

OFICINA DEL COMISARIO
DE CUENTAS MUNICIPALES

10 MAR 31 AM 9:59

RECIBIDO
UNIDAD DE CUERPO

10-03-09

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
with Independent Auditor's Report Thereon
June 30, 2009**

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, 2009**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	15-16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances.....	18
Reconciliation of Statement of Revenues, Expenditures and Changes Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Other Financing Sources – Budget and Actual - General Fund and Debt Service Funds.....	20
Notes to Financial Statements.....	21-52
 PART II – SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	55
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.....	56-57
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	58-59
Schedule of Findings and Questioned Costs	61-86
Schedule of Status of Prior Year Audit Findings and Questioned Costs	87-88
 PART III – CORRECTIVE ACTION PLAN	
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



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
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

RECIBIDO
10 MAR 31 AM 9:59
UNIDAD DE CORREO
OFICINA DEL CONTADOR
GENERAL DE GUAYNABO

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, 2009, 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, 2009, 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 15, 2009 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 12 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 15, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2486670 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

Management's Discussion and Analysis

As management of the Municipality of Guaynabo, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2009. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

The economic crisis being experienced by Puerto Rico and the whole world impact the expectations of revenue of the municipality of Guaynabo. As a result, there were deficiencies in the collections by \$ 14,787,471 compared with the budget for 2008-2009. The most impacted sources of income were; Sales and Use taxes, Construction Excise Taxes and Rent Revenue by \$ 3,799,521, \$ 3,834,204 and \$ 2,661,411 respectively.

- The Municipality net assets increased by \$11,153,794.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,070,548,536 (86% percent of total municipality's assets).
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$334,586,292 (79% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$37,426,549.
- During the current year the Municipality initiates the Landfill closing process. This process will be realized in a three years period with a cost of \$7,200,000. As of June 30, 2009 the Municipality incurred in landfill closing costs which approximates \$2,000,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009**

- The Municipality issued bonds amounting to \$15,366,000 to finance the acquisition of land and building, public works, capital improvements and constructions of different projects.
- In the fund financial statements, the governmental funds revenue decreased by \$(6,016,075) while governmental funds expenditures increase \$40,422,588.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$(37,286,576).
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(17,370,414).

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009**

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

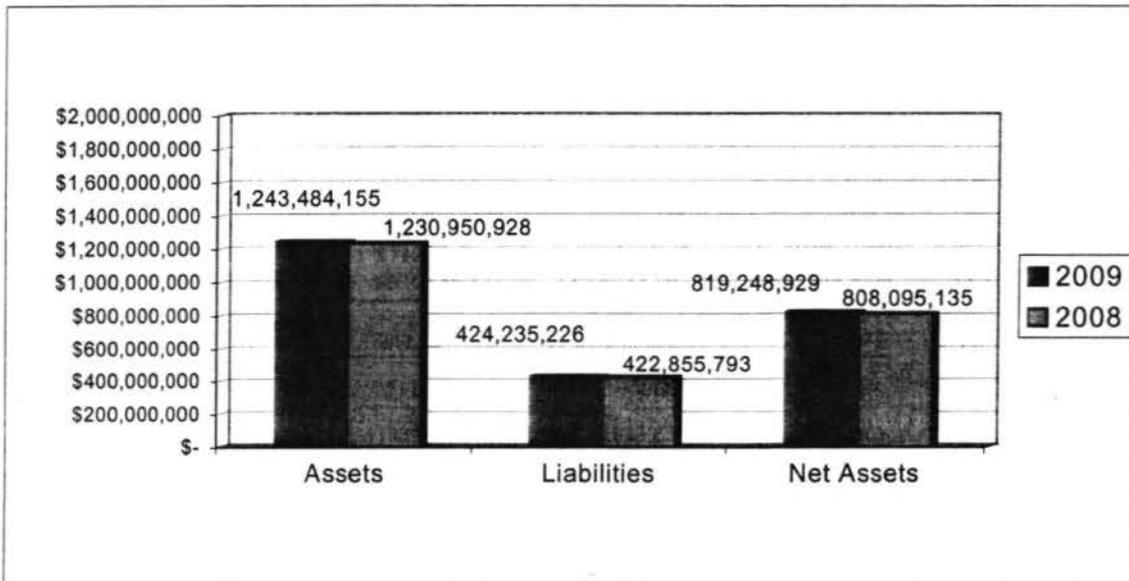
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$819,248,929 at the end of 2009, compared to \$808,095,135 at the end of the previous year.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets

