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AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GUAYNABO

AUDITORIA 2006-2007

30 DE JUNIO DE 2007

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
with Independent Auditor's Report Thereon
June 30, 2007**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYNABO

PART I

FINANCIAL SECTION

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FOR THE YEAR ENDED JUNE 30, 2007**

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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, 2007, 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, 2007, 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 December 3, 2007 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
December 3, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2299751 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, 2007. 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 \$1,187,847,720 and \$788,235,449 respectively, in the accompanying statement of net assets. For the fiscal year ended June 30, 2007 the most significant assets are capital assets, net from accumulated depreciation, amounting to \$995,586,213 (85% percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$399,612,271 in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to \$309,059,141 (77% percent of total liabilities). Such amount includes capital leases amounting \$40,576,195 and the landfill obligation for closing costs and postclosing care cost amounting \$18,984,999. Actually, the Municipality evaluates proposals for construction of transfer station due to the expired useful life of the landfill. Total liabilities for the year ended June 30, 2007 increased in 1% percent in comparing with total liabilities for the previous year. Such increase is due, in part, for the increase in deferred revenues from municipal taxes and federal grants, which are revenues received during the fiscal year but pertain to the next fiscal year or that qualifying expenditures have not been occurred. The aforementioned increase is due in the other part for the amount required to accrued in accordance with FASB Statement No. 5 for claims which could give rise a possible loss against the Municipality. For the year ended June 30, 2007 such amount ascending to \$6,102,269.
- The Municipality has reported total revenues amounting to \$196,858,006 in the accompanying statement of activities, of which property taxes, municipal licenses and sales and uses taxes were the most significant revenues amounting to \$71,253,993 (36% percent of total revenues), \$45,619,183 (23% percent of total revenues) and \$11,893,718 (6% percent of total revenues), respectively. Total

revenues for the fiscal year ended June 30, 2007 increased in 9% percent in comparing with total revenues of the previous year.

- The Municipality has reported a net change in net assets amounting to \$11,204,212 in the accompanying statement of activities. Notwithstanding, the Municipality has reported an excess of revenues and other sources over expeditures and other uses, in the accompanying statement of revenues, expenditures, and changes in fun balances-governmental funds, amounting to \$20,745,505. This excess is due, in part, to a sale of land for \$14,450,000 and surplus received from CRIM for \$14,900,000. Also, under the budgetary basis, the Municipality do not incurred in a budgetary deficit and the budget accounts does not reflect any over expenditure for the fiscal year ended June 30, 2007.
- The Municipality has not reprogramed funds for the fiscal year ended June 30, 2007. The Municipality has reported an excess of revenues over expenditures ascending to \$6,742,702 in the Statement of Revenues, Expenditures and Other Financing Sources-Budget and Actual-General and Debt Service Fund.
- The Municipality's governmental funds reported combined ending fund balances of \$123,638,874 of which \$63,491,401 (51% percent) represent the fund balance of the Capital Project Fund.
- The Municipality has reported unreserved fund balance for the general fund amounting to \$27,076,061.
- During the fiscal year 2006-2007, the Municipality of Guaynabo obtained loans from Governmental Development Bank amounting to \$15,155,000 which were obtained to invest in capital proyects and additional loan from Loan Guarantee Section 108 program amounting \$2,000,000 for urban development projects.

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, 2007 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, 2007. 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, 2007). 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 \$788,235,449 at June 30, 2007.

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

Condensed Statement of Net Assets:

	<u>June 30, 2006</u>	<u>June 30, 2007</u>
Current assets	\$ 175,728,051	\$ 196,488,146
Capital assets	<u>987,326,428</u>	<u>991,359,574</u>
Total assets	<u>\$1,163,054,479</u>	<u>\$1,187,847,720</u>
Current liabilities	101,503,835	103,848,873
Non-current liabilities	<u>285,354,934</u>	<u>295,763,398</u>
Total liabilities	<u>386,858,769</u>	<u>399,612,271</u>
Net assets/(liabilities):		
Invested in capital assets, net of related debt	781,319,428	778,314,574
Restricted	78,556,327	72,152,470
Unrestricted	<u>(83,680,045)</u>	<u>(62,231,595)</u>
Total net assets	<u>\$ 760,695,276</u>	<u>\$ 788,235,449</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, 2006</u>	<u>June 30, 2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 8,366,769	\$ 8,575,258
Operating grants and contributions	15,541,066	15,876,394
General revenues:		
Property taxes	67,812,997	71,253,993
Sales and use taxes	-	11,893,718
Municipal license taxes	42,908,984	45,619,183
Others	34,434,392	49,370,967
Total revenues	<u>\$ 169,064,208</u>	<u>\$ 202,589,513</u>
Expenses:		
General government	69,409,511	78,274,534
Public safety	11,050,587	11,840,677
Health and sanitation	26,554,656	31,292,448
Economic development	21,125,440	26,735,905
Culture and education	13,175,651	13,018,463
Public housing and welfare	3,925,771	3,657,335
Interest	12,456,857	14,553,828
Depreciation	11,969,928	12,012,111
Total expenses	<u>\$ 169,668,401</u>	<u>\$ 191,385,301</u>
Net increase in net assets	(1,162,336)	11,204,212
Net assets - at beginning of year	<u>777,358,046</u>	<u>777,031,237</u>
Net assets - at end of year	<u>\$ 776,195,710</u>	<u>\$ 788,235,449</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, 2006</u>	<u>June 30, 2007</u>
Total Assets - Major Funds	\$ 95,126,906	\$ 122,941,518
Total Assets - Nonmajor Funds	<u>90,623,753</u>	<u>79,781,923</u>
Total assets	<u>185,750,659</u>	<u>202,723,441</u>
Total Liabilities - Major Funds	60,186,722	64,958,275
Total Liabilities - Nonmajor Funds	<u>23,506,095</u>	<u>14,126,292</u>
Total liabilities	<u>83,692,817</u>	<u>79,084,567</u>
Fund Balances - Major Funds	34,940,184	57,983,243
Fund Balances - Nonmajor Funds	<u>67,117,658</u>	<u>65,655,631</u>
Total net assets	<u>\$ 102,057,842</u>	<u>\$ 123,638,874</u>

