statements of the Municipality. The schedule of expenditures of federal awards 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  
January 21, 2005

The stamp 2027641 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, 2004. 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 \$1,117,014,298 and \$777,422,170 respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to \$962,038,468 (87 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$339,592,128 in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to \$264,135,130 (78 percent of total liabilities). Such amount includes capital leases amounting \$44,808,921 and the landfill obligation for closing costs and postclosing care cost amounting \$18,268,585. 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 \$149,767,811 in the accompanying statement of activities, of which property taxes and municipal licenses were the most significant revenues amounting to \$58,751,335 (39 percent of total revenues) and \$39,257,658 (26 percent of total revenues), respectively.
- The Municipality has reported a net change in net assets (excess of revenues over expenses) amounting to \$4,386,065 in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of \$85,526,462 of which \$33,938,486 (40 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 \$8,533,389.

- The Municipality has reported a deficiency of revenues and other financing sources over expenditures and other financing uses amounting to \$2,662,307 in the governmental funds. As a significant fact, the Municipality's outlays for capital projects during the year amounted \$26,110,331 while the loan proceeds for such purposes amounted only \$7,405,000. Such outlays over financing sources were the principal reason of the deficiency in the governmental funds.

## **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, 2004 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, 2004. 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, 2004). 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 \$777,422,170 at June 30, 2004.

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:**

	<b><u>June 30, 2003</u></b>	<b><u>June 30, 2004</u></b>
Current assets	\$ 169,548,685	\$ 154,975,830
Capital assets	972,199,263	962,038,468
Total assets	<u>1,141,747,948</u>	<u>1,117,014,298</u>
Current liabilities	97,862,566	85,710,329
Non-current liabilities	249,855,951	253,881,799
Total liabilities	<u>347,718,517</u>	<u>339,592,128</u>
Net assets/(liabilities):		
Invested in capital assets, net of related debt	799,309,263	786,533,468
Restricted	75,614,891	60,512,848
Unrestricted	<u>(80,844,723)</u>	<u>(69,624,146)</u>
Total net assets	<u>\$ 794,029,431</u>	<u>\$ 777,422,170</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, 2003</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,904,118	\$ 9,958,444
Operating grants and contributions	18,004,165	16,858,096
Capital grants and contributions	4,341,589	-
General revenues:		
Property taxes	53,113,432	58,751,335
Municipal license taxes	36,852,480	39,257,658
Construction excise taxes	6,987,041	-
Other	22,570,410	24,942,278
Total revenues	<u>143,773,235</u>	<u>149,767,811</u>
Expenses:		
General government	38,772,722	57,554,873
Public safety	7,881,975	7,506,760
Health and sanitation	17,445,496	22,613,788
Economic development	26,493,459	21,917,587
Culture and education	18,438,559	9,778,938
Public housing and welfare	5,766,083	7,292,387
Interest	8,197,128	11,745,201
Total expenses	<u>122,995,422</u>	<u>138,409,534</u>
Loss on disposition of assets	(100,151)	-
Net increase in net assets	20,677,662	11,358,277
Net assets - at beginning of year, as restated	773,351,769	766,063,893
Net assets - at end of year	<u>\$ 794,029,431</u>	<u>\$ 777,422,170</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, 2003</u>	<u>June 30, 2004</u>
Total Assets - Major Funds	\$ 92,154,450	\$ 92,078,056
Total Assets - Nonmajor Funds	82,326,684	71,327,931
Total assets	<u>174,481,134</u>	<u>163,405,987</u>
Total Liabilities - Major Funds	67,900,252	58,139,570
Total Liabilities - Nonmajor Funds	18,392,113	19,739,955
Total liabilities	<u>86,292,365</u>	<u>77,879,525</u>
Fund Balances - Major Funds	24,254,198	33,938,486
Fund Balances - Nonmajor Funds	63,934,571	51,587,976
Total net assets	<u>\$ 88,188,769</u>	<u>\$ 85,526,462</u>

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

Total Revenues - Major Funds	\$ 115,013,042	\$ 128,870,167
Total Revenues - Nonmajor Funds	23,355,719	21,245,391
Total revenues	<u>138,368,761</u>	<u>150,115,558</u>
Total expenditures - Major Funds	126,517,372	119,788,695
Total expenditures - Nonmajor Funds	55,056,791	40,394,170
Total expenditures	<u>181,574,163</u>	<u>160,182,865</u>
Other financing sources (uses) Major	1,332,805	602,816
Other financing sources (uses) Non-Major	10,327,195	6,802,184
Revenues over (under) Expenses - Major	(10,171,525)	9,684,288
Revenues over (under) Expenses - Nonmajor	(21,373,877)	(12,346,595)
Deficiency of revenues over expenditures	<u>\$ (31,545,402)</u>	<u>\$ (2,662,307)</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, 2004**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Note 2)	\$ 64,845,458
Cash with fiscal agent (Note 2)	76,588,223
Accounts receivable:	
Property taxes	10,505
Municipal license taxes (Note 7)	2,253,971
Interests	218,056
Construction excise taxes	1,276,506
Licenses and permits	998,311
Landfill	734,279
Due from other agencies (Note 8)	8,050,521
Capital assets, net (Note 10)	<u>962,038,468</u>
 Total assets	 <u>\$ 1,117,014,298</u>
 <b><u>Liabilities and Net Assets</u></b>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 11,980,270
Due to other agencies (Note 11)	6,058,384
Matured bonds and interest due and payable	8,565,150
Deferred revenues (Note 12):	
Municipal license tax	34,832,553
Federal government	3,816,170
Accrued interest	9,104,471
Claims and judgements	1,100,000
Noncurrent liabilities (Note 14):	
Due within one year	10,253,331
Due in more than one year	253,881,799
Total liabilities	<u>339,592,128</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	786,533,468
Restricted for:	
Debt service	8,924,872
Capital projects	51,587,976
Unrestricted	<u>(69,624,146)</u>
 Total net assets	 <u>\$ 777,422,170</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 ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<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>Operating Grants and Contributions</u>	
General government	\$ 57,554,873	\$ 9,958,444	\$ -	\$ (47,596,429)
Public safety	7,506,760			(7,506,760)
Public housing and welfare	7,292,387		3,316,652	(3,975,735)
Culture and education	9,778,938		11,216,774	1,437,836
Health and sanitation	22,613,788			(22,613,788)
Economic development	21,917,587		2,324,670	(19,592,917)
Interest on long-term debt	11,745,201			(11,745,201)
<b>Total</b>	<b>\$ 138,409,534</b>	<b>\$ 9,958,444</b>	<b>\$ 16,858,096</b>	<b>(111,592,994)</b>
General revenues:				
Property taxes				58,751,335
Municipal license tax				39,257,658
Grants and contributions not restricted to specific programs				9,130,196
Interest, fines and penalties				2,156,074
Miscellaneous				13,656,008
<b>Total general revenues</b>				<b>122,951,271</b>
Change in net assets				11,358,277
Net assets at beginning of year, as restated (Note 21)				766,063,893
<b>Net assets at end of year</b>				<b>\$ 777,422,170</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2004**

