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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
with Independent Auditor's Report Thereon
June 30, 2008**

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
FOR THE YEAR ENDED JUNE 30, 2008**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet	12-13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances.....	15
Reconciliation of Statement of Revenues, Expenditures and Changes Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Other Financing Sources – Budget and Actual - General Fund and Debt Service Funds.....	17
Notes to Financial Statements.....	18-49
 PART II – SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	51
Notes to Schedule of Expenditures of Federal Awards	52
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.....	53-54
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	55-57
Schedule of Findings and Questioned Costs	58-72
Schedule of Status of Prior Year Audit Findings and Questioned Costs	73-75
 PART III – CORRECTIVE ACTION PLAN	
Corrective Action Plan	

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

30 de marzo de 2009

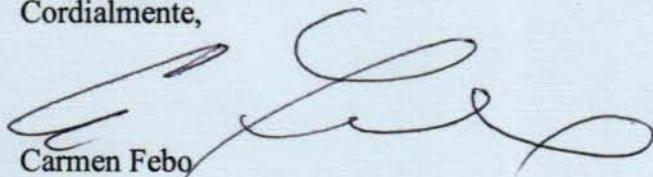
Hon. Omar Negrón Judice
Comisionado
Oficina Comisionado Asuntos Municipales
P O Box 70167
San Juan, PR 00936-6167

Estimado señor Negrón:

Conforme a los requerimientos establecidos, le incluyo el "Single Audit Report" al 30 de junio de 2008, perteneciente al Municipio de Guaynabo.

Para su conocimiento y acción correspondiente.

Cordialmente,



Carmen Febo
Directora

CF/ibp

Anejos

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYNABO

PART I

FINANCIAL SECTION

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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ORTIZ, RIVERA, RIVERA & CO.

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American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

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, 2008, 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, 2008, 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 11, 2008 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 11, 2008

The stamp 2386909 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, 2008. 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 \$1,230,950,928 and \$808,095,135 respectively, in the accompanying statement of net assets. For the fiscal year ended June 30, 2008 the most significant assets are capital assets, net from accumulated depreciation, amounting to \$1,018,774,392 (83% percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$422,855,793 in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to \$336,643,828 (80% percent of total liabilities). Such amount includes capital leases amounting \$39,035,815 and the landfill obligation for closing costs and postclosing care cost amounting \$19,200,000. 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, 2008 increased in 6% percent in comparing with total liabilities for the previous year. Such increase is due, in part, for the increase in loans obtained for invest in projects. 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, 2008 such amount ascending to \$6,541,153.
- The Municipality has reported total revenues amounting to \$193,595,996 in the accompanying statement of activities, of which property taxes, municipal licenses and sales and uses taxes were the most significant revenues amounting to \$70,266,630 (36% percent of total revenues), \$48,875,059 (25% percent of total revenues) and \$16,852,037 (9% percent of total revenues), respectively. Total revenues for the fiscal year ended June 30, 2008 decreased in 2% percent in comparing with total revenues of the previous year.

- The Municipality has reported a net change in net assets amounting to \$19,746,186 in the accompanying statement of activities. Notwithstanding, the Municipality has reported an excess of revenues and other sources over expenditures and other uses, in the accompanying statement of revenues, expenditures, and changes in fund balances-governmental funds, amounting to \$20,269,256.
- The Municipality reprogramed funds for the fiscal year ended June 30, 2008 amounting to \$7,153,880. The Municipality has reported an excess of revenues over expenditures ascending to \$6,483,748 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 \$144,021,630 of which \$79,021,376 (55% percent) represent the fund balance of the Capital Project Fund.
- The Municipality has reported unreserved fund balance for the general fund amounting to \$23,997,821.
- During the fiscal year 2007-2008, the Municipality of Guaynabo obtained loans from Governmental Development Bank amounting to \$37,610,000 which were obtained to invest in capital 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, 2008 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, 2008. 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 government-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, 2008). 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 \$808,095,135 at June 30, 2008.

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:

Municipality of Guaynabo Condensed Statement of Net Assets June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Current assets	\$ 212,176,536	\$ 196,488,146
Capital assets	1,018,774,392	991,359,574
Total assets	<u>1,230,950,928</u>	<u>1,187,847,720</u>
Current liabilities	101,205,248	103,735,373
Noncurrent liabilities	321,650,545	295,763,398
Total liabilities	<u>422,855,793</u>	<u>399,498,771</u>
Invested in capital assets, net of related debt	777,551,392	778,314,574
Restricted	87,622,373	72,152,470
Unrestricted	(57,078,630)	(62,118,095)
Total net assets	<u>\$ 808,095,135</u>	<u>\$ 788,348,949</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.