	2009	2008	Change	%
Current assets	\$172,935,619	\$212,176,536	(\$39,240,917)	(18%)
Capital assets	1,070,548,536	1,018,774,392	51,774,144	5%
Total assets	1,243,484,155	1,230,950,928	12,533,227	1%
Current liabilities	89,648,934	86,211,965	3,436,969	4%
Noncurrent liabilities	334,586,292	336,643,828	(2,057,536)	(1%)
Total liabilities	424,235,226	422,855,793	1,379,433	-
Invested in capital assets, net of related debt	820,223,536	777,551,392	42,672,144	5%
Restricted	72,979,053	87,622,373	(14,643,320)	(17%)
Unrestricted	(73,953,660)	(57,078,630)	(16,875,030)	30%
Total net assets	\$819,248,929	\$808,095,135	\$11,153,794	1%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009**

Changes in Net Assets

The Municipality's net assets increased by \$11,456,387. This increase was due mainly to increases in capital assets during 2008-2009, particularly in the lines of construction in progress, buildings and permanent improvements and Infrastructure as disclosed in note 11 on the activity of capital assets that accompanies financial statements.

Approximately 67 percent of the Municipality's total revenue came from taxes, while 19 percent resulted from grants and contributions, including federal aid. Charges for Services provided 5 percent of the total revenues. Interest earnings and miscellaneous provided 9 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, health and sanitation and economic development. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