<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)	\$ 53,715,846	\$ -	\$ 11,129,612	\$ 64,845,458
Cash with fiscal agent (Note 2)	331,742	17,479,517	58,776,964	76,588,223
Accounts receivable:				
Property taxes		10,505		10,505
Municipal license taxes (Note 7)	206,340			206,340
Interest	218,056			218,056
Due from other agencies (Note 8)	6,629,166		1,421,355	8,050,521
Due from other funds (Note 9)	13,486,884			13,486,884
<b>Total assets</b>	<b>\$ 74,588,034</b>	<b>\$ 17,490,022</b>	<b>\$ 71,327,931</b>	<b>\$ 163,405,987</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, 2004**

<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	\$ 7,583,483	\$ -	\$ 2,436,901	\$ 10,020,384
Due to other funds (Note 9)			13,486,884	13,486,884
Due to other agencies (Note 11)	6,058,384			6,058,384
General obligations:				
Bonds		5,045,000		5,045,000
Interest		3,520,150		3,520,150
Deferred revenues: (Note 12)				
Municipal license tax	34,832,553			34,832,553
Federal government			3,816,170	3,816,170
Claims and judgements	1,100,000			1,100,000
<b>Total liabilities</b>	<u>49,574,420</u>	<u>8,565,150</u>	<u>19,739,955</u>	<u>77,879,525</u>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	16,480,225			16,480,225
Debt service		8,924,872		8,924,872
Capital projects			51,587,976	51,587,976
Unreserved fund balance	8,533,389			8,533,389
<b>Total fund balance</b>	<u>25,013,614</u>	<u>8,924,872</u>	<u>51,587,976</u>	<u>85,526,462</u>
<b>Total liabilities and fund balance</b>	<u>\$74,588,034</u>	<u>\$17,490,022</u>	<u>\$ 71,327,931</u>	<u>\$ 163,405,987</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, 2004**

Total fund balances - governmental funds	\$ 85,526,462
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	962,038,468
• 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>	(273,239,601)
• 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.	5,056,727
• The Municipality recognized the current portion of bonds and interest that will be paid from current available resources.	<u>(1,959,886)</u>
Net assets of governmental activities	<u>\$ 777,422,170</u>

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

**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, 2004**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes (Note 6)	\$ 42,376,979	\$ 16,374,356	\$ -	\$ 58,751,335
Municipal license taxes (Note 7)	38,916,356			38,916,856
Licenses and permits	6,676,932			6,676,932
Charges for service and rents	1,586,806			1,586,806
Intergovernmental revenues (Note 13):				
Federal grants and contributions			16,858,096	16,858,096
State contributions	7,126,156		4,387,295	11,513,451
Interest, fines, and penalties	2,032,464	123,610		2,156,074
Other revenues	13,656,008			13,656,008
Total revenues	<u>112,372,201</u>	<u>16,497,966</u>	<u>21,245,391</u>	<u>150,115,558</u>
<b>EXPENDITURES</b>				
Current:				
General government	56,005,744			56,005,744
Public safety	7,471,153			7,471,153
Economic development	8,673,066		6,438,581	15,111,647
Health	20,087,673			20,087,673
Culture and education	2,531,639		7,154,804	9,686,443
Public housing and welfare	3,488,596		3,750,292	7,238,888
Capital outlays	3,059,838		23,050,493	26,110,331
Debt service:				
Principal retirement		7,633,128		7,633,128
Interest and other		10,837,858		10,837,858
Total expenditures	<u>101,317,709</u>	<u>18,470,986</u>	<u>40,394,170</u>	<u>160,182,865</u>
Excess (deficiency) of revenues over expenditures	<u>11,054,492</u>	<u>(1,973,020)</u>	<u>(19,148,779)</u>	<u>(10,067,307)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of refunding bonds			66,260,000	66,260,000
Loan proceeds			7,405,000	7,405,000
Transfers in	7,637,146	72,678,350	1,232,841	81,548,337
Transfers out	(5,815,534)	(7,637,146)	(68,095,657)	(81,548,337)
Payment to refunded bonds		(66,260,000)		(66,260,000)
Total other financing sources (uses)	<u>1,821,612</u>	<u>(1,218,796)</u>	<u>6,802,184</u>	<u>7,405,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>12,876,104</u>	<u>(3,191,816)</u>	<u>(12,346,595)</u>	<u>(2,662,307)</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>12,137,510</u>	<u>12,116,688</u>	<u>63,934,571</u>	<u>88,188,769</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 25,013,614</u>	<u>\$ 8,924,872</u>	<u>\$ 51,587,976</u>	<u>\$ 85,526,462</u>

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

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ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2004**

Net change in fund balances - total governmental funds \$ (2,662,307)

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. 26,110,331
- 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. (8,749,604)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (7,405,000)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. (347,747)
- 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. 7,633,128
- Change in accrued interest expense which does not require the use of current financial resources. (907,343)
- 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:
  - Landfill obligation (1,955,670)
  - Compensated absences (357,511)

Changes in net assets of governmental activities \$ 11,358,277

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

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ORTIZ, RODRIGUEZ, RIVERA & CO.

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**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, 2004**

	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	\$ 41,280,049	\$ 42,376,979	\$ 42,376,979	\$ -	\$ 12,575,652	\$ 12,575,652	\$ 16,374,356	\$ 3,798,704
Municipal license taxes	34,500,000	38,766,832	38,916,856	150,024				
Licenses and permits	3,325,100	5,847,221	6,676,932	829,711				
Charges for services and rent	725,100	1,368,418	1,586,806	218,388				
Intergovernmental revenues:								
State contributions	6,972,200	7,417,196	7,126,156	(291,040)				
Interest, fines and penalties	4,313,360	1,952,294	2,169,610	217,316			127,800	127,800
Other revenues	37,100	14,408,468	16,806,008	2,397,540				
<b>Total revenues</b>	<b>91,152,909</b>	<b>112,137,408</b>	<b>115,659,347</b>	<b>3,521,939</b>	<b>12,575,652</b>	<b>12,575,652</b>	<b>16,502,156</b>	<b>3,926,504</b>
<b>EXPENDITURES</b>								
Current:								
General government	49,067,343	64,780,222	64,651,760	128,462				
Public safety	8,664,506	8,079,195	7,984,158	95,037				
Economic development	10,685,634	14,547,656	14,358,800	188,856				
Health and sanitation	18,616,330	21,661,866	21,649,932	11,934				
Culture and education	1,278,339	2,959,785	2,587,699	372,086				
Public housing and welfare	2,840,757	3,664,340	3,578,513	85,827				
Debt service:								
Principal					5,773,905	5,773,905	7,633,128	1,859,223
Interest					6,801,747	6,801,747	10,837,858	4,036,111
<b>Total expenditures</b>	<b>91,152,909</b>	<b>115,693,064</b>	<b>114,810,862</b>	<b>882,202</b>	<b>12,575,652</b>	<b>12,575,652</b>	<b>18,470,986</b>	<b>5,895,334</b>
<b>OTHER FINANCING SOURCES</b>								
Reprogramming funds		3,555,656	3,555,656	-				
<b>Excess of revenues over expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,404,141</b>	<b>\$ 4,404,141</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,968,830)</b>	<b>\$ (1,968,830)</b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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, 2004**