Municipality of Guaynabo
Condensed Statement of Activities
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Program revenues		
Charges for services	\$ 26,780,341	\$ 20,468,976
Operating grants and contributions	15,307,430	13,777,968
Capital grants and contributions	1,838,177	2,098,426
General revenues:		
Property taxes	70,266,630	71,253,993
Municipal license tax	48,875,059	45,619,183
Grants and contributions not restricted to specific programs	18,042,675	17,975,556
Interest, fines and penalties	5,976,692	7,349,204
Miscellaneous	6,508,992	18,314,700
(Loss) Gain on disposition/sale of assets	(27,007)	5,731,507
Total revenues	<u>193,568,989</u>	<u>202,589,513</u>
Expenses		
General government	81,450,230	78,161,034
Public safety	10,597,631	11,840,677
Public housing and welfare	4,775,895	3,657,335
Culture and education	15,149,587	13,018,463
Health and sanitation	21,860,669	31,292,448
Depreciation	12,456,955	12,012,111
Economic development	12,891,812	26,735,905
Interest on long-term debt	14,640,024	14,553,828
Total expenses	<u>173,822,803</u>	<u>191,271,801</u>
Change in net assets	19,746,186	11,317,712
Net assets, beginning of year	<u>788,348,949</u>	<u>777,031,237</u>
Net assets, end of year	<u>\$ 808,095,135</u>	<u>\$ 788,348,949</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:

Municipality of Guaynabo Condensed Balance Sheet-Governmental Funds June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Total Assets-Major Funds	\$ 120,687,048	\$ 122,941,518
Total Assets-Nonmajor Funds	93,709,970	79,781,923
Total assets	<u>214,397,018</u>	<u>202,723,441</u>
Total Liabilities-Major Funds	61,746,201	64,844,775
Total Liabilities-Nonmajor Funds	8,629,187	14,126,292
Total liabilities	<u>70,375,388</u>	<u>78,971,067</u>
Fund Balances-Major Funds	58,940,847	58,096,743
Fund Balances-Nonmajor Funds	85,080,783	65,655,631
Total net assets	<u>\$ 144,021,630</u>	<u>\$ 123,752,374</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, 2008**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 92,145,422
Cash with fiscal agent (Notes 2 and 5)	99,883,293
Accounts receivable:	
Property taxes	408,207
Municipal license taxes (Note 7)	3,633,173
Interests	57,897
Rent	412,474
Sales tax	1,033,662
Deferred charges	996,566
Due from other agencies (Note 9)	13,605,842
Capital assets, net (Note 11)	1,018,774,392
Total assets	\$ 1,230,950,928
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 9,197,996
Due to other agencies (Note 12)	7,514,764
General obligations:	
Bonds	7,065,000
Interest	3,973,713
Deferred revenues (Note 13):	
Municipal license tax	37,268,823
Federal government	589,973
Accrued interest	14,060,543
Claims and judgements	6,541,153
Noncurrent liabilities (Note 15):	
Due within one year	14,993,283
Due in more than one year	321,650,545
Total liabilities	422,855,793
Net Assets	
Investment in capital assets, net of related debt	777,551,392
Restricted for:	
Debt service	8,600,997
Capital projects	79,021,376
Unrestricted	(57,078,630)
Total net assets	808,095,135
Total liabilities and net assets	\$ 1,230,950,928

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, 2008**

<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	\$ 81,450,230	\$ 9,928,304	\$ -	\$ -	\$ (71,521,926)
Public safety	10,597,631		191,830		(10,405,801)
Public housing and welfare	4,775,895		3,536,912		(1,238,983)
Culture and education	15,149,587		11,578,688		(3,570,899)
Health and sanitation	21,860,669				(21,860,669)
Depreciation	12,456,955				(12,456,955)
Economic development	12,891,812			1,838,177	(11,053,635)
Interest on long-term debt	14,640,024				(14,640,024)
Total	\$ 173,822,803	\$ 9,928,304	\$ 15,307,430	\$ 1,838,177	(146,748,892)
General revenues:					
Property taxes					70,266,630
Sales and use taxes					16,852,037
Municipal license tax					48,875,059
Grants and contributions not restricted to specific programs					18,042,675
Interest, fines and penalties					5,976,692
Miscellaneous					6,508,992
Total general revenues					<u>166,522,085</u>
Loss on disposition of assets					(27,007)
Change in net assets					19,746,186
Net assets at beginning of year					<u>788,348,949</u>
Net assets at end of year					<u>\$ 808,095,135</u>

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, 2008**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 82,280,119	\$ -	\$ 9,865,303	\$ 92,145,422
Cash with fiscal agent (Notes 2 and 5)	834,264	19,231,503	79,817,526	99,883,293
Accounts receivable:				
Property taxes		408,207		408,207
Municipal license taxes (Note 7)	52,571			52,571
Interest	57,897			57,897
Sales tax	1,033,662			1,033,662
Due from other agencies (Note 9)	9,598,724		4,007,118	13,605,842
Due from other funds (Note 10)	7,190,101		20,023	7,210,124
Total assets	\$ 101,047,338	\$ 19,639,710	\$ 93,709,970	\$ 214,397,018