Condensed Statement of Operations - Governmental Funds:

Total Revenues - Major Funds	\$ 140,967,694	\$ 173,433,048
Total Revenues - Nonmajor Funds	<u>28,185,152</u>	<u>24,319,271</u>
Total revenues	<u>169,152,846</u>	<u>197,752,319</u>
Total expenditures - Major Funds	143,727,457	170,515,286
Total expenditures - Nonmajor Funds	<u>33,387,459</u>	<u>38,096,528</u>
Total expenditures	<u>177,114,916</u>	<u>208,611,814</u>
Other financing sources (uses) Mayor	4,992,583	20,125,297
Other financing sources (uses) Non-Mayor	6,952,417	11,479,703
Revenues Over Expenses - Major	2,232,820	23,043,059
Revenues Over Expenses - Nonmajor	<u>1,750,110</u>	<u>(2,297,554)</u>
Total net assets	<u>\$ 3,982,930</u>	<u>\$ 20,745,505</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 2nd floor of the Guaynabo City Hall, Guaynabo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 95,621,138
Cash with fiscal agent (Notes 2 and 5)	83,190,221
Accounts receivable:	
Property taxes	396,500
Municipal license taxes (Note 7)	2,975,943
Interests	589,677
Licenses and permits	214,522
Deferred charges	996,566
Due from other agencies (Note 9)	12,503,579
Capital assets, net (Note 11)	991,359,574
Total assets	\$ 1,187,847,720
 <u>Liabilities and Net Assets</u> 	
Liabilities	
Accounts payable and accrued liabilities	\$ 9,831,891
Due to other agencies (Note 12)	6,436,576
General obligations:	
Bonds	6,695,000
Interest	4,109,370
Deferred revenues (Note 13):	
Municipal license tax	41,202,124
Federal government	2,917,367
Accrued interest	13,145,033
Claims and judgements	6,102,269
Noncurrent liabilities (Note 15):	
Due within one year	13,295,743
Due in more than one year	295,763,398
Total liabilities	399,498,771
Net Assets	
Investment in capital assets, net of related debt	778,314,574
Restricted for:	
Debt service	5,165,410
Capital projects	63,491,401
Federal programs	3,495,659
Unrestricted	(62,118,095)
Total net assets	788,348,949
Total liabilities and net assets	\$ 1,187,847,720

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
General government	\$ 78,161,034	\$ 8,575,258	\$ -	\$ -	\$ (69,585,776)
Public safety	11,840,677				(11,840,677)
Public housing and welfare	3,657,335		4,016,555		359,220
Culture and education	13,018,463		9,761,413		(3,257,050)
Health and sanitation	31,292,448				(31,292,448)
Depreciation	12,012,111				(12,012,111)
Economic development	26,735,905			2,098,426	(24,637,479)
Interest on long-term debt	14,553,828				(14,553,828)
Total	\$ 191,271,801	\$ 8,575,258	\$ 13,777,968	\$ 2,098,426	(166,820,149)
General revenues:					
Property taxes					71,253,993
Sales and use taxes					11,893,718
Municipal license tax					45,619,183
Grants and contributions not restricted to specific programs					17,975,556
Interest, fines and penalties					7,349,204
Miscellaneous					18,314,700
Total general revenues					172,406,354
Gain on sale of capital assets					5,731,507
Change in net assets					11,317,712
Net assets at beginning of year, as restated (Note 23)					777,031,237
Net assets at end of year					\$ 788,348,949

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, 2007**

<u>Assets</u>	<u>General</u>	<u>Workforce Investment Act Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 82,245,106	\$ 897,889	\$ -	\$ 12,478,143	\$ 95,621,138
Cash with fiscal agent (Notes 2 and 5)	834,264		15,463,936	66,892,021	83,190,221
Accounts receivable:					
Property taxes			396,500		396,500
Municipal license taxes (Note 7)	41,711				41,711
Interest	480,333		109,344		589,677
Due from other agencies (Note 9)	9,195,975	3,038,449		269,155	12,503,579
Due from other funds (Note 10)	10,238,011			142,604	10,380,615
Total assets	\$ 103,035,400	\$ 3,936,338	\$ 15,969,780	\$ 79,781,923	\$ 202,723,441

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, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Workforce Investment Act Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Account payable and accrued liabilities	\$ 5,839,130	\$ 430,335	\$ -	\$ 928,976	\$ 7,198,441
Due to other funds (Note 10)	100,666			10,279,949	10,380,615
Due to other agencies (Note 12)	6,426,232	10,344			6,436,576
General obligations:					
Bonds			6,695,000		6,695,000
Interest			4,109,370		4,109,370
Deferred revenues: (Note 13)					
Municipal license tax	41,202,124				41,202,124
Federal government				2,917,367	2,917,367
Claims and judgements	31,574				31,574
Total liabilities	<u>53,599,726</u>	<u>440,679</u>	<u>10,804,370</u>	<u>14,126,292</u>	<u>78,971,067</u>
Fund Balances					
Reserved for:					
Encumbrances	22,246,113				22,246,113
Federal programs		3,495,659			3,495,659
Debt service			5,165,410		5,165,410
Capital projects				63,491,401	63,491,401
Unreserved fund balance	27,189,561			2,164,230	29,353,791
Total fund balance	<u>49,435,674</u>	<u>3,495,659</u>	<u>5,165,410</u>	<u>65,655,631</u>	<u>123,752,374</u>
Total liabilities and fund balance	<u>\$ 103,035,400</u>	<u>\$ 3,936,338</u>	<u>\$ 15,969,780</u>	<u>\$ 79,781,923</u>	<u>\$ 202,723,441</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - governmental funds	\$ 123,752,374
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	991,359,574
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(330,908,319)
• 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.	<u>4,145,320</u>
Net assets of governmental activities	<u>\$ 788,348,949</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, 2007**