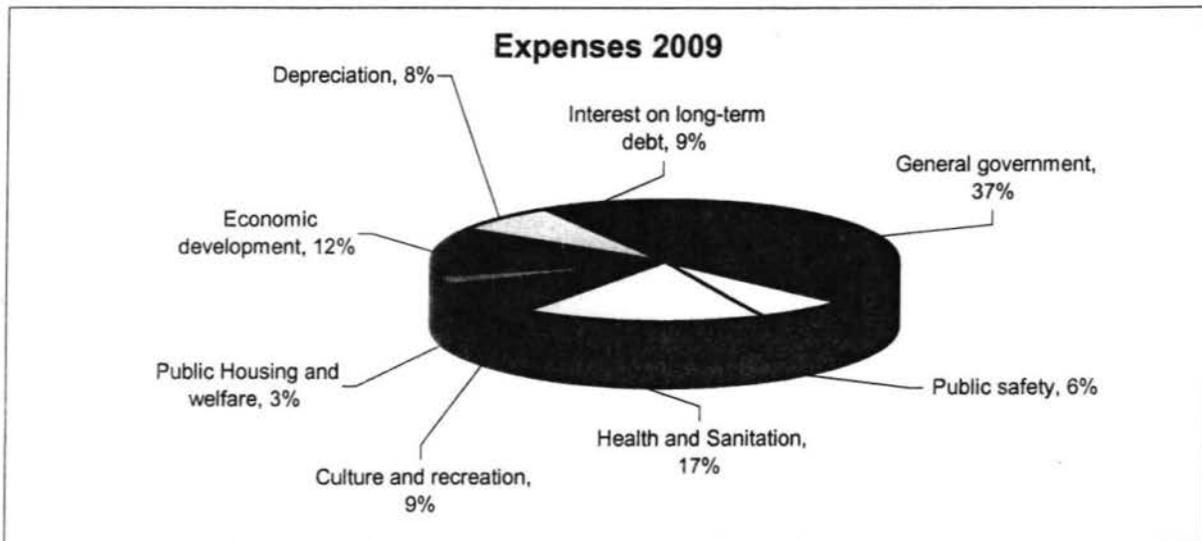
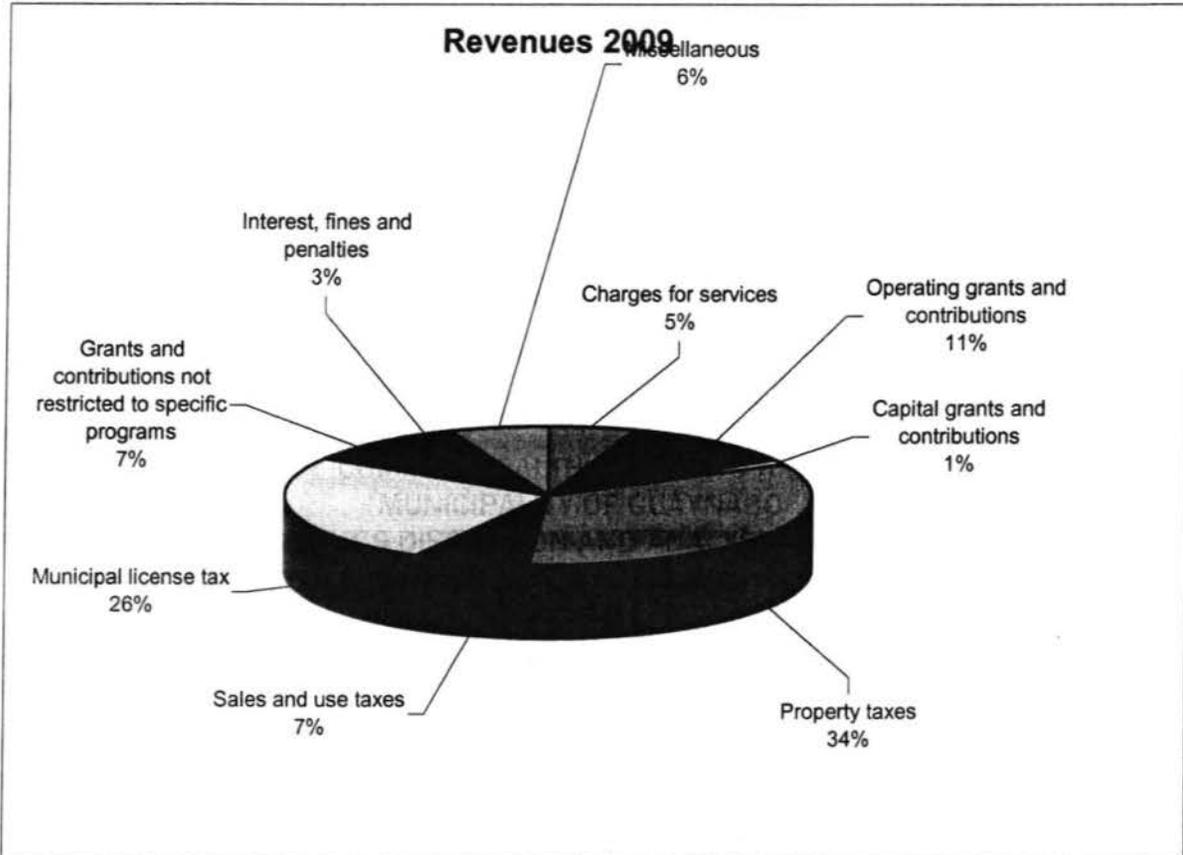
(This space has been intentionally left blank)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$10,226,336	\$9,928,304	\$298,032	3%
Operating grants and contributions	21,176,978	15,307,430	5,869,548	38%
Capital grants and contributions	1,836,828	1,838,177	(1,349)	-
General revenues:				
Property taxes	63,944,675	70,266,630	(6,321,955)	(9%)
Sales and use taxes	13,650,914	16,852,037	(3,201,123)	(19%)
Municipal license tax	48,837,669	48,875,059	(37,390)	-
Grants and contributions not restricted to specific programs	12,547,175	18,042,675	(5,495,500)	(30%)
Interest, fines and penalties	6,644,358	5,976,692	667,666	11%
Gain (Loss) on retirement of Capital Assets	(10,683)	(27,007)	16,324	(60%)
Miscellaneous	11,426,009	6,508,992	4,917,017	76%
Total revenues	190,280,259	193,568,989	(3,288,730)	(2%)
Expenses:				
General government	65,468,637	81,450,230	(15,981,593)	(20%)
Public safety	11,611,864	10,597,631	1,014,233	10%
Health and Sanitation	30,037,772	21,860,669	8,177,103	37%
Culture and recreation	15,523,073	15,149,587	373,486	2%
Public Housing and welfare	5,007,033	4,775,895	231,138	5%
Economic development	22,183,455	12,891,812	9,291,643	72%
Depreciation	13,496,019	12,456,955	1,039,064	8%
Interest on long-term debt	15,496,019	14,640,024	855,995	6%
Total expenses	178,823,872	173,822,803	5,001,069	3%
Change in net assets	11,456,387	19,746,186	(8,289,799)	(42%)
Net assets, beginning of year	808,095,135	788,348,949	19,746,186	3%
Net assets, end of year	<u>\$819,551,522</u>	<u>\$808,095,135</u>	<u>\$11,456,387</u>	1%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009**