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, 2008**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities				
Account payable and accrued liabilities	\$ 5,962,173	\$ -	\$ 790,818	\$ 6,752,991
Due to other funds (Note 10)			7,210,124	7,210,124
Due to other agencies (Note 12)	7,476,492		38,272	7,514,764
General obligations:				
Bonds		7,065,000		7,065,000
Interest		3,973,713		3,973,713
Deferred revenues: (Note 13)				
Municipal license tax	37,268,823			37,268,823
Federal government			589,973	589,973
Total liabilities	<u>50,707,488</u>	<u>11,038,713</u>	<u>8,629,187</u>	<u>70,375,388</u>
Fund Balance				
Reserved for:				
Encumbrances	26,342,029			26,342,029
Debt service		8,600,997		8,600,997
Capital projects			79,021,376	79,021,376
Unreserved fund balance	23,997,821		6,059,407	30,057,228
Total fund balance	<u>50,339,850</u>	<u>8,600,997</u>	<u>85,080,783</u>	<u>144,021,630</u>
Total liabilities and fund balance	<u>\$ 101,047,338</u>	<u>\$ 19,639,710</u>	<u>\$ 93,709,970</u>	<u>\$ 214,397,018</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, 2008**

Total fund balances - governmental funds	\$ 144,021,630
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	1,018,774,392
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(359,690,529)
• 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>4,989,642</u>
Net assets of governmental activities	<u>\$ 808,095,135</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, 2008**

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes (Note 6)	\$ 45,884,528	\$ 24,382,102	\$ -	\$ 70,266,630
Municipal license taxes (Note 7)	48,228,689			48,228,689
Sales and use taxes (Note 8)	15,044,952	1,807,085		16,852,037
Licenses and permits	6,058,579			6,058,579
Charges for service and rents	3,450,768		221,005	3,671,773
Intergovernmental revenues (Note 14):				
Federal grants and contributions			17,145,607	17,145,607
State contributions	11,893,593		6,149,082	18,042,675
Interest, fines, and penalties	2,148,381	399,599	3,428,712	5,976,692
Other revenues	6,506,492		2,500	6,508,992
Total revenues	<u>139,215,982</u>	<u>26,588,786</u>	<u>26,946,906</u>	<u>192,751,674</u>
EXPENDITURES				
Current:				
General government	80,523,456		11,101	80,534,557
Public safety	10,421,904		175,727	10,597,631
Public housing and welfare	1,190,711		3,585,184	4,775,895
Economic development	12,891,812			12,891,812
Health and sanitation	21,860,669			21,860,669
Culture and education	3,624,237		11,525,350	15,149,587
Capital outlays	11,134,375		28,764,405	39,898,780
Debt service:				
Principal retirement		10,658,973		10,658,973
Interest and other		13,724,514		13,724,514
Total expenditures	<u>141,647,164</u>	<u>24,383,487</u>	<u>44,061,767</u>	<u>210,092,418</u>
Excess (deficiency) of revenues over expenditures	<u>(2,431,182)</u>	<u>2,205,299</u>	<u>(17,114,861)</u>	<u>(17,340,744)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds			37,610,000	37,610,000
Transfers in	11,781,315	9,257,419	2,346,056	23,384,790
Transfers out	(8,445,957)	(8,027,131)	(6,911,702)	(23,384,790)
Total other financing sources (uses)	<u>3,335,358</u>	<u>1,230,288</u>	<u>33,044,354</u>	<u>37,610,000</u>
Excess of revenues and other sources over expenditures and other uses	<u>904,176</u>	<u>3,435,587</u>	<u>15,929,493</u>	<u>20,269,256</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>49,435,674</u>	<u>5,165,410</u>	<u>69,151,290</u>	<u>123,752,374</u>
FUND BALANCE AT END OF YEAR	<u>\$ 50,339,850</u>	<u>\$ 8,600,997</u>	<u>\$ 85,080,783</u>	<u>\$ 144,021,630</u>

CABO
5/11/09

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, 2008**

Net change in fund balances - total governmental funds	\$ 20,269,256
Amounts reported for governmental activities in the statement of activities are different because:	
• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	39,898,780
• 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.	(12,456,955)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(37,610,000)
• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.	844,322
• 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.	10,658,973
• In the statements of activities, only the loss on disposition 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.	(27,007)
• Change in accrued interest expense which does not require the use of current financial resources.	(915,510)
• 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.	<u>(915,673)</u>
Changes in net assets of governmental activities	<u>\$ 19,746,186</u>