- **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, 2004**

**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*.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures 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, 2004**

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 Equivalents, and Cash with Fiscal Agent**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004). 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, 2004**

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, 2004**

**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, 2004 amounted to approximately \$1.4 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.7 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, 2004**

**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>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
40	Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05
43	Financial Reporting for Post-employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section - an amendment on NCGA Statement I	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2009-10

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 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, 2004 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	\$ 4,404,141	\$ (1,968,830)
Entity differences:		
Non-budgeted expenditures	(6,988,485)	
Non-budgeted transfers in		72,678,350
Non-budgeted transfers-out		(7,637,146)
Non-budgeted revenues	4,500,000	
Reprogramming funds	(3,555,656)	
Payment to refunded bonds		(66,260,000)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(1,964,121)	
Current year encumbrances recorded as expenditures for budgetary basis	16,480,225	
Basis of accounting differences:		
Net change in receivables		(4,190)
Deficiency of revenues over expenditures - GAAP basis	<b>\$ 12,876,104</b>	<b>\$ (3,191,816)</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 \$273 million difference are as follows:

Bonds payable	\$172,505,000
Capital leases	44,808,921
Note payable	15,644,298
Landfill obligation	18,268,585
Compensated absences	8,663,847
Accrued interest payable	9,104,471
Claims and judgements	<u>1,244,479</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$273,239,601</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, 2004**

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, 2004. 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 \$69,111,272 were fully collateralized at June 30, 2004 (Category 1).

The deposits at GDB of \$62,176,963 that are restricted principally for capital projects, and the \$17,479,517 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 two (2) 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

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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 \$6,774,297. 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 2003-04, 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, 2004, the amount collected from taxpayers and charges by CRIM of approximately \$41 million, less than the advances received by the Municipality for the same period by \$711,795. Such amount is presented as intergovernmental payable in the general fund in the basic financial statements. (Refer to Note 11).

**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, 2004. 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, 2004, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$2,253,971 and \$34,832,553, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2004 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$206,341 and \$34,832,553, 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
Municipal Revenue Collection Center	1,892,318
Other governmental funds	<u>1,421,355</u>
Total	<u>\$8,050,521</u>

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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, 2004, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	<u>\$13,486,884</u>

The balance of approximately \$13.5 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, 2004 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 7,637,146
Debt Service	General	4,582,693
Other Governmental Funds	General	1,232,841
Debt Service	Other Governmental Funds	<u>68,095,657</u>
		<u>\$81,548,337</u>

The transfer from the debt service fund to the general fund of \$7,637,146 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 the receipts to the debt service fund as debt service payments become due, and

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(3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**9. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003 (As Restated)	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 609,674,570	\$ 3,576,350	\$ -	\$ 613,250,920
Construction in progress	55,997,237	4,217,614	14,355,511	45,859,340
Total capital assets, not being depreciated	<u>665,671,807</u>	<u>7,793,964</u>	<u>14,355,511</u>	<u>659,110,260</u>
Capital assets, being depreciated:				
Buildings and building improvements	145,407,356	19,252,858		164,660,214
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	23,474,206	4,825,992		28,300,198
Infrastructure	145,640,099	9,037,044		154,677,143
Total capital assets, being depreciated	<u>314,521,661</u>	<u>33,115,894</u>	<u>-</u>	<u>347,637,555</u>
Less accumulated depreciation for:				
Buildings and building improvements	11,896,469	4,008,970		15,905,439
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	14,994,044	1,985,502		16,979,546
Infrastructure	9,069,230	2,755,132		11,824,362
Total accumulated depreciation	<u>35,959,743</u>	<u>8,749,604</u>	<u>-</u>	<u>44,709,347</u>
Total capital assets, being depreciated, net	<u>278,561,918</u>	<u>24,366,290</u>	<u>-</u>	<u>302,928,208</u>
Governmental activities capital assets, net	<u>\$ 944,233,725</u>	<u>\$ 32,160,254</u>	<u>\$ 14,355,511</u>	<u>\$ 962,038,468</u>

The beginning balance of capital assets as of July 1, 2003 has been restated by \$27,965,538 to exclude capital assets that were recorded twice in the previous year. (See Note 21).

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

General government	\$1,191,618
Economic development	6,805,940
Health and sanitation	570,445
Culture and education	92,495
Public housing and welfare	53,499
Public safety	<u>35,607</u>
 Total depreciation and amortization expense	 <u>\$8,749,604</u>

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2004 are as follows:

Puerto Rico Electric Power Authority	\$4,502,474
Municipal Revenue Collection Center	711,975
Employee's Retirement System Administration	432,179
Puerto Rico Regulation and Permits Administration	356,268
General Services Administration	22,261
Puerto Rico Water and Sewer Authority	18,291
Puerto Rico Treasury Department	8,066
Puerto Rico Labor Department	<u>6,870</u>
 Total	 <u>\$6,058,384</u>

**12. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$34,832,553 in the general fund related to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05 (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**

COPS	\$ 955,078
Community Development Block Grant (HUD)	722,647
Child Care and Development Block Grant (HHS)	587,079
Section 8 Housing Voucher (HUD)	557,574
Special Program for Aging Title III	429,340
Loan Guarantee (HUD)	390,946
Other governmental funds	<u>173,506</u>
	<u>\$3,816,170</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

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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, 2004, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2004 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%.	\$ 9,605,000
\$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%	1,205,000
\$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%	625,000
\$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%	7,540,000
\$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%	10,385,000
\$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%	985,000
\$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%	22,420,000

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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%	\$ 18,375,000
\$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%	14,610,000
\$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%	9,810,000
\$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%	2,620,000
\$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%	4,405,000
\$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%.	2,815,000
\$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%.	2,620,000
\$2,065,000 series of 2004, payable in annual installments from \$240,000 to \$355,000 until July 1, 2010, interests from 1.65% to 6.50%.	1,825,000
\$485,000 series of 2004, payable in annual installments from \$5,000 to \$35,000 until July 1, 2028, interests from 1.65% to 6.50%.	480,000

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\$3,895,000 series of 2004, payable in annual installments from \$65,000 to \$300,000 until July 1, 2028, interests from 1.65% to 6.50%.	\$ 3,830,000
\$60,390 series of 2004, payable in annual installments from \$1,247,000 to \$4,434,000 until July 1, 2028, interests from 5.00% to 5.77%.	60,390,000
\$960,000 series of 2004, payable in annual installments from \$67,500 to \$100,000 until July 1, 2016, interests from 2.25% to 5.25%.	<u>960,000</u>
Total bonds payable	<u>175,505,000</u>

**Notes Payable**

\$5,870,000 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 2005. During the first two years the Municipality had a moratorium. The annual installments are from \$560,000 to \$590,000, at the fluctuating interest established by the U.S. Department of Treasury.	5,870,000
\$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
\$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>6,774,297</u>
Total notes payable	<u>15,644,297</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.