	General	Workforce Investment Act Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 45,954,722	\$ -	\$ 25,299,271	\$ -	\$ 71,253,993
Municipal license taxes (Note 7)	44,967,507				44,967,507
Sales and use taxes	11,893,718				11,893,718
Licenses and permits	7,333,382				7,333,382
Charges for service and rents	2,787,865				2,787,865
Intergovernmental revenues (Note 14):					
Federal grants and contributions		4,180,258		11,696,136	15,876,394
State contributions	9,671,824			8,303,732	17,975,556
Interest, fines, and penalties	2,172,868		862,947	4,313,389	7,349,204
Other revenues	18,308,686			6,014	18,314,700
Total revenues	<u>143,090,572</u>	<u>4,180,258</u>	<u>26,162,218</u>	<u>24,319,271</u>	<u>197,752,319</u>
EXPENDITURES					
Current:					
General government	73,339,429				73,339,429
Public safety	11,615,852			224,825	11,840,677
Public housing and welfare	985,558			2,671,777	3,657,335
Economic development	20,712,458			6,023,447	26,735,905
Health and sanitation	31,292,448				31,292,448
Culture and education	3,308,648	3,094,654		6,615,161	13,018,463
Capital outlays	2,202,432			22,561,318	24,763,750
Debt service:					
Principal retirement			10,288,353		10,288,353
Interest and other			13,561,954		13,561,954
Total expenditures	<u>143,456,825</u>	<u>3,094,654</u>	<u>23,850,307</u>	<u>38,096,528</u>	<u>208,498,314</u>
Excess (deficiency) of revenues over expenditures	<u>(366,253)</u>	<u>1,085,604</u>	<u>2,311,911</u>	<u>(13,777,257)</u>	<u>(10,745,995)</u>
OTHER FINANCING SOURCES (USES)					
Sales of capital assets	14,450,000				14,450,000
Loan issuance				17,155,000	17,155,000
Transfers in	19,902,009		9,124,299	3,525,809	32,552,117
Transfers out	(7,762,390)		(15,588,621)	(9,201,106)	(32,552,117)
Total other financing sources (uses)	<u>26,589,619</u>	<u>-</u>	<u>(6,464,322)</u>	<u>11,479,703</u>	<u>31,605,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>26,223,366</u>	<u>1,085,604</u>	<u>(4,152,411)</u>	<u>(2,297,554)</u>	<u>20,859,005</u>
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 23)	<u>23,212,308</u>	<u>2,410,055</u>	<u>9,317,821</u>	<u>67,953,185</u>	<u>102,893,369</u>
FUND BALANCE AT END OF YEAR	<u>\$ 49,435,674</u>	<u>\$ 3,495,659</u>	<u>\$ 5,165,410</u>	<u>\$ 65,655,631</u>	<u>\$ 123,752,374</u>

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

**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, 2007**

Net change in fund balances - total governmental funds	\$ 20,859,005
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • 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. 	24,763,750
<ul style="list-style-type: none"> • 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. 	(12,012,111)
<ul style="list-style-type: none"> • Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. 	(17,155,000)
<ul style="list-style-type: none"> • Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. 	(894,313)
<ul style="list-style-type: none"> • 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. 	10,288,353
<ul style="list-style-type: none"> • Governmental funds report the effect of issuance costs where debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. 	996,566
<ul style="list-style-type: none"> • In the statements of activities, only the gain on the sale of assets is reported, whereas the governmental funds, the proceed from sales increase financial resources. Thus, the change in net asset book value of the asset sold. 	(8,718,493)
<ul style="list-style-type: none"> • Change in accrued interest expense which does not require the use of current financial resources. 	(991,874)
<ul style="list-style-type: none"> • 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: 	
CRIM	(5,124,883)
Accrued vacations and bonus	(195,440)
Claims and judgments	(404,075)
Compensated absences	(1,577,716)
Capital leases	1,483,943
Changes in net assets of governmental activities	\$ 11,317,712

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	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		
REVENUES								
Property taxes	\$ 40,483,378	\$ 40,483,378	\$ 42,460,452	\$ 1,977,074	\$ 12,296,422	\$ 12,296,422	\$ 25,299,271	\$ 13,002,849
Municipal license taxes	44,123,000	44,123,000	44,992,844	869,844				
Sales and use taxes	20,000,000	20,000,000	11,893,718					
Licenses and permits	7,050,100	7,050,100	7,333,382	283,282				
Charges for services and rent	2,728,604	2,728,604	2,787,865	59,261				
Intergovernmental revenues:								
State contributions	9,502,918	9,706,396	9,758,514	52,118				
Interest, fines and penalties	3,100,000	3,100,000	7,129,499	4,029,499			862,947	862,947
Other revenues	12,000	19,313,120	22,510,051	3,196,931				
Total revenues	<u>127,000,000</u>	<u>146,504,598</u>	<u>148,866,325</u>	<u>2,361,727</u>	<u>12,296,422</u>	<u>12,296,422</u>	<u>26,162,218</u>	<u>13,865,796</u>
EXPENDITURES								
Current:								
General government	72,914,812	81,813,169	78,022,900	3,790,269				
Public safety	11,469,028	10,811,915	10,732,013	79,902				
Public housing and welfare	1,282,326	989,149	952,764	36,385				
Economic development	3,998,568	3,841,745	3,607,168	234,577				
Health and sanitation	25,690,458	28,043,093	27,899,598	143,495				
Culture and education	11,644,808	21,005,527	20,795,680	209,847				
Debt service:								
Principal					5,210,000	5,210,000	10,288,353	5,078,353
Interest					7,086,422	7,086,422	13,561,954	6,475,532
Total expenditures	<u>127,000,000</u>	<u>146,504,598</u>	<u>142,010,123</u>	<u>4,494,475</u>	<u>12,296,422</u>	<u>12,296,422</u>	<u>23,850,307</u>	<u>11,553,885</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,856,202</u>	<u>\$ 6,856,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,311,911</u>	<u>\$ 2,311,911</u>