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, 2008**

	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	\$ 45,010,163	\$ 45,010,163	\$ 44,775,016	\$ (235,147)	\$ 23,858,825	\$ 23,858,825	\$ 24,382,102	\$ 523,277
Municipal license taxes	46,203,000	47,028,077	48,217,829	1,189,752				
Sales and use taxes	10,029,900	10,029,900	13,936,254	3,906,354			1,807,085	1,807,085
Licenses and permits	7,030,208	7,030,208	6,058,579	(971,629)				
Charges for services and rent	3,318,735	3,318,735	2,975,767	(342,968)				
Intergovernmental revenues:								
State contributions	10,846,594	10,846,594	9,581,086	(1,265,508)				
Interest, fines and penalties	5,800,000	5,800,000	6,684,239	884,239			399,599	399,599
Other revenues	12,000	23,444,988	32,854,923	9,409,935				
Total revenues	128,250,600	152,508,665	165,083,693	12,575,028	23,858,825	23,858,825	26,588,786	2,729,961
EXPENDITURES								
Current:								
General government	70,865,099	85,407,691	84,810,355	597,336				
Public safety	10,910,667	10,802,917	10,761,775	41,142				
Public housing and welfare	1,352,991	1,233,137	1,225,723	7,414				
Economic development	14,483,701	3,946,697	3,716,201	230,496				
Health and sanitation	27,225,686	24,135,340	24,049,308	86,032				
Culture and education	3,412,456	34,136,763	34,036,583	100,180				
Debt service:								
Principal					6,745,000	6,745,000	10,658,973	3,913,973
Interest					7,739,142	7,739,142	13,724,514	5,985,372
Reserve					9,374,683	9,374,683		(9,374,683)
Total expenditures	128,250,600	159,662,545	158,599,945	1,062,600	23,858,825	23,858,825	24,383,487	524,662
OTHER FINANCING SOURCES								
Reprogramming funds		7,153,880	7,153,880	-				
Excess of revenues over expenditures	\$ -	\$ -	\$ 13,637,628	\$ 13,637,628	\$ -	\$ -	\$ 2,205,299	\$ 2,205,299

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, 2008**

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, 2008

- **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, as amended by Statement No. 39, "Determining whether Certain Organizations are Component Units" - an amendment of GASB 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 appoint 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.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

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

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

e. Landfill Closure and Postclosure Care Costs

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

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, 2008). 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

h. Reservation of Fund Balance

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

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Project Fund

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

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, 2008 amounted to approximately \$1.2 million. The

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.4 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.

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>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
52	Land and Other Real Estate Held as Investments by Endocuments	2008-09
53	Accounting and Financial Reporting for Derivative Instruments	2009-10

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

I. Use of Estimates

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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.

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, 2008 is presented below for the general fund and debt service funds:

	General Fund	Debt Service Fund
Excess of revenues over expenditures - budgetary basis	\$ 13,637,628	\$ 2,205,299
Entity differences:		
Non-budgeted expenditures	(14,797,365)	
Non-budgeted transfers in	11,781,315	9,257,419
Non-budgeted transfers-out	(8,445,957)	(8,027,131)
Non-budgeted revenues	1,786,519	
Reprogramming funds	(7,153,880)	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(22,246,113)	
Current year encumbrances recorded as expenditures for budgetary basis	26,342,029	
Excess of revenues over expenditures - GAAP basis	\$ 904,176	\$ 3,435,587

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$359 million difference are as follows:

Bonds payable	\$246,313,000
Capital leases	39,035,815
Note payable	19,251,354
Landfill obligation	19,200,000
Compensated absences	12,843,659
Accrued interest payable	14,060,543
Claims and judgements	6,541,153
Christmas bonus	<u>2,445,005</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$359,690,529</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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The deposits at GDB of approximately \$79.8 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.

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 9.58% for real property and 7.58% 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	2.75%	2.75%
Discounts made by state to taxpayer	< .20% >	< .20% >
	<u>9.58%</u>	<u>7.58%</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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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 \$6,359,529. 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 2007-08, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Based on the preliminary settlement already received, during the year ended June 30, 2008, the amount collected from taxpayers and charges by CRIM of approximately \$49.8 million, less than the advances received by the Municipality for the same period by \$1,109,512. 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, 2008. 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, 2008, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$3,633,173 and \$37,268,823, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2008 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$52,571 and \$37,268,823, respectively, in the accompanying fund financial statements.

8. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,
- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Department of Education	\$ 475,000
Puerto Rico Electric Power Authority (Contribution in lieu of taxes)	8,014,212
Municipal Revenue Collection Center	1,109,512
Council of Occupational Development and Human Resources	3,851,593
Other governmental funds	<u>155,525</u>
 Total	 <u>\$13,605,842</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2008, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$7,190,101
Other governmental funds	Other governmental funds	<u>20,023</u>
		<u>\$7,210,124</u>

The balance of approximately \$7.1 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, 2008 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 8,027,131
General	Other Governmental Funds	4,138,237
Debt Service	General	8,061,904
Debt Service	Other Governmental Funds	1,195,515
Other Governmental Funds	Other Governmental Funds	<u>1,962,003</u>
		<u>\$23,384,790</u>