\$ 1,244,479

Total other payable

1,244,479

Total bonds, notes and other long-term debt

\$192,393,776

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2004, are as follows:

	<b><i>Bonds</i></b>		<b><i>Note Payable</i></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2005	\$ 6,774,500	\$ 8,537,762	\$ 261,415	\$ 566,709
2006	5,959,500	9,942,079	857,347	679,575
2007	6,442,000	9,615,757	863,652	784,366
2008	6,637,000	9,278,633	870,354	756,077
2009	7,087,000	8,869,198	877,476	722,935
2010-2014	39,220,000	37,411,069	4,510,898	3,010,053
2015-2019	40,010,000	26,031,407	2,379,462	1,961,303
2020-2024	42,530,000	12,959,601	1,830,126	1,350,999
2025-2029	20,845,000	2,919,869	1,810,696	857,130
2030-2034			1,382,871	258,113
	<u>\$ 175,505,000</u>	<u>\$ 125,565,375</u>	<u>\$ 15,644,297</u>	<u>\$ 10,947,260</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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 172,890,000	\$ 67,795,000	\$ (65,180,000)	\$ 175,505,000	\$ 6,774,500
Notes payable	16,498,310	5,870,000	(6,724,012)	15,644,298	261,415
<b>Total long-term debt</b>	<u>189,388,310</u>	<u>73,665,000</u>	<u>(71,904,012)</u>	<u>191,149,298</u>	<u>7,035,915</u>
Capital leases	45,624,369	444,016	(1,259,464)	44,808,921	1,352,590
Claims and judgements	1,974,131		(729,652)	1,244,479	364,826
Landfill obligation	16,312,915	1,955,670		18,268,585	
Compensated absences	8,306,336	1,150,000	(792,489)	8,663,847	1,500,000
<b>Total other liabilities</b>	<u>72,217,751</u>	<u>3,549,686</u>	<u>(2,781,605)</u>	<u>72,985,832</u>	<u>3,217,416</u>
<b>Total noncurrent liabilities</b>	<u>\$ 261,606,061</u>	<u>\$ 77,214,686</u>	<u>\$ (74,685,617)</u>	<u>\$ 264,135,130</u>	<u>\$ 10,253,331</u>

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**14. 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.

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.

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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.

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.

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**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, 2004 was \$2,184,472. The Municipality's payroll for employees covered by ERS was \$23,552,259. The Municipality total payroll for all employees was \$42,596,792.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**15. 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.

**16. 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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MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2004 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2005	\$ 3,411,837
2006	3,386,040
2007	3,402,025
2008	3,385,657
2009	3,379,200
2010-2014	17,608,588
2015-2019	18,919,806
2020-2024	14,629,642
2025-2029	<u>52,790</u>
Total minimum lease payments schedule under agreements	68,175,585
Less:	
Interests to be paid through expiration dates of lease agreements	<u>23,366,664</u>
Present value of minimum lease payments	44,808,921
Less: Current portion of obligation under capital leases	<u>1,352,590</u>
Long-term portion of obligation under capital leases	<u>\$43,456,331</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The activity of obligation under capital leases for the year ended June 30, 2004 was as follows:

	<u>Balance at June 30, 2003</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2004</u>
Principal	\$45,624,369	\$444,016	(\$1,259,464)	\$44,808,921

**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, 2004 was \$635,796.
- 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.

**17. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

- 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.

**18. 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 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 \$4,585,000 and \$14,400,000, respectively, as of June 30, 2004.

Of these estimated costs, the Municipality has recorded a liability amounting to \$18,268,585, which is the amount required by GAAP for accrual as of June 30, 2004. The liability was recorded in the accompanying government-wide financial statements with: (1) a charge to health and sanitation expenses for \$1,955,670, 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.

**19. COMMITMENTS**

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2004. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$23 million.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**20. RESTATEMENTS**

The beginning balance of net assets in the wide-financial statements has been restated by \$27,965,538 to exclude capital assets that were recorded twice in the previous year.

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF GUAYNABO**

**PART II**

**SINGLE AUDIT SECTION**

**-51-**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<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-Housing Choice Vouchers Community Development Block Grant Program/Entitlement Grants	14.871	RQ46-E016-001-007	\$ 2,334,986
Urban Development Action Grant	14.218	B-92-MC-72-0006	2,324,670
HOME Investment Partnership Program	14.221		200
Pass through Municipality of San Juan:	14.239		880,561
Housing Opportunity for Persons with AIDS	14.241		<u>100,905</u>
Subtotal U.S. Department of HUD			<u>5,641,322</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	6,238,876
Pass-through the Puerto Rico Elderly Commission:			
Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	<u>149,596</u>
Subtotal U.S. Department of HHS			<u>6,388,472</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO (CONTINUED)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<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 Agriculture</b>			
Pass through Governor's Office of Child Services and Community Development:			
Child and Adult Care Food Program	10.558		\$ <u>552,471</u>
Subtotal U.S. Department of Agriculture			<u>552,471</u>
<b>U.S. Department of Labor</b>			
Pass through State Office of the Governor's Office of Economic Opportunity:			
Workforce Investment Act			
Adult	17.258		2,010,242
Youth Activities	17.259		1,388,800
Dislocated Workers	17.260		<u>876,789</u>
Subtotal U.S. Department of Labor			<u>4,275,831</u>
<b>TOTAL</b>			<b><u>\$16,858,096</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

**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	\$40,394,170
Less non-federal expenditures included within the Other nonmajor governmental funds	<u>23,536,074</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$16,858,096</u>



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

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

**INDEPENDENT AUDITORS' 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 the governmental activities, each major fund and the aggregate remaining fund information of Municipality of Guaynabo as of and for the year ended June 30, 2004, which collectively comprise Municipality's basic financial statements and have issued our report thereon dated January 21, 2005. 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*.

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.

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  
January 21, 2005

*Ortiz, Rodriguez, Rivera & Co.*

The stamp 2027642 was affixed to the original of this report





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

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Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

**INDEPENDENT AUDITORS' 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, 2004. 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, Part III. 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.