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted 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 balances 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 the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$95,608,223, a decrease of \$48,413,407 in comparison with the prior year. There are reservations of fund balance amounting to \$95,429,297. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$20,389,781), 2) to pay debt service (\$6,743,986), 3) to pay for capital projects (\$66,235,067) and 4) for other purposes (\$ 2,060,463).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2009, the general fund has a fund deficiency of (\$9,396,970).

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2009, amounts to \$1,191,729,031, net of accumulated depreciation of \$121,180,495, leaving a net book value of \$1,070,548,536. These investments in capital assets include land, buildings, improvements, vehicles, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for Governmental Activities in the current fiscal year was about 5% in terms of net book value. Depreciation charges for the year totaled \$ 13,286,516.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2009, the Municipality has \$89,686,413 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity".

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED):

Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S AND DISCUSSION ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009**

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation

municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on sales, property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes increases have been very predictable with. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

The Municipality adopted a retirement incentive plan which will be implemented during the 2009-2010. The management estimates that this plan will have an impact of reducing payroll expenditures by \$ 3,000,000 including the liquidation of vacation and sick leave accumulated licenses. The plan also aims to reduce payroll expenditures for the subsequent years.

Those factors were considered when preparing the Municipality's budget for the 2009-2010 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, 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, 2009**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 61,162,939
Cash with fiscal agent (Notes 2 and 5)	89,686,413
Accounts receivable:	
Property taxes (Note 6)	408,015
Municipal license taxes (Note 7)	5,265,491
Construction excise tax	1,548,233
Interests	159,821
Rent, fines and charges for services	1,592,101
Sales and use tax (Note 8)	943,820
Deferred charges	1,115,246
Due from other agencies (Note 9)	8,993,077
Inventory	2,060,463
Capital assets, net (Note 11)	1,070,548,536
Total assets	\$ 1,243,484,155
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 12,781,977
Due to other agencies (Note 12)	1,765,378
General obligations:	
Bonds	8,872,000
Interest	4,156,700
Deferred revenues (Note 13):	
Municipal license tax	38,766,338
Federal government	553,832
Accrued interest	15,688,417
Claims and judgements	7,064,292
Noncurrent liabilities (Note 15):	
Due within one year	18,587,177
Due in more than one year	315,999,115
Total liabilities	424,235,226
Net Assets	
Investment in capital assets, net of related debt	820,223,536
Restricted for:	
Debt service	6,743,986
Capital projects	66,235,067
Unrestricted	(73,953,660)
Total net assets	819,248,929
Total liabilities and net assets	\$ 1,243,484,155

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, 2009**

<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	\$ 65,468,637	\$ 10,226,336	\$ -	\$ -	\$ (55,242,301)
Public safety	11,611,864		169,598		(11,442,266)
Public housing and welfare	5,007,033		4,412,621		(594,412)
Culture and education	15,523,073		16,594,759		1,071,686
Health and sanitation	30,037,772				(30,037,772)
Depreciation	13,496,019				(13,496,019)
Economic development	22,183,455			1,836,828	(20,346,627)
Interest on long-term debt	15,798,612				(15,798,612)
Total	\$ 179,126,465	\$ 10,226,336	\$ 21,176,978	\$ 1,836,828	(145,886,323)
General revenues:					
Property taxes (Note 6)					63,944,675
Sales and use taxes (Note 8)					13,650,914
Municipal license tax (Note 7)					48,837,669
Grants and contributions not restricted to specific programs					12,547,175
Interest, fines and penalties					6,644,358
Miscellaneous					11,426,009
Total general revenues					157,050,800
Loss on disposition of assets					(10,683)
Change in net assets					11,153,794
Net assets at beginning of year					808,095,135
Net assets at end of year					\$ 819,248,929