The transfer from the debt service fund to the general fund of \$8,027,131 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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, 2008 was as follows:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 619,031,255	\$ 10,319,803	\$ 38,000	\$ 629,313,058
Construction in progress	60,764,740	19,711,235	7,999,189	72,476,786
Total capital assets, not being depreciated	<u>679,795,995</u>	<u>30,031,038</u>	<u>8,037,189</u>	<u>701,789,844</u>
Capital assets, being depreciated:				
Buildings and building improvements	241,635,366	8,759,628		250,394,994
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	40,633,409	6,677,726	471,989	46,839,146
Infrastructure	125,176,810	2,467,577		127,644,387
Total capital assets, being depreciated	<u>407,445,585</u>	<u>17,904,931</u>	<u>471,989</u>	<u>424,878,527</u>
Less accumulated depreciation for:				
Buildings and building improvements	52,176,327	6,245,950		58,422,277
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	27,962,415	3,688,913	444,982	31,206,346
Infrastructure	15,743,264	2,522,092		18,265,356
Total accumulated depreciation	<u>95,882,006</u>	<u>12,456,955</u>	<u>444,982</u>	<u>107,893,979</u>
Total capital assets, being depreciated, net	<u>311,563,579</u>	<u>5,447,976</u>	<u>27,007</u>	<u>316,984,548</u>
Governmental activities capital assets, net	<u>\$ 991,359,574</u>	<u>\$ 35,479,014</u>	<u>\$ 8,064,196</u>	<u>\$ 1,018,774,392</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2008 are as follows:

Puerto Rico Electric Power Authority	\$6,790,269
Employee's Retirement System Administration	585,462
Puerto Rico Regulation and Permits Administration	16,940
General Services Administration	17,067
Puerto Rico Water and Sewer Authority	40,545
Labor Department	26,209
Council of Occupational Development and Human Resources	<u>38,272</u>
Total	<u>\$7,514,764</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$37,268,823 in the general fund related to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09 (Refer Note 7).

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	\$ 17,095
Special Program for Aging Title III	221,445
Special Fund - Fideicomiso	295,771
UDAG Program	21,817
HOME Program	3,844
Federal Transportation	<u>30,001</u>
	<u>\$589,973</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 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, 2008, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2008 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%.	\$ 8,615,000
\$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%	4,820,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

\$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%	\$ 6,635,000
\$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%	630,000
\$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%	19,430,000
\$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%	16,070,000
\$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%	12,950,000
\$10,455,000 series of 2001, payable in annual installments from \$145,000 to \$910,000 until July 1, 2025, interests from 5.00% to 8.00%	8,935,000
\$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%	2,385,000
\$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%	4,025,000
\$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%.	2,565,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

\$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%.	\$ 2,390,000
\$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%.	685,000
\$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%.	440,000
\$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%.	3,520,000
\$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%.	54,912,000
\$960,000 series of 2004, payable in annual installments from \$67,500 to \$100,000 until July 1, 2016, interests from 2.25% to 5.25%.	685,000
\$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%.	2,285,000
\$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%.	9,410,000
\$7,030,000 series of 2005, payable in annual installments of \$145,000 to \$480,000 until July 1, 2029, interests of 5.0%.	6,400,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	4,770,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

\$12,546,000 series of 2005, payable in annual installments of \$300,000 to \$886,000 until July 1, 2029, interests of 5%.	\$11,931,000
\$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%.	5,930,000
\$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%.	3,950,000
\$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%.	505,000
\$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%.	1,550,000
\$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%.	1,305,000
\$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%.	4,155,000
\$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%.	1,090,000
\$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%.	130,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

\$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%.	\$ 5,730,000
\$33,375,000 series of 2008, payable in annual installments of \$595,000 to \$845,000 until July 1, 2015, interests of 3.93% to 7.50%.	33,375,000
\$2,515,000 series of 2008, payable in annual installments of \$35,000 to \$215,000 until July 1, 2032, interests of 3.93% to 7.50%.	2,480,000
\$1,310,000 series of 2008, payable in annual installments of \$50,000 to \$140,000 until July 1, 2022, interests of 3.93% to 7.50%.	1,260,000
\$410,000 series of 2008, payable in annual installments of \$45,000 to \$75,000 until July 1, 2014, interests of 3.93% to 7.50%.	<u>365,000</u>
Total bonds payable	<u>\$ 246,313,000</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.	\$ 4,100,000
\$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%.	2,332,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<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>	<p>\$ 6,359,529</p>
<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>	<p>2,000,000</p>
<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>	<p>3,033,345</p>
<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>	<p><u>1,426,480</u></p>
<p>Total notes payable</p>	<p><u>19,251,354</u></p>
<p>Total bonds, notes, and other long-term debt</p>	<p><u><u>\$265,564,354</u></u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2008, are as follows:

	<u>Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 10,652,000	\$ 13,099,202	\$ 1,582,019	\$ 961,341
2010	11,397,000	14,120,531	1,612,424	891,357
2011	11,787,000	13,201,303	1,644,682	817,411
2012	12,622,000	12,228,807	1,450,166	739,760
2013	13,322,000	11,177,935	2,237,119	679,226
2014-2018	57,380,000	39,216,597	3,543,209	3,676,276
2019-2024	88,655,000	22,210,681	2,550,142	1,855,156
2025-2029	37,567,000	7,185,804	2,335,599	1,132,172
2030-2034	2,931,000	319,884	2,295,994	336,723
	<u>\$246,313,000</u>	<u>\$ 132,760,744</u>	<u>\$ 19,251,354</u>	<u>\$ 11,089,422</u>