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, 2007**

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, 2007**

- **Statement of Program Activities** - The 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 exists: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component 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, 2007**

b. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

3) Workforce Investment Act Fund

This fund accounts for revenue sources to help people access the tools they need to manage their careers through information and high quality services and to help companies find skilled workers.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

e. Landfill Closure and Postclosure Care Costs

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

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, 2007). 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 is 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

4) Federal Programs

Represent amounts to be used for future expenditures of federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments.

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, 2007 amounted to approximately \$1.3 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.5 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, 2007**

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>
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	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 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 is 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, 2007**

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, 2007 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess of revenues over expenditures - budgetary basis	\$ 6,856,202	\$ 2,311,911
Entity differences:		
Non-budgeted expenditures	(1,107,323)	
Non-budgeted transfers in	19,902,009	9,124,299
Non-budgeted transfers-out	(7,762,390)	(15,588,621)
Non-budgeted revenues	6,378,643	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(20,289,888)	
Current year encumbrances recorded as expenditures for budgetary basis	<u>22,246,113</u>	
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ 26,223,366</u>	<u>\$ (4,152,411)</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 \$330 million difference are as follows:

Bonds payable	\$218,135,000
Capital leases	40,576,195
Note payable	20,478,327
Landfill obligation	18,984,999
Compensated absences	10,884,620
Accrued interest payable	13,145,033
Claims and judgements	6,070,695
Christmas bonus	<u>2,633,450</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$330,908,319</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$68 million that are restricted principally for capital projects activities. These funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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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 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 9.08% for real property and 7.08% 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	2.25%	2.25%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>9.08%</u>	<u>7.08%</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.

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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.

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 ends. 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 \$6,472,882. This amount will be repaid through advances from property taxes (refer to Note 15).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, but not the final settlement as the six months period after fiscal year ends, 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, 2007, the amount collected from taxpayers and charges by CRIM of approximately \$46 million, less than the advances received by the Municipality for the same period

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by \$3,494,270. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements. (Refer to Note 9).

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, 2007. 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.

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, 2007, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$2,975,943 and \$41,202,124, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2007 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$41,711 and \$41,202,124, respectively, in the accompanying fund financial statements.

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8. SALES AND USE TAXES

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority (Contribution in lieu of taxes)	\$ 5,701,705
Municipal Revenue Collection Center	3,494,270
Council of Occupational Development and Human Resources	3,038,449
Other governmental funds	<u>269,155</u>
 Total	 <u>\$12,503,579</u>

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10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$10,238,011
Other governmental funds	Other governmental funds	41,938
Other governmental funds	General fund	<u>100,666</u>
		<u>\$10,380,615</u>

The balance of approximately \$10.2 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, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$15,588,621
General	Other Governmental Funds	4,313,388
Debt Service	General	7,762,390
Debt Service	Other Governmental Funds	1,361,908
Other Governmental Funds	Other Governmental Funds	<u>3,525,810</u>
		<u>\$32,552,117</u>

The transfer from the debt service fund to the general fund of \$15,588,621 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.

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

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 623,153,792	\$ 4,536,332	\$ 8,658,869	\$ 619,031,255
Construction in progress	57,411,654	8,865,289	5,512,203	60,764,740
Total capital assets, not being depreciated	<u>680,565,446</u>	<u>13,401,621</u>	<u>14,171,072</u>	<u>679,795,995</u>
Capital assets, being depreciated:				
Buildings and building improvements	239,620,057	2,015,309		241,635,366
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	38,220,523	5,427,445	3,014,559	40,633,409
Infrastructure	115,063,002	10,113,808		125,176,810
Total capital assets, being depreciated	<u>392,903,582</u>	<u>17,556,562</u>	<u>3,014,559</u>	<u>407,445,585</u>
Less accumulated depreciation for:				
Buildings and building improvements	45,952,228	6,224,099		52,176,327
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	26,916,033	3,319,087	2,272,705	27,962,415
Infrastructure	13,274,339	2,468,925		15,743,264
Total accumulated depreciation	<u>86,142,600</u>	<u>12,012,111</u>	<u>2,272,705</u>	<u>95,882,006</u>
Total capital assets, being depreciated, net	<u>306,760,982</u>	<u>5,544,451</u>	<u>741,854</u>	<u>311,563,579</u>
Governmental activities capital assets, net	<u>\$ 987,326,428</u>	<u>\$ 18,946,072</u>	<u>\$ 14,912,926</u>	<u>\$ 991,359,574</u>

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12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 are as follows:

Puerto Rico Electric Power Authority	\$5,701,705
Employee's Retirement System Administration	515,878
Puerto Rico Regulation and Permits Administration	142,692
General Services Administration	9,746
Puerto Rico Water and Sewer Authority	45,542
Internal Revenue Service	10,669
Council of Occupational Development and Human Resources	<u>10,344</u>
Total	<u>\$6,436,576</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$41,202,124 in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08 (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	
Operating reserve	\$ 30,096
Special Program for Aging Title III	382,481
Loans and bonds funds	2,429,174
UDAG Program	22,017
HOME Program	23,598
Federal Transportation	<u>30,001</u>
	<u>\$2,917,367</u>

14. 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.