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, 2009

<u>Assets</u>	<u>General</u>	<u>Workforce Investment Act Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 55,051,726	\$ 261,238	\$ -	\$ 5,849,975	\$ 61,162,939
Cash with fiscal agent (Notes 2 and 5)	552,861		19,364,671	69,768,881	89,686,413
Accounts receivable:					
Property taxes (Note 6)			408,015		408,015
Municipal license taxes (Note 7)	294,772				294,772
Interest	159,821				159,821
Rent, licenses, and permits	562,634				562,634
Sales and use tax (Note 8)	943,820				943,820
Due from other agencies (Note 9)	475,000	8,518,077			8,993,077
Due from other funds (Note 10)	4,916,253				4,916,253
Inventory	2,060,463				2,060,463
 Total assets	 <u>\$ 65,017,350</u>	 <u>\$ 8,779,315</u>	 <u>\$ 19,772,686</u>	 <u>\$ 75,618,856</u>	 <u>\$ 169,188,207</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, 2009**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Workforce Investment Act Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Account payable and accrued liabilities	\$ 6,477,288	\$ 753,513	\$ -	\$ 2,340,018	\$ 9,570,819
Due to other funds (Note 10)				4,916,253	4,916,253
Due to other agencies (Note 12)	798,113	23,592			821,705
General obligations:					
Bonds			8,872,000		8,872,000
Interest			4,156,700		4,156,700
Deferred revenues: (Note 13)					
Municipal license tax	38,766,338				38,766,338
Federal government				553,832	553,832
Claims and judgements	5,922,337				5,922,337
Total liabilities	<u>51,964,076</u>	<u>777,105</u>	<u>13,028,700</u>	<u>7,810,103</u>	<u>73,579,984</u>
Fund Balance					
Reserved for:					
Encumbrances	20,389,781				20,389,781
Debt service			6,743,986		6,743,986
Inventories	2,060,463				2,060,463
Capital projects				66,235,067	66,235,067
Unreserved fund balance (Deficiency)	(9,396,970)	8,002,210		1,573,686	178,926
Total fund balance	<u>13,053,274</u>	<u>8,002,210</u>	<u>6,743,986</u>	<u>67,808,753</u>	<u>95,608,223</u>
Total liabilities and fund balance	<u>\$ 65,017,350</u>	<u>\$8,779,315</u>	<u>\$ 19,772,686</u>	<u>\$ 75,618,856</u>	<u>\$ 169,188,207</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, 2009**

Total fund balances - governmental funds \$ 95,608,223

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 1,070,548,536

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (355,571,495)