As summarized below and discussed in detail in the Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the requirements for the following federal award programs. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to those programs.

<u>Program</u>	<u>Compliance Requirement</u>	<u>Reference Number</u>
All federal program	Reporting	04-01
WIA Cluster Programs	Cash Management	04-02
WIA Cluster Programs	Equipment and Real Property	04-03
WIA Cluster Programs	Reporting	04-04
Community Development Block Grant	Cash Management	04-05
Head Start	Cash Management	04-06
Head Start	Reporting	04-07
Head Start	Special Test	04-08
Head Start	Equipment and Real Property	04-09
Section 8 – Housing Choice Vouchers	Cash Management	04-10
Section 8 – Housing Choice Vouchers	Special Test	04-11
Section 8 – Housing Choice Vouchers	Special Test	04-12

In our opinion, except for the noncompliance identified above, 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, 2004.

#### Internal Control over Compliance

The management of Municipality of Guaynabo is responsible for establishing and maintaining effective internal control over compliance with the 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Municipality of Guaynabo's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 to 04-12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described below above is a material weakness.

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  
January 21, 2005

The stamp 2027643 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**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, 2004, and have issued our report thereon dated January 21, 2005. 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 qualified 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, 2004**

- Major Programs:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA No.</u>
U.S. Department of Housing	Community Development Block Grant Program	14.218
U.S. Department of Housing	Section 8 Housing Choice Vouchers	14.871
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

- A threshold of \$505,737 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 high-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 65 to 96, 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 18, 2005 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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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.
- **“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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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.

**Reportable Conditions:**

The findings listed on pages 65 through 93 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,

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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>Questioned Costs</u>	<u>Questioned Costs</u>	<u>CFDA No.</u>
<u>Finding Related to Federal Programs that Have a Separate Accounting Department and Administrative Unit</u>				
SA 04-01	Lack of reconciliation procedures	N/A	N/A	All Federal Programs
<u>Workforce Investment Act</u>				
SA 04-02	Inadequate cash management procedures	N/A	N/A	17.258, 17.259 17.260
SA 04-03	Inadequate control of fixed assets	N/A	N/A	17.258, 17.259 17.260
SA 04-04	Lack of formal accounting records to support federal financial reports	N/A	N/A	17.258, 17.259 17.260
<u>Community Development Block Grant</u>				
SA 04-05	Inadequate cash management procedures	N/A	N/A	14.218
<u>Head Start</u>				
SA 04-06	Inadequate cash management procedures	N/A	N/A	93.600
SA 04-07	Lack of formal accounting records to support federal financial reports	N/A	N/A	93.600
SA 04-08	Failure to required centers licenses	N/A	N/A	93.600
SA 04-09	Inadequate control of fixed assets procedures	N/A	N/A	93.600
<u>Section 8 Housing Choice Voucher</u>				
SA 04-10	Inadequate cash management procedures	N/A	N/A	14.871
SA 04-11	Inadequate waiting list	N/A	N/A	14.871
SA 04-12	Noncompliance with HQS enforcement	N/A	N/A	14.871

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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

**Finding SA-04-01: Lack of Reconciliation Procedures (First Reported 2003):**

**Condition**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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, 2004**

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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

**Finding Number 04-02: Cash Management**

**Condition**

The Consortium internal controls relating to compliance with the cash management requirements of the federal program are not effective since they are not minimizing the time elapsed between the receipt of funds and final disbursement for payment.

Program	Deposit Date	Deposit Amount	Disbursement Date	Disbursement Amount	Unexpended Amount
Workforce Investment Act:					
Youth Program	03/04/2004	\$ 248	03/04/04 to 03/08/04	\$ 8,199	(\$7,951.36)
Adult Program	03/15/2004	146,008	03/15/04 to 03/19/04	1,966	144,042
Dislocated Workers Program	3/31/2004	99,082	03/31/04 to 04/04/04	99,082	(49,456)

**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 by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore 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 payments 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 cash drawdown by their subrecipients to assure that subrecipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

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Interest earned on advances by the municipality 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 Municipality consume a lot of time since the purchase order has been created until the disbursement voucher is authorized and is ready to be paid.

Effect

The delays caused by the design of the cash management system, obstruct the consortium to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

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. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

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

**Finding Number SA 04-03: Equipment and Real Property Management**

**Condition**

During our audit over this area we noted that important procedures about the safeguards of assets and the maintenance of the equipment records were not followed in accordance with federal and local applicable laws and regulation.

Equipment records – The consortium had deficiencies regarding to the fixed assets inventory. We found that many of the items included in the fixed assets inventory lacks at least one of the following: equipment model, serial number, acquisition date, location, vendor or cost.

Safeguard of assets – The lack of the information in the fixed assets inventory make impossible that the consortium has a good internal control system for the safeguard of the assets.

**Criteria**

The A-102 Common Rule requires that equipment be used in the program for which it was acquired. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

**Cause**

The Consortium does not have adequate supervision in the preparation and the reconciliation, regarding with the annual acquisition and disposition of the fixed assets inventory.

**Effect**

These deficiencies over equipment and real property management may increase the risk of loss, damage, or theft of the property.

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Questioned Costs

None

Recommendation

The consortium should establish better supervising procedures for equipment records.

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

**Finding Number SA 04-04: 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 financial reports of the WIA program and they did not comply with the reporting date's submission requirements. The result of the sample tested was the following:

<u>Report</u>	<u>Date to be Submitted</u>	<u>Date Submitted</u>	<u>Complied</u>	
			<u>Yes</u>	<u>No</u>
<b>Close Out:</b>				
Youth 2003-2004	July 30, 2004	Nov 23, 2004		✓
Youth 2002-2003	July 30, 2004	Nov 23, 2004		✓
Adult 2003-2004	July 30, 2004	Dec 09, 2004		✓
Adult 2002-2003	July 30, 2004	Dec.20, 2004		✓
Dislocated Worker 03-04	July 30, 2004	Dec.13, 2004		✓
Dislocated Worker 02-03	July 30, 2004	Dec.23, 2004		✓
Adult State Fund 03-04	July 30, 2004	Dec.23, 2004		✓
State Funds (Incentivo)	July 30, 2004	Dec.23, 2004		✓

**Accounts Payable Close Out Report:**

Youth 2003-2004	Sept, 30, 2004	Not yet submitted	✓
Youth 2002-2003	Sept, 30, 2004	Not yet submitted	✓
Adult 2003-2004	Sept, 30, 2004	Not yet submitted	✓
Adult 2002-2003	Sept, 30, 2004	Not yet submitted	✓
Dislocated Worker 03-04	Sept, 30, 2004	Not yet submitted	✓
Dislocated Worker 02-03	Sept, 30, 2004	Not yet submitted	✓

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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 will 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.

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.