15. 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, 2007, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2007 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%.	\$ 8,890,000
\$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%	5,580,000
\$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%	7,685,000
\$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%	730,000
\$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%	20,265,000
\$21,100,000 series of 1997, payable in annual installments from \$305,000 to \$66,000 until July 1, 2022, interests from 6.69% to 7.50%	16,710,000
\$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%	13,410,000

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\$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%	\$ 9,180,000
\$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%	2,450,000
\$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%	4,130,000
\$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%.	2,635,000
\$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%.	2,455,000
\$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%.	995,000
\$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%.	450,000
\$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%.	3,605,000
\$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%.	56,404,000

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\$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%.	\$ 755,000
\$2,515,000 series of 2005, payable in annual installments of \$55,000 to \$170,000 until July 1, 2029, interests ranging from 4.37% to 5.0%.	2,345,000
\$11,755,000 series of 2005, payable in annual installments of \$545,000 to \$1,085,000 until July 1, 2019, interests ranging from 4.37% to 5.0%.	10,040,000
\$7,030,000 series of 2005, payable in annual installments of \$145,000 to \$480,000 until July 1, 2029, interests of 5.0%.	6,570,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	5,090,000
\$12,546,000 series of 2005, payable in annual installments of \$300,000 to \$886,000 until July 1, 2029, interests of 5%.	12,246,000
\$6,835,000 series of 2006, payable in annual installments of \$285,000 to \$685,000 until July 1, 2020, interests from 4.23% to 4.8%.	6,250,000
\$4,305,000 series of 2006, payable in annual installments of \$110,000 to \$365,000 until July 1, 2025, interests from 6.25% to 7.25%.	4,075,000
\$805,000 series of 2006, payable in annual installments of \$95,000 to \$140,000 until July 1, 2012, interests of 6.25% to 7.25%.	610,000
\$1,600,000 series of 2007, payable in annual installments of \$25,000 to \$130,000 until July 1, 2031, interests of 6.60% to 7.25%.	1,575,000

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\$1,715,000 series of 2007, payable in annual installments of \$200,000 to \$295,000 until July 1, 2013, interests of 6.60% to 7.25%.	\$ 1,515,000
\$4,525,000 series of 2007, payable in annual installments of \$175,000 to \$465,000 until July 1, 2021, interests of 6.60% to 7.25%.	4,350,000
\$1,125,000 series of 2007, payable in annual installments of \$15,000 to \$100,000 until July 1, 2031, interests of 6.60% to 7.50%.	1,110,000
\$170,000 series of 2007, payable in annual installments of \$20,000 to \$30,000 until July 1, 2013, interests of 6.60% to 7.50%.	150,000
\$6,020,000 series of 2007, payable in annual installments of \$140,000 to \$550,000 until July 1, 2026, interests of 6.60% to 7.50%.	<u>5,880,000</u>
Total bonds payable	<u>\$218,135,000</u>

Notes Payable

\$5,870,000 note payable to The Bank of New York. 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.	\$ 4,690,000
\$3,000,000 note payable to The Bank of New York. 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%.	2,499,000

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<p>\$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.</p>	\$ 6,472,882
<p>\$2,00,000 note payable to The Bank of New York. The term of the loan is for twenty years is payable annually each August, started in August of 2007.</p>	2,000,000
<p>Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.</p>	3,033,345
<p>Note payable of \$3,411,005 represents a financing agreement with CRIM to the repayment of catastral digitalization. The agreement is due in semester payment of \$228,743 until November 28, 2011 at interest rate of 5.95%.</p>	<u>1,783,100</u>
<p>Total notes payable</p>	<u>20,478,327</u>
<p>Total bonds, notes, and other long-term debt</p>	<u><u>\$238,613,327</u></u>

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The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2007, are as follows:

	Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2008	\$ 9,302,000	\$ 12,746,251	\$ 1,353,362	\$ 398,782
2009	9,912,000	12,054,377	1,582,019	391,661
2010	10,597,000	11,466,721	1,612,424	384,091
2011	10,937,000	10,851,065	1,644,683	376,045
2012	11,712,000	10,214,783	1,283,333	367,493
2013-2017	55,465,000	41,492,758	5,278,450	1,689,174
2018-2023	61,935,000	24,200,414	2,648,879	1,378,745
2024-2028	39,695,000	9,975,539	2,395,716	957,741
2029-2033	8,580,000	829,322	2,679,461	386,779
	<u>\$ 218,135,000</u>	<u>\$ 133,831,230</u>	<u>\$ 20,478,327</u>	<u>\$ 6,330,511</u>

As described in Note 6, the Municipality levies an annual special tax of 2.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

	Beginning		Payments	Adjustment	Ending	
	Balance	Additions			Balance	Due within One Year
Bonds payable	\$ 211,942,000	\$ 15,155,000	\$ (8,962,000)	\$ -	\$ 218,135,000	\$ 9,302,000
Notes payable	14,679,797	7,279,144	(1,326,353)	(154,261)	20,478,327	1,353,362
Total long-term debt	<u>226,621,797</u>	<u>22,434,144</u>	<u>(10,288,353)</u>		<u>238,613,327</u>	<u>10,655,362</u>
Capital leases	42,060,138		(1,483,943)		40,576,195	1,540,381
Landfill obligation	18,984,999				18,984,999	
Compensated absences	9,306,904	2,355,429	(777,713)		10,884,620	1,100,000
Total other liabilities	<u>70,352,041</u>	<u>2,355,429</u>	<u>(2,261,656)</u>	<u>-</u>	<u>70,445,814</u>	<u>2,640,381</u>
Total noncurrent liabilities	<u>\$ 296,973,838</u>	<u>\$ 24,789,573</u>	<u>\$ (12,550,009)</u>	<u>\$ -</u>	<u>\$ 309,059,141</u>	<u>\$ 13,295,743</u>

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five

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(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 be 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 was \$2,530,702. The Municipality's payroll for employees covered by ERS was \$27,285,197. The Municipality total payroll for all employees was \$47,610,277.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. 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.