As described in Note 6, the Municipality levies an annual special tax of 2.75% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 218,135,000	\$ 37,610,000	\$ (9,432,000)	\$ 246,313,000	\$ 10,652,000
Notes payable	20,478,327		(1,226,973)	19,251,354	1,582,019
Total long-term debt	<u>238,613,327</u>	<u>37,610,000</u>	<u>(10,658,973)</u>	<u>265,564,354</u>	<u>12,234,019</u>
Capital leases	40,576,195		(1,540,380)	39,035,815	1,609,264
Landfill obligation	18,984,999	215,001		19,200,000	
Compensated absences	10,884,620	1,959,039		12,843,659	1,150,000
Total other liabilities	<u>70,445,814</u>	<u>2,174,040</u>	<u>(1,540,380)</u>	<u>71,079,474</u>	<u>2,759,264</u>
Total noncurrent liabilities	<u>\$ 309,059,141</u>	<u>\$ 39,784,040</u>	<u>\$ (12,199,353)</u>	<u>\$ 336,643,828</u>	<u>\$ 14,993,283</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(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, 2008**

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, 2008 was \$2,748,715. The Municipality's payroll for employees covered by ERS was \$27,285,197. The Municipality total payroll for all employees was \$48,388,483.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2008, 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2008 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2009	\$ 3,379,195
2010	3,453,657
2011	3,473,057
2012	3,465,722
2013	3,547,856
2014-2018	18,803,894
2019-2023	16,871,726
2024-2027	<u>1,595,014</u>
Total minimum lease payments schedule under agreements	54,590,121
Less:	
Interests to be paid through expiration dates of lease agreements	<u>15,554,306</u>
Present value of minimum lease payments	39,035,815
Less: Current portion of obligation under capital leases	<u>1,609,264</u>
Long-term portion of obligation under capital leases	<u>\$ 37,426,551</u>

The activity of obligation under capital leases for the year ended June 30, 2008 was as follows:

	<u>Balance at June 30, 2007</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2008</u>
Principal	<u>\$40,576,195</u>	<u>\$ -</u>	<u>(\$1,540,380)</u>	<u>\$39,035,815</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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

- 2) Total income from leases during the year ended June 30, 2008 was \$835,864.
- 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 it 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 \$7,200,000 and \$12,000,000, respectively, as of June 30, 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Of these estimated costs, the Municipality has recorded a liability amounting to \$19,200,000, which is the amount required by GAAP for accrual as of June 30, 2008. The liability was recorded in the accompanying government-wide financial statements.

21. COMMITMENTS

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2008. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$79.0 million.

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

-50-

ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<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	\$ 2,468,327
Emergency Shelter Grant Program	14.231		37,121
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	620,486
Community Development Block Grant, Section 108, Loan Guarantee	14.248		403,990
Urban Development Action Grant	14.221		200
HOME Investment Partnership Program	14.239		88,361
Pass-through Municipality of San Juan: Housing Opportunity for Persons with AIDS	14.241		59,654
Pass-through Puerto Rico Department of Housing: Public and Indian Housing	14.850		<u>399,337</u>
Subtotal U.S. Department of HUD			<u>4,077,476</u>
U.S. Department of Health and Human Services (HHS)			
Head Start	93.600	02-CH-0483	6,467,826
Pass-through the Puerto Rico Elderly Commission: Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	180,933
Nutrition Services Incentive Program	93.053		<u>281,514</u>
Subtotal U.S. Department of HHS			<u>6,930,273</u>
U.S. Department of Agriculture			
Pass-through Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	N/A	<u>579,054</u>
Subtotal U.S. Department of Agriculture			<u>579,054</u>
U.S. Department of Labor			
Pass-through State Office of the Governor's Office of Economic Opportunity: Workforce Investment Act			
Adult	17.258		1,577,913
Youth Activities	17.259		1,151,283
Dislocated Workers	17.260		750,183
Disability Navigators Program	17.266		<u>11,362</u>
Subtotal U.S. Department of Labor			<u>3,490,741</u>
U.S. Department of Justice			
Pass-through Department of Justice: Public Safety Partnership and Community Policing Grants	16.710		<u>23,058</u>
Subtotal U.S. Department of Justice			<u>23,058</u>
U.S. Department of Homeland Security			
Hazard Mitigation Grant Program	97.039		<u>152,670</u>
Subtotal U.S. Department of Homeland Security			<u>152,670</u>
TOTAL			<u>\$ 15,253,272</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

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	<u>\$15,253,272</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	<u>\$15,253,272</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, 2008, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 11, 2008. 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 11, 2008.

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 11, 2008

The stamp 2386910 was affixed
to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

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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

Compliance

We have audited the compliance of Municipality of Guaynabo with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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.

In our opinion, the Municipality of Guaynabo, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as item 08-1 thru 08-4.

Internal Control over Compliance

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

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.

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 entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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 11, 2008

Ortiz, Rivera, Rivera & Co.