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Effect

The delays caused by the design accounting system, obstruct the Consortium to comply 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 Occupational and Human Resources Development Council.

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 review the reports to ensure that the amounts reported agree with the underlying accounting records before submission to federal grantor. Also, the Consortium 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 Consortium to the complying of the required reporting deadlines.

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**C. Community Development Block Grant (CDBG) (CFDA 14.218)**

***Program Description***

The primary objective of the CDBG Program is the development of viable urban communities, decent housing, suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This is to be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of three national objectives: (1) benefiting low-and moderate-income persons; (2) aiding in the prevention or elimination of slums or blight; (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and where other financial resources are not available to meet these needs. Secondly, the grantee must spend at least 70% of its funds over a period of up to three years specified by the grantee in its certification for activities that address the national objective of benefiting low-and moderate-income persons.

This Program is conducted by metropolitan cities and urban counties that must submit certain certifications along with a statement as to how they propose using the funds for community development activities. The grant amount is based on a formula that considers the community's population, poverty, extent of overcrowded housing, age of housing, and growth lag.

The CDBG Program also provides for the granting of loan guarantees under HUD Section 108, Loan Guarantee Assistance (LGA). Accordingly, these activities are included as part of the CDBG audit. Findings related to the LGA Section 108 program, if any, will be identified as such.

The following findings and recommendations arise from our test of compliance and internal control over compliance with requirements applicable to the CDBG federal financial assistance program.

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**Community Development Block Grant (CDBG) (CFDA 14.218)**

**Finding Number SA 04-05: Cash Management**

**Condition**

The Municipality's internal control relating to compliance with the cash management requirements of the federal program are not effective since they are not minimizing the time elapsed between the receipt of funds and final disbursement for payment.

<u>Program</u>	<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>Disbursement Date</u>	<u>Disbursement Amount</u>	<u>Unexpended Amount</u>
CDBG	10/16/2003	\$47,880	10/16/03 to 10/20/03	\$48,242	\$ (362)
	10/27/2003	18,806	10/27/03 to 10/31/03	12,120	6,686
	10/31/2003	13,178	10/31/03 to 11/04/03	0	13,178

**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 by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore 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 payments 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 cash drawdown by their subrecipients to assure that subrecipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

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Interest earned on advances by the municipality 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 Municipality consume a lot of time since the purchase order has been created until the disbursement voucher is authorized and ready to be paid.

Effect

The delays caused by the design of cash management system, obstruct the municipality to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

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. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

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**D. Administration for Children, Youth and Families (“Head Start”) (CFDA 93.600)**

***Program Description***

The objectives of the Head Start Program are to provide comprehensive health, educational, nutritional, social, and other services to economically disadvantaged pre-school children so that the children will attain overall social competence. Parents also participate in various decision-making processes related to the operation of the program.

Grants are made by the Administration for Children, Youth and Families, (“ACYF”), to community action agencies, limited purpose agencies and units of local government who operate the program or assign the activity to one or more delegate agencies identified in the grant application. Each grantee and delegate agency generally operates the program through several locations.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Head Start federal financial assistance program.

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**Administration for Children, Youth, and Families ("Head Start")  
(CFDA 93.600)**

**Finding SA 04-6: Cash Management**

**Condition**

The Municipality's internal control relating to 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.

<u>Program</u>	<u>Deposit Date</u>	<u>Deposit Amount</u>	<u>Disbursement Date</u>	<u>Disbursement Amount</u>	<u>Unexpended Amount</u>
Head Start	02/02/2004	\$ 1,375	02/02/04 to 02.04/04	\$17,079	\$(15,704)
	02/04/2004	27,945	02/04/04 to 02/06/04	0	27,945
	02/05/2004	2,237	02/05/04 to 02/09/04	16,410	(14,173)
	02/12/2004	191,743	02/12/04 to 02/16/04	207,936	(16,194)
	02/18/2004	3,594	02/18/04 to 02/20/04	0	3,594
	02/23/2004	16,686	02/23/04 to 02/25/04	16,830	1,856
	02/26/2004	209,460	02/26/04 to 03/01/04	215,851	(6,392)

**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 by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore 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 payments 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-

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through entities must cash drawdown by their subrecipients to assure that subrecipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

Interest earned on advances by the municipality 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 Municipality consume a lot of time since the purchase order has been created until the disbursement voucher is authorized and ready to be paid.

Effect

The delays caused by the design of cash management system, obstruct the Municipality to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

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. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

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**Administration for Children, Youth, and Families ("Head Start")  
(CFDA 93.600)**

**Finding SA 04-7: Reporting**

**Condition:**

The Head Start program did not reconcile the accounting records with the report submitted to the Grantor. We verified the expenditures reported as per in the Financial Status Report and the expenditures accrued as per book and the difference was the following:

Expenditures per book	\$5,819,698
Expenditures per Final Status Report	<u>5,755,057</u>
Difference	<u>\$ 64,641</u>

**Criteria**

45 CFR Section 94.41-(b)(3) requires federal fund recipients to periodically monitor the performance of grant-supported activities to assurance 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 will be the underlying record to support the amounts included in the financial report 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

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identical information from the recipient in machine readable format, computer printout, or electronic outputs in lieu of the prescribe formats.

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.

Cause

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

Effect

The submission of incorrect accounting information could result in actions by the federal grantor against the Head Start program such as funds withholding by the grantor resulting from the misstatement of the financial performance of the program.

Questioned Costs

None

Recommendation

The Head Start program should review the reports to ensure that the amounts reported agree with the underlying accounting records before submission to federal grantor.

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**Administration for Children, Youth, and Families ("Head Start")  
(CFDA 93.600)**

**Finding SA 04-8: Special Test**

**Condition**

The Federal Program does not have the necessary Health Licenses in the facilities, used by the centers of Head Start and Early Head Start. As part of our procedures we selected a sample to test if they complied with the local licenses required by the State. In the following cases, we do not observed Health Licences.

**Center**

Sabana  
La Rosaleda  
Los Báez  
Juan Domingo  
Hannia María  
Bo. Mamey I  
Sonadora I  
Santa Rosa III  
Guaraguao  
Juana Ramos

**Criteria**

The 45 CFR Section 1306.30(C) establishes that the facilities used by Early Head Start and Head Start grantee and delegate agencies for regulatory scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with State and local requirements concerning licensing. In case where these licensing standards are less comprehensive or less stringent than the Head Start regulations, or where no State or local licensing standards are applicable, grantee and delegate agencies are required to assure that their facilities are in compliance with the Head Start Program Performance Standards related to health and safety.

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Cause

The Federal Program did not maintain the required licensing standards established for the State for the operation of any center.

Effect

This condition may result in cost disallowances for concept of penalties and in the last circumstance the closing of the centers.

Questioned Costs

None

Recommendation

The Program should have personnel to monitoring and verify that the centers comply with applicable state and local requirements concerning to licensing standards.