18. 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 payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2007 is as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Year ending June, 30</u>	<u>Amount</u>
2008	\$ 3,432,242
2009	3,379,080
2010	3,453,657
2011	3,473,057
2012	3,465,722
2013-2017	18,565,400
2018-2022	19,115,696
2023-2027	<u>3,137,214</u>
Total minimum lease payments schedule under agreements	58,022,068
Less:	
Interests to be paid through expiration dates of lease agreements	<u>17,445,873</u>
Present value of minimum lease payments	40,576,195
Less: Current portion of obligation under capital leases	<u>1,540,381</u>
 Long-term portion of obligation under capital leases	 <u>\$39,035,814</u>

The activity of obligation under capital leases for the year ended June 30, 2007 was as follows:

	<u>Balance at June 30, 2006</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2007</u>
Principal	<u>\$42,060,138</u>	<u>\$ -</u>	<u>(\$1,483,943)</u>	<u>\$40,576,195</u>

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, 2007 was \$901,784.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- 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.

19. CONTINGENCIES

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

20. 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, 2007.

Of these estimated costs, the Municipality has recorded a liability amounting to \$18,984,999, which is the amount required by GAAP for accrual as of June 30, 2007. The liability was recorded in the accompanying government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

21. COMMITMENTS

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$63.4 million.

22. SUBSEQUENT EVENT

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities should collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

23. RESTATEMENTS

The beginning fund balances of Other Governmental Funds and the beginning net assets of the Statement of Net Assets has been restated to correct an underestimates of revenues by \$835,527.

	<u>Other Governmental Fund</u>	<u>Statement of Net Assets</u>
Beginning balance of the year as previously reported	\$ 67,117,658	\$ 776,195,710
Understatement of revenues	<u>835,527</u>	<u>835,527</u>
Beginning balance of the year as restated	<u>\$ 67,953,185</u>	<u>\$ 777,031,237</u>

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYNABO

PART II

SINGLE AUDIT SECTION

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Grant Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)			
Section 8 Housing Choice Vouchers	14.871	RQ46-E016-001-007	\$ 2,139,593
Emergency Shelter Grant Program	14.231		87,535
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	1,140,461
Community Development Block Grant, Section 108, Loan Guarantee	14.248		753,550
Urban Development Action Grant	14.221		200
HOME Investment Partnership Program	14.239		163,358
Pass-through Municipality of San Juan: Housing Opportunity for Persons with AIDS	14.241		67,217
Subtotal U.S. Department of HUD			<u>4,351,914</u>
U.S. Department of Health and Human Services (HHS)			
Head Start	93.600	02-CH-0483	6,581,194
Pass-through the Puerto Rico Elderly Commission: Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	383,792
Subtotal U.S. Department of HHS			<u>6,964,986</u>
U.S. Department of Agriculture			
Pass-through Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	N/A	320,296
Subtotal U.S. Department of Agriculture			<u>320,296</u>
U.S. Department of Labor			
Pass-through State Office of the Governor's Office of Economic Opportunity: Workforce Investment Act			
Adult	17.258		1,080,301
Youth Activities	17.259		1,151,664
Dislocated Workers	17.260		862,689
Subtotal U.S. Department of Labor			<u>3,094,654</u>
U.S. Department of Justice			
Pass-through Department of Justice: Public Safety Partnership and Community Policing Grants	16.710		60,825
Subtotal U.S. Department of Justice			<u>60,825</u>
U.S. Department of Homeland Security			
Hazard Mitigation Grant Program	97.039		164,000
Subtotal U.S. Department of Homeland Security			<u>164,000</u>
TOTAL			<u>\$ 14,956,675</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of 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:

Total federal expenditures per schedule	\$14,956,675
Federal expenditures per basic financial statements included within:	
Workforce Investment Act Fund	3,094,654
Federal expenditures included in other governmental funds	<u>11,862,021</u>
Total	<u>\$14,956,675</u>



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**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 the Municipality of Guaynabo, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 3, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Guaynabo's internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is

more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Guaynabo in a separate letter dated December 3, 2007.

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

San Juan, Puerto Rico
December 3, 2007

The stamp 2299752 was affixed
to the original of this report.



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**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

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, 2007. Municipality of Guaynabo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Guaynabo's management. Our responsibility is to express and 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 described in items 07-1 through 07-4 in the accompanying schedule of findings and questioned costs, the Municipality of Guaynabo did not comply with requirements regarding Davis Bacon Act that are applicable to its Head Start program, and cash management, reporting and earmarking that are applicable to its Workforce Investment Act program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Guaynabo to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. However, we believe that none of the significant deficiencies described above is a material weaknesses.

Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico
December 3, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2299753 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, 2007**

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, 2007, and have issued our report thereon dated December 3, 2007. 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 significant deficiencies in internal controls over financial reporting that were considered to be material weaknesses.
- There were no instances of noncompliance considered material to the financial statements were disclosed by the audit.