The stamp 23865 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, 2008**

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, 2008, and have issued our report thereon dated December 11, 2008. 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:

- There were no 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 an unqualified opinion.
- The audit disclosed findings required to be reported by OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

- 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 8 – Housing Choice Vouchers	14.871
U.S. Department of Housing and Urban Development	Community Development Block Grant	14.218
U.S. Department of Housing and Urban Development	Public and Indian Housing	14.850

- A threshold of \$457,598 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 75, 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 27, 2009 and are included in Part III. These responses and corrective action plans were delivered to us after completion of our field work and, accordingly, our procedures with respect to such corrective action

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

- **“OMB Circular A-102”** - Circular Letter A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled “Grants and Cooperative Agreements with State and Local Governments,” dated March 3, 1988. This Circular Letter establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, Local, and federally recognized Indian tribal governments.
- **“CFR”** - This is the “Code of Federal Regulations” issued by the Federal Government. The CFR is a codification of the general and permanent rules published by the Federal Government. The Code is divided into 50 titles that represent broad areas subject to Federal regulation. Each title is divided into chapters that usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
- **“Common Rule”** - The Common Rule refers to the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” which establishes uniform administrative rules for Federal grants and cooperative agreements and 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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Significant Deficiency

The findings listed on pages 60 through 75 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 112, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. These standards requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weakness identified in an audit.

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.

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.

<u>Reportable Condition/Noncompliance</u>	<u>Questioned Costs</u>	<u>Questioned Costs</u>	<u>CFDA No.</u>
<u>Workforce Investment Act</u>			
SA 08-1 Noncompliance with earmarking	N/A	N/A	17.258,17.259 17.260
SA 08-2 Inadequate cash management procedures	N/A	N/A	17.258, 17.259 17.260
<u>Public and Indian Housing</u>			
SA 08-3 Inadequate documentation participant files	N/A	N/A	14.850
<u>Community Development Block Grant</u>			
SA 08-4 Noncompliance with program income	N/A	N/A	14.218

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

Program Description

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

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

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

Finding Number SA 08-1: Earmarking

Condition

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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 have 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 costs since they are using 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

Finding Number SA 08-02: Cash Management

Condition

The Consortium is not in compliance with the procedures established by the CDORH to minimize the time elapsing between the transfer of funds from the pass-through entity and their disbursement. In addition, bank balance exceeded the 10% limitation over the deposits made by the CDORH during the month of July 2007 and May 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Criteria

As a pass-through entity, the CDORH established on the Financial Guide that the recipient must be in compliance with the federal regulation relating to the procedures to minimize the time elapsing between the transfer of fund from the U.S. Treasury and disbursement by the recipients. In order to assure that recipients conform to the standard, the CDORH request a monthly Cash Flow Analysis, which presents deposits made by them and disbursements during the month. Based on this information, the CDORH determine if the recipient maintains cash balance under 10% of the deposits made during the month.

Cause

The Consortium does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

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

Recommendation

The Consortium should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period. Also, they should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by WIA regulations. Federal funds should only

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

B. Public and Indian Housing - (CFDA 14.850)

Program Description

The Public and Indian Housing Program objectives is to provide and operate cost effective, decent, safe and affordable dwellings for lower income families through and authorized local Public Housing Agency (PHA).

Annual contributions are made to PHAs for debt service payments for commitments approved on or prior September 30, 1986, or direct funding of capital costs (grants) is provided to PHAs for commitments approved after September 30, 1986, In addition, operating subsidy funds are available to achieve and maintain adequate operating and maintenance services and reserve funds.

There are three core occupancy procedures which are described in program regulations and other guidance: (1) determination of eligibility; (2) determination of income and rent; and (3) leasing and continuing occupancy. Eligibility beneficiaries are lower income families, which include citizens or eligible immigrants. "Families" includes but are not limited to: (1) a family with or without a children" (2) an elderly family (head, spouse, or sole member 62 or older); (3) near- elderly family (head, spouse, or sole member 50 years old but less than 62 years old); (4) a disable family; (5) a displaced family, (6) the remaining member of a tenant family; or (7) a single person who is not elderly, near-elderly, displaced, or a person with disabilities.

On May 30, 2003 the Puerto Rico Public Housing Administration (PRPHA) entered in an Intergovernmental Management Agreement and designates the Municipality to act as independent contractor for the PRPHA to manage, administer and operate the low income housing project known as "Los Alamos".

The Municipality is responsible for complying with all of the PRPHA's obligations with respect to the project.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Finding Number SA 08-3: Eligibility

Condition

The Municipality's internal control over compliance with the documentation of participant files is not working effectively. During our audit of the participant files we noted that the Municipality is not maintaining all the required documents and information in each file to support participant's eligibility as required by the program regulations. During our tests of eligibility requirements we tested forty (40) participant files and noted the following exceptions:

Exceptions:

Unit Number	1	2	3	4	5
45	x				
65					x
157					x
175					x
186					x
200		x			x
209					x
271					x
282					x
311				x	
352			x	x	

1. The program did not send the Notification for Reexamination to the participant on a timely basis.
2. File did not include the Notification for reexamination.
3. File did not include the lease contract.
4. Files were not duly actualized. The form 50058 was not available for examination, nor the require documentation for the annual reexamination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

5. Files did not include the participants family composition photo and the Good Behavior Certificate for participants with eighteen years or older.