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**Administration for Children, Youth, and Families ("Head Start")  
(CFDA 93.600)**

**Finding SA 04-9: Equipment and Real Property Management**

**Condition**

The Head Start Program did not follow the procedures of internal control established regarding to the compliance of Equipment and Real Property Management. During our audit over this area we noted that important procedures about a proper equipment record, safeguard and maintenance were not followed in accordance with federal and local applicable laws and regulation.

**Equipment Record** – After our test we noted that the Head Start Program is not following a proper equipment record since the equipment ID assigned by it was not observed. More over, we selected a sample to verify if the equipments were in the location assigned previously in the inventory record and they failed, we could not observe certain equipment.

**Safeguard and Maintenance** – One of the equipment selected was found broken, the equipment was included in the inventory records and no ID number was observed.

The Head Start Program did not make previously analysis to buy a spiral slide since after they buy it, the administration of the place did not approve the installation. The slide was not installed and was storage in a warehouse of the municipality.

**Criteria**

The A-102 Common Rule require that equipment be used in the program which acquired it or, when appropriate, other Federal Program. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

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Cause

The Head Start Program is not reconciling the fixed assets inventory with a physical inventory within a reasonable time and the management did not supervise the inventory periodically.

Effect

The continuous practice of these procedures over the equipment and real property management may increase the risk of loss, damage, or theft of the property.

Questioned Costs

None

Recommendation

The Head Start Program should develop and perform adequate procedures so that the fixed assets inventory will be reconcile with physical equipment and the management establishes a schedule to supervise and review the inventory performed within a reasonable time. In addition, periodically a sample of the equipment could be taken and reviewed.

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**e. Section 8 - Housing Choice Voucher (CFDA 14.871)**

**Program Description**

The Section 8 Housing Choice Voucher (HCVP) objectives are to provide rental assistance to help very low-income families afford decent, safe and sanitary rental housing. The subsidy provided by the Program is considered tenant-based subsidy because when an assisted family moves out of a unit leased under the Program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance.

Under the Housing Choice Voucher Program, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is no limit on the amount of rent that an owner may charge for a unit. However at initial occupancy of any unit where the gross rent exceeds the payment standard, but a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities. A voucher subsidy is set based on the difference between the PHA's applicable payment standard for the family or the gross rent and the total tenant's payment (generally 30 percent of the family's monthly-adjusted income). This is the maximum quantity of the subsidy that a family may receive regardless of the rent the owner charges for the unit.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to these federal financial assistance programs.

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**Section 8 - Housing Choice Voucher (CFDA 14.871)**

**Finding SA 04-10: Cash Management**

**Condition**

The Section 8 program internal controls relating to compliance with the cash management requirement are not effective since they are not minimizing the time elapsed between the receipt of funds and the final disbursement for payment.

**Criteria**

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

When entities are funded on a reimbursement basis, program costs must be paid by entity funds before reimbursements are requested from the Federal Government. When funds are advanced, means that a Federal Program Agency transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments and therefore 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 payments procedures are used, recipients must establish similar procedure for sub-recipients. 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 cash drawdown by their subrecipients to assure that subrecipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

Interest earned on advances is required to be submitted promptly, at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.

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Cause

As per interview with the program accountant the above condition is produced because the internal control regarding with the disbursements procedures established by the Municipality are very extensive and require many authorizations and verifications before the final payments will be done.

Effect

The delays caused by the design of cash management system, obstruct the Section 8 program to comply with federal and local applicable laws and regulation, and the ability to meet the cash management requirement.

Questioned Costs

None

Recommendation

The Section 8 program 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 have the disbursements voucher ready with all authorizations and verifications before the requesting funds will be performed. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

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**Section 8 - Housing Choice Voucher (CFDA 14.871)**

**Finding SA 04-11: Waiting List**

**Condition**

The Program did not has an adequate waiting list where we can test that the new participants admitted in the period ended at June 30, 2004 to the Section 8 program were selected in accordance with the list.

**Criteria**

The 24 CFR section 982.204 establishes that except for special admissions, participants must be selected from the PHA waiting list. The PHA must select participants from the waiting list in accordance with admission polices in the PHA administrative plan.

The PHA must maintain information that permits the PHA to select participants from the waiting such as:

- Applicant name
- Family Unit Size
- Date and time of application
- Qualification for any local preference
- Racial or ethnic designation of the head of house hold

**Cause**

The Federal Program did not maintain adequate records of the waiting list.

**Effect**

This condition may result in cost disallowances because the program is increasing the risk that an ineligible participant will be selected as eligible and participate in the program activities.

**Questioned Costs**

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

Recommendation

The Program should have adequate procedures to maintain a good record of the waiting list. In addition, personnel are required to monitoring and verifying the annual changes of the waiting list.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**Section 8 - Housing Choice Voucher (CFDA 14.871)**

**Finding SA 04-12: HQS Enforcement**

**Condition**

The Section 8 program failed to require to the owner the purchase of Water Heater within the 30 days calendar established for cover any deficiencies found.

**Criteria**

The 24 CFR section 982.404 establishes that the owners must maintain the unit in accordance with HQS.

If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of the HAP contract.

The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 days.

**Cause**

The program failed to supervise that the deficiencies were corrected in the required period in accordance with applicable laws and regulations.

**Effect**

This condition may result in cost disallowances for concept of payment of rent for a property that is not in physical conditions required by law.

**Questioned Costs**

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

Recommendation

The Program should have adequate procedures to supervise that the deficiencies are corrected in the required period.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition 01-2</b>  The federal program does not submit the required reports on time.	Condition still prevails.
<b>All Federal Programs</b>	<b>Condition SA-02-01</b>  Balances reported by program accountants do not agree with records maintained by the Municipality.	Condition still prevails.
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA-02-02</b>  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.	Condition still prevails.
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA-02-03</b>  The federal program does not submit the required reports on time.	Condition still prevails.
<b>All Federal Programs</b>	<b>Condition SA-03-01</b>  Balances reported by program accountants do not agree with records maintained by the Municipality.	Condition still prevails.

**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, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA-03-02</b>  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.	Condition still prevails.
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA-03-03</b>  The federal program does not submit the required reports on time.	Condition still prevails.
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA-03-04</b>  The Consortium does not have effective internal controls over compliance with the requirements relating to the period of availability of funds.	Condition still prevails.
<b>CDBG</b> <b>CFDA No. 14.218</b>	<b>Condition SA-03-05</b>  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.	Condition still prevails.
<b>CDBG</b> <b>CFDA No. 14.218</b>	<b>Condition SA-03-06</b>  We noted that the program performed disbursements with federal funds to pay a payroll of municipal employee.	Condition was corrected.