Federal Awards:

- Significant deficiencies 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, 2007**

- Major Programs:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA No.</u>
U.S. Department of Labor	Workforce Investment Act Adult Program	17.258
U.S. Department of Labor	Workforce Investment Act Youth Activities	17.259
U.S. Department of Labor	Workforce Investment Act Dislocated Workers	17.260
U.S. Department of Health and Human Services	Head Start	93.600
U.S. Department of Health and Human Services	Early Head Start	93.600
U.S. Department of Housing and Urban Development	Section 108 – Loan Guarantee	14.248

- A threshold of \$448,700 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 60 to 70, which are summarized in the schedule below, have been reviewed with representatives of the Municipality. In the title of each finding is a parenthetical disclosure indicating the first year that the finding was reported, and the finding number from the previous year audit report. The corrective action plans and responses to the findings and recommendations have been provided by the Municipality's representatives and reflect plans and responses as of March 26, 2008 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, 2007**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

among Federal agencies in the management of grants and cooperative agreements with State, Local, and federally recognized Indian tribal governments.

- **“CFR”** - This is the “Code of Federal Regulations” issued by the Federal Government. The CFR is a codification of the general and permanent rules published by the Federal Government. The Code is divided into 50 titles that represent broad areas subject to Federal regulation. Each title is divided into chapters that usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
- **“Common Rule”** - The Common Rule refers to the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” which establishes uniform administrative rules for Federal grants and cooperative agreements and subwards 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 govern all the municipal functions and activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Reportable Conditions

The findings listed on pages 60 through 70 have been reported in accordance with the requirements of Government Auditing Standards, issued by the Comptroller General of the United States and the Statements on Auditing Standards 60 and 74, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. These standards require the communication of all reportable conditions regarding the entity's internal controls.

Significant deficiencies 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>Head Start and Early Head Start</u>				
SA 07-1	Noncompliance with the required clauses of Davis Bacon Act in the contract	N/A	N/A	93.600
<u>Workforce Investment Act</u>				
SA 07-2	Inadequate cash management procedures	N/A	N/A	17.258, 17.259, 17.260
SA 07-3	Noncompliance with submission date report	N/A	N/A	17.258, 17.259, 17.260
SA 07-4	Noncompliance with earmarking	N/A	N/A	17.258, 17.259, 17.260

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A. Administration for Children, Youth and Families ("Head Start" and Early Head Start) (CFDA 93.600)

Program Description

The objectives of the Head Start and Early 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 and Early Head Start federal financial assistance programs.

Finding SA-07-1: Davis Bacon Act

Condition

The Head Start program contracts over \$2,000 did not include the required clauses of prevailing wage rate for the Davis Bacon Act compliance.

Criteria

Davis Bacon Act establish that all laborers and mechanics employed by contractors or subcontractors to work on construction contract in excess of \$2,000 finance by Federal assistance funds must be paid wages not less than those established for the locality of the project.

Non-federal entities shall include in their construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5,

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Labor Standards Construction). This includes a requirement for the contractor or subcontractor to submit to the Non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This requirement for Davis Bacon Act is contained in the A-102 Common Rule.

Cause

The contracts are not revised as per federal regulations requirements.

Effect

The program is not in compliance with federal regulations, which could result in disallowed costs by the federal awarding agency.

Questioned Costs

None

Recommendation

The Head Start program should add the David Bacon Act clause to all construction contracts over \$2,000.

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.

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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.

Finding Number SA 07-2: Cash Management

Condition

The Municipality's internal control over compliance with the cash management requirements of the federal program are not effective since it is holding excessive cash balances in its bank account.

Criteria

The 45 CFR 92.20 (b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality has not closed the following program years, 2002-2003, 2003-2004 and 2004-2005. The Municipality has not investigated the reasons why the invoices have not been received for the payables encumbered in order to determine whether to issue the corresponding payment or to credit the federal program for amounts that will not be paid.

Effect

The program is not in compliance with federal regulations, which could result in disallowed costs by the federal awarding agency.

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Questioned Costs

None

Recommendation

The Program should perform the closeout procedures and reimburse to the Council the amounts received in excess.

Finding Number SA 07-3: Reporting

The Workforce Investment Act Program failed in the timely submission of federal financial reports of the Program.

We requested a sample of reports of the program and they did not comply with the reporting date's submission requirements. The result of the sample tested was the following:

Cash Flow Report

Program	Month	Date Submitted	According to Law	
			Yes	No
Youth	November 2006	April 19, 2007		X
Adult	November 2006	April 19, 2007		X
Dislocated	November 2006	April 19, 2007		X
Youth	December 2006	April 19, 2007		x
Adult	December 2006	April 19, 2007		X
Dislocated	December 2006	April 19, 2007		X

Account Payable Close Out

Program	Date to be Submitted	Date Submitted	According to Law	
			Yes	No
Youth 06-07	Sept. 30, 2007	Nov. 2, 2007		x
Youth 05-06	Sept. 30, 2007	Nov. 2, 2007		x
Adult 06-07	Sept. 30, 2007	Nov. 2, 2007		x
Adult 05-06	Sept. 30, 2007	Nov. 2, 2007		x
Dislocated 06-07	Sept. 30, 2007	Nov. 2, 2007		x
Dislocated 05-06	Sept. 30, 2007	Nov. 2, 2007		x

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Criteria

As per grant agreement with "Consejo de Desarrollo Ocupacional y Recursos Humanos" the consortium should submit the accounts payable report at September 30, 2007.

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 printout, or electronic outputs in lieu of the prescribe 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 delays caused by the design accounting system, obstruct the program to comply with federal and local applicable laws and regulation, and the ability to meet the dead line for the reporting requirement.

Effect

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

Questioned Costs

None

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Recommendation

The Workforce Investment Act management program 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 program to comply with the required reporting deadlines.

Finding Number SA 07-4: Earmarking

The Consortium's internal control failed in spent at least the thirty percent of the total youth funds for out-school activities.

Criteria

As per 20 CFR Part 664, Subpart C – Out of School Youth establish that thirty percent of the total youth allocation must be spent on services for out-of-school youth.