Criteria

Code of Federal Regulations, 24 CFR, Sections 5.212, 5.230, and 5.601 through 5.615 states as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.

The 24 CFR, Section 960.59 states that for both family income examinations and reexaminations, the Municipality should obtain and document in the family file third party- verification of: (1) Reported family annual income; (2) the value of assets, (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income- based rent.

Cause

The Municipality has not performed effective review of the participant files for completeness of documents, signatures and information, as well for their accuracy.

Effect

The program is not in compliance with federal regulations related to requirements specifically related to annual reexaminations and the documentation requirements information to verify eligibility.

Recommendation

The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed and reviewed for changes during the annual review. Once completed, the participant file should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Questioned Costs

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

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

Program Description

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Community Development Block Grant (CDBG) (CFDA 14.218)

Finding Number SA 08-4: Program Income

Condition

The Municipality does not have internal controls in place relating to compliance with the requirement to monitor the activities of income producing activities that are funded with program grants. During our audit over the funds granted for the operations to other entities, we noted that the Municipality has not established controls to ensure that program income receipts and expenditures are reported to the federal agency in accordance with program rules and regulations.

Criteria

As per 24 CFR Part 570.504 and 24 CFR Part 85, Sections 85.20 (b) (1) (2) and 85.21 (f) establish that the grantee must implement the necessary controls for identifying income producing activities, recording and using program income in accordance with applicable grant agreements and regulations.

Cause

This situation occurred because the program has not established procedures to obtain the needed financial information to prepare the program income reports.

Effect

The Municipality is not in compliance with the Program Income requirement of the 24 CFR Part .504 and 24 CFR Part 85, Sections 85.20 (b) (1) (2) and 85.21 (f).

Recommendation

We recommended the Municipality to report the income producing activities and immediately perform monitoring procedures for all years for which funding has been provided to finance activities with CDBG funds and after the require evaluation conclude as to whether the funds were used in accordance with applicable grant provisions and regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDING AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Program</u>	<u>Finding / Noncompliance</u>	<u>Status</u>
Head Start CFDA No. 93.600	Condition SA-07-01 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 corrected
WIA CFDA No. 17.258, 17.259, and 17.260	Condition SA-07-02 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-07-03 The program failed in the timely submission of federal financial reports of the program.	Condition corrected
WIA CFDA.No.17.258, 17.259 and 17.260	Condition SA-07-04 The consortium's internal control failed in spending at least the thirty percent of the total youth fund for out school activities	Condition still prevails

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

CORRECTIVE ACTION PLAN

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2008

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, 2008

The findings from the June 30, 2008 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 08-1: WORKFORCE INVESTMENT ACT ("WIA") (CFDA 17.258,17.259 and 17.260)

Reportable Condition: See Condition 08-1

Recommendation

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

Action Taken

The Consortium adopts a cost allocation system in order to recognize the cost associated with the follow up services to these participants and reflects all costs related with the activities.

Finding 08-2: WORKFORCE INVESTMENT ACT ("WIA") (CFDA 17.258, 17.259, 17.260)

Reportable Condition: See Condition 08-2

Recommendation

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

Action Taken

The Municipality's Finance Director, in accordance with the Consortium's accountant, has established a written procedure to ensure that Consortium request funds to CDORH about the real expenses and accounts payable incurred in the month. This procedure substitute the procedure to request funds on a projected expenses basis. This measure will help Consortium to minimize the time elapsing between the transfers of funds from the pass-through entity and their disbursements.

Finding 08-3: PUBLIC AND INDIAN HOUSING (CFDA 14.850)

Reportable Condition: See Condition 08-3

Recommendation

The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed and reviewed for changes during the annual review. Once completed, the participant file should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Action Taken

The Occupation Technician of the Administration Office of the Project "Residencial Los Alamos" review all the files of participants and request all the documents in order to complete them, in compliance with the regulation requirements. Actually, the project was included in the Annual Plan as a project to demolish and the participants present their documents as a part of the procedure to documentation for the relocation. By the other hand, no waiting list is maintained in the Project Administration Office. Such list is maintained by the Public Housing Administration Agency.

Finding 08-4: COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA 14.218)

Reportable Condition: See Condition 8-4

Recommendation

We recommended the Municipality to report the income producing activities and immediately perform monitoring procedures for all years for which funding has been provided to finance activities with CDBG funds and after the require evaluation conclude as to whether the funds were used in accordance with applicable grant provisions and regulations.

Action Taken

At the time the Municipality's Finance Director instructed to accounting personnel to prepare the monthly reports showing the maintenance expenses of the Guaynabo Medical Mall building and the rent income generated by the lease agreements of such facilities. This report will be sent to the Federal and Planning Affairs Office of the Municipality of Guaynabo on a monthly basis, and such office will report to the federal agency in accordance with program rules and regulations.

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 and Gilberto Claudio, Housing Department Director at (787) 720-4040.

Cordially,

A handwritten signature in black ink, appearing to read 'Carmen Febo', written in a cursive style.

Carmen Febo
Finance Director