**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, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
CDBG CFDA No. 14.218	<b>Condition SA-03-07</b>  The program assigned funds to not for profit corporations and not performed the required procedures to monitoring the funds allocated to each corporation.	Condition still prevails.
CDBG CFDA No. 14.218	<b>Condition SA-03-08</b>  The program obligated funds during the year for public service exceeded the 15% o the grant amount.	Condition was corrected.
CDBG CFDA No. 14.218	<b>Condition SA-03-09</b>  The program does not have effective internal controls over compliance with the requirements relating to the period of availability of funds.	Condition still prevails.
Head Start CFDA No. 93.600	<b>Condition SA-03-10</b>  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.	Condition still prevails.
Head Start CFDA No. 93.600	<b>Condition SA-03-11</b>  The program does not have the necessary health licenses in the facilities.	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

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Hon. Héctor O'Neill García  
Alcalde

Carmen Febo  
Directora  
Departamento de Finanzas

### CORRECTIVE ACTION PLAN

March 18, 2005

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2004

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, 2004

The findings from the June 30, 2004 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 04-1: All Federal Programs**

Reportable Condition: See Condition 04-1

##### 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 04-2: Work Investment Act (WIA), - CFDA No. 17.258, 17.259, and 17.260**

Reportable Condition: See Condition 04-2

### 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

Conduct working meeting between the Municipality and Consortium accounting personnel to shorten the time elapsed between the receiving and disbursement of cash. We estimate this CAP to be completed by June 30, 2005.

### **Finding 04-3: Work Investment Act (WIA) - CFDA No. 17.258, 17.259, and 17.260**

Reportable Condition: See Condition 04-3

### Recommendation

The Consortium should establish better supervising procedures for equipment records.

### Action Taken

The Consortium in coordination with the Human Resources office of the Municipality of Guaynabo is working with the assignment of responsibilities of property, plant, and equipment to the administrative employee. The estimated time to complete with the

assignment of the new tasks and training is expected to be completed by May 31, 2005.

**Finding 04-4: Work Investment Act (WIA) - CFDA No. 17.258, 17.259, and 17.260**

Reportable Condition: See Condition 04-4

Recommendation

The Consortium should review the reports to ensure that the amounts reported agree with the underlying accounting records before submission to federal grantor. Also, the Consortium 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 Consortium to the complying of the required reporting deadlines.

Action Taken

The Consortium and Municipality accounting personnel will work together to reconcile on a more accurate basis the accounting data between the two accounting systems mentioned above.

**Finding 04-5: Community Development Block Grant (CDBG) - CFDA No. 14.218**

Reportable Condition: See Condition 04-5

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. 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 to 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 04-6: Head Start - CFDA No. 93.600**

Reportable Condition: See Condition 04-6

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. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

During program year 2003-2004 Head Start program was requesting funds as we spent through fund request form signed by the authorize personnel of the Finance Department of the Municipality of Guaynabo, Mrs. Carmen Febo, Director, or Mr. José López, Subdirector. We have stated that we were going to request funds as we spend it, to avoid this finding. Some providers delays in making cash theirs checks and these we cannot handle it. Also, we will make this process with local funds too. To avoid any further findings, we will continue with this practice and being in closer contact with Ms. Febo.

**Finding 04-7: Head Start - CFDA No. 93.600**

Reportable Condition: See Condition 04-7

Recommendation

The Head Start program should review the reports to ensure that the amounts reported agree with the underlying accounting records before submission to federal grantor.

Action Taken

During the physical year 2003-2004, I reviewed the reports to ensure that the amount reported was agree with the underlying accounting record before the submission to federal grantor, but was over confidence of me that pass these report to auditors without verify first. In the future, I will verify twice the reports to be sure that the information is true and not mistaken.

**Finding 04-8: Head Start - CFDA No. 93.600**

Reportable Condition: See Condition 04-8

Recommendation

The Program should have personnel to monitoring and verify that the centers comply with applicable state and local requirements concerning to licensing standards.

Action Taken

To comply with health licensing requirements the Program coordinated with Oficina de Servicios Generales Municipales the installment of water heaters.

**Finding 04-9: Head Start - CFDA No. 93.600**

Reportable Condition: See Condition 04-9

Recommendation

The Head Start Program should develop and perform adequate procedures so that the fixed assets inventory will be reconcile with physical equipment and the management establishes a schedule to supervise and review the inventory performed within a reasonable time. In addition, periodically a sample of the equipment could be taken and reviewed.

Action Taken

During the program year 2003-2004 Head Start program does not have a person to cover the position of property clerk. In the present, we have a person to cover all the related items of property. His principal assignment is develop and maintain a physical inventory of all the Head Start material and equipment. He will perform an item by item physical inventory in all our centers twice a year.

**Finding 04-10: Section 8 – Housing Choice Vouchers - CFDA No. 14.871**

Reportable Condition: See Condition 04-10

Recommendation

The Section 8 program 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 have the disbursements voucher ready with all authorizations and verifications before the requesting funds will be performed. 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 to 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 04-11: Section 8 – Housing Choice Vouchers - CFDA No. 14.871**

Reportable Condition: See Condition 04-11

Recommendation

The Program should have adequate procedures to maintain a good record of the waiting list. In addition, personnel are required to monitoring and verifying the annual changes of the waiting list.

Action Taken

Waiting List – After your recommendation, we will keep a waiting list with all changes, for example; issuance of voucher, applicants no longer eligible or interested in the program, communications returned by the post office and marked “undeliverable” (closed).

**Finding 04-12: Section 8 – Housing Choice Vouchers - CFDA No. 14.871**

Reportable Condition: See Condition 04-12

Recommendation

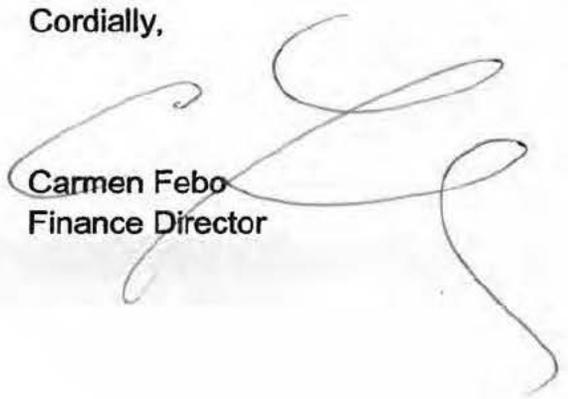
The Program should have adequate procedures to supervise that the deficiencies are corrected in the required period.

Action Taken

HQS Enforcement – Water heater, see Circular letter No. PH 02-01. After the time granted in the above mentioned circular, we did not have a house to move the tenant.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Sonia Machuca, Director of Federal Accounting; CPA Juan Martínez, Executive Director; Gilberto Claudio, Housing Department Director; and Ibis Figueroa, Head Start Director, at (787) 720-4040.

Cordially,

  
Carmen Febo  
Finance Director