Cause

The Consortium did not has adequate procedures to identify and perform the activities required for out-school youth.

Effect

The Consortium is not in compliance with the earmarking requirement of 20 CFR Part 664, Subpart C – Out of School Youth.

The Consortium could incur in questioned cost since they are used the out-school funds for other activities.

Recommendation

We recommended that the Consortium develop procedures for allocating funds to out-school activities to ensure compliance with federal requirement

Questioned Cost

None

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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.

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<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Head Start CFDA No. 93.600	Condition SA-06-01 The Head Start program construction contracts over \$2,000 did not include the required clauses of prevailing wage rate for the Davis Bacon Act compliance.	Condition still prevails.
Head Start CFDA No. 93.600	Condition SA-06-02 The Municipality did not include the property acquired with in-kind funds in the fixed assets inventory.	Condition was corrected.
Head Start CFDA No. 93.600	Condition SA-06-03 The program management report encumbrances at the year end as account payable in the financial status report.	Condition was corrected.
Head Start CFDA No. 93.600	Condition SA-06-04 The program failed in the timely submission of federal financial reports of the program.	Condition was corrected.
WIA CFDA No. 17.258, 17.259, and 17.260	Condition SA-06-05 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.
WIA CFDA No. 17.258, 17.259, and 17.260	Condition SA-06-06 The program failed in the timely submission of federal financial reports of the program.	Condition still prevails.

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<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.871	Condition SA-06-07 The program failed in the timely submission of federal financial reports of the program.	Condition was corrected.
COPS CFDA No. 16.710	Condition SA-06-08 The program failed in the timely submission of federal financial reports of the program.	Condition was corrected.
All Federal Programs	Condition SA-05-1 Balances reported by program accountants do not agree with records maintained by the Municipality.	Condition was corrected.
All Major Federal Programs	Condition SA-05-2 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 partially corrected.

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<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
All Major Federal Program	Condition SA-05-3 The Municipality did not maintain a proper real property and equipment management.	Condition was corrected.
WIA CFDA No. 17.258, 17.259, 17.260	Condition SA-05-4 The Municipality did not maintain adequate procedures regarding with the submission date reports.	Condition still prevails.
Section 8, Housing Choice Vouchers CFDA No. 14.871	Condition SA-05-6 The Municipality did not maintain adequate procedures regarding with the submission date reports.	Condition was corrected.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, 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



Estado Libre Asociado de Puerto Rico
Municipio Autónomo de Guaynabo
Departamento de Finanzas

Hon. Héctor O'Neill García
Alcalde

Carmen Febo
Directora

CORRECTIVE ACTION PLAN

March 26, 2008

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2007

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

Audit period: Fiscal year ended June 30, 2007

The findings from the June 30, 2007 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

Finding 07-1: Head Start and Early Head Start - CFDA 93.600

Reportable Condition: See Condition 07-1

Recommendation

The Head Start program should add the David Bacon Act clause to all construction contracts over \$2,000.

Action Taken

At the time that the Head Start Management implemented a procedure and internal instructive to perform and document the payroll tests and interviews, the contract examined had been issued. Currently, the referred procedure had been implemented, which include information related to the contractor who will perform the improvements, details of the works contracted, labor and record of the weekly certified payrolls. The internal instructive to the Administrative Manager to perform and document the payroll tests and interviews, in order to comply with the federal regulation requirements, was also implemented. Recent contracts contain a clause which states the Davis Bacon Act requirements in order to ensure compliance with federal regulation.

Finding 07-2: Workforce Investment Act ("WIA") (CFDA 17.258, 17.259, 17.260)

Reportable Condition: See Condition 07-2

Recommendation

The Program should perform the closeout procedures and reimburse to the Council the amounts received in excess.

Action Taken

The situation founded corresponded to cash in bank of program years 2003 and 2004 which still without closing. For the current program year, the situation was not observed because the management has implemented procedures where the Municipal Finance Department approve first all requirement needed for the disbursement and then the Department of Finance advise to the Consortium accountant for the request of funds to the Council and once the funds are deposited the Finance Department will perform the checks. That's includes a detail of payments to be done to suppliers and providers with the corresponding amounts. The total of payments must agree with the request of funds.

Finding 07-3: Workforce Investment Act ("WIA") (CFDA 17.258, 17.259, 17.260)

Reportable Condition: See Condition 07-3

Recommendation

The Workforce Investment Act management program 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 program to comply with the required reporting deadlines.

Action Taken

Consortium Management has been an effort to reinforce the fiscal controls assigning additional personnel in the accounting area in order to ensure compliance with the reporting requirements. According to monitoring realized by the CDORH on November 2007, reporting conditions were corrected during 2007-2008 fiscal period. CDORH reviewed the reports submitted up to September 30, 2007 and found that they were submitted on time.

Finding 07-4: Workforce Investment Act ("WIA") (CFDA 17.258, 17.259, 17.260)

Reportable Condition: See Condition 07-4

Recommendation

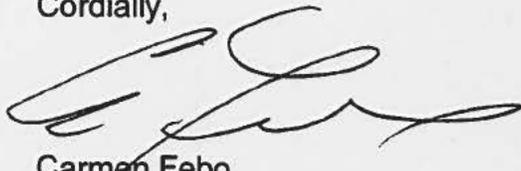
We recommended that the Consortium develop procedures for allocating funds to out-school activities to ensure compliance with federal requirement

Action Taken

The WIA Management took the corrective actions during fiscal year 2007-2008. According to monitoring realized by the CDORH on November 2007, earmarking conditions were corrected during such period. The monitoring report concludes that Local Area charged the expenditures according to the classification of the youth served.

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

Cordially,



Carmen Febo
Finance Director