- 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. 8,663,665

Net assets of governmental activities \$ 819,248,929

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

- 17 -

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
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Workforce Investment Act Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes (Note 6)	\$ 45,903,908	\$ -	\$ 18,040,767	\$ -	\$ 63,944,675
Municipal license taxes (Note 7)	47,447,552				47,447,552
Sales and use taxes (Note 8)	11,146,637		2,504,277		13,650,914
Licenses and permits	4,195,904				4,195,904
Charges for service and rents	3,429,298			435,908	3,865,206
Intergovernmental revenues (Note 14):					
Federal grants and contributions		9,685,498		13,328,308	23,013,806
State contributions	10,307,954			2,239,221	12,547,175
Interest, fines, and penalties	4,840,450		112,693	1,691,215	6,644,358
Other revenues	11,426,009				11,426,009
Total revenues	<u>138,697,712</u>	<u>9,685,498</u>	<u>20,657,737</u>	<u>17,694,652</u>	<u>186,735,599</u>
EXPENDITURES					
Current:					
General government	88,300,431			854,775	89,155,206
Public safety	11,467,355			144,509	11,611,864
Public housing and welfare	1,320,582			3,686,451	5,007,033
Economic development	27,738,990				27,738,990
Health and sanitation	30,037,772			7,397,480	37,435,252
Culture and education	2,799,649	5,325,944			8,125,593
Capital outlays	10,898,009			33,577,302	44,475,311
Debt service:					
Principal retirement			12,795,019		12,795,019
Interest and other			14,170,738		14,170,738
Total expenditures	<u>172,562,788</u>	<u>5,325,944</u>	<u>26,965,757</u>	<u>45,660,517</u>	<u>250,515,006</u>
Excess (deficiency) of revenues over expenditures	<u>(33,865,076)</u>	<u>4,359,554</u>	<u>(6,308,020)</u>	<u>(27,965,865)</u>	<u>(63,779,407)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds				15,366,000	15,366,000
Transfers in	4,490,370	-	8,941,379	1,243,892	14,675,641
Transfers out	(7,911,870)	-	(4,490,370)	(2,273,401)	(14,675,641)
Total other financing sources (uses)	<u>(3,421,500)</u>	<u>-</u>	<u>4,451,009</u>	<u>14,336,491</u>	<u>15,366,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(37,286,576)</u>	<u>4,359,554</u>	<u>(1,857,011)</u>	<u>(13,629,374)</u>	<u>(48,413,407)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>50,339,850</u>	<u>3,642,656</u>	<u>8,600,997</u>	<u>81,438,127</u>	<u>144,021,630</u>
FUND BALANCE AT END OF YEAR	<u>\$ 13,053,274</u>	<u>\$ 8,002,210</u>	<u>\$ 6,743,986</u>	<u>\$ 67,808,753</u>	<u>\$ 95,608,223</u>

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, 2009**

Net change in fund balances - total governmental funds	\$ (48,413,407)
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.	65,280,846
• 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.	(13,496,019)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(15,366,000)
• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.	3,555,343
• 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.	12,795,019
• 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.	(10,683)
• Change in accrued interest expense which does not require the use of current financial resources.	(1,627,874)
• 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>8,436,569</u>
Changes in net assets of governmental activities	<u><u>\$ 11,153,794</u></u>

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

-19-
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
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	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	\$ 45,453,745	\$ 45,453,745	\$ 45,903,909	\$ 450,164	\$ 23,011,011	\$ 23,011,011	\$ 18,040,767	\$ (4,970,244)
Municipal license taxes	48,303,000	48,303,000	47,205,351	(1,097,649)				
Sales and use taxes	15,036,000	15,036,000	11,236,479	(3,799,521)	2,311,757	2,311,757	2,504,277	192,520
Licenses and permits	8,030,108	8,030,108	4,195,904	(3,834,204)				
Charges for services and rent	6,693,779	6,693,779	4,032,368	(2,661,411)				
Intergovernmental revenues:								
State contributions	11,427,235	11,427,235	10,307,955	(1,119,280)				
Interest, fines and penalties	6,900,000	6,900,000	4,624,594	(2,275,406)			112,693	112,693
Other revenues	42,100	1,209,066	8,935,235	7,726,169				
Total revenues	<u>141,885,967</u>	<u>143,052,933</u>	<u>136,441,795</u>	<u>(6,611,138)</u>	<u>25,322,768</u>	<u>25,322,768</u>	<u>20,657,737</u>	<u>(4,665,031)</u>
EXPENDITURES								
Current:								
General government	75,032,771	88,035,594	87,543,139	492,455				
Public safety	11,126,219	11,645,640	11,585,496	60,144				
Public housing and welfare	1,767,994	1,467,993	1,464,334	3,659				
Economic development	21,183,145	24,193,136	23,239,099	954,037				
Health and sanitation	29,935,230	32,213,533	30,902,679	1,310,854				
Culture and education	2,840,608	2,867,451	2,838,391	29,060				
Debt service:								
Principal					7,951,500	7,951,500	12,795,019	4,843,519
Interest					9,583,243	9,583,243	14,170,738	4,587,495
Reserve					7,788,025	7,788,025		(7,788,025)
Total expenditures	<u>141,885,967</u>	<u>160,423,347</u>	<u>157,573,138</u>	<u>2,850,209</u>	<u>25,322,768</u>	<u>25,322,768</u>	<u>26,965,757</u>	<u>1,642,989</u>
OTHER FINANCING SOURCES								
Reprogramming funds		17,370,414	17,370,414					
Excess of expenditures over revenues	\$ -	\$ -	\$ (3,760,929)	\$ (3,760,929)	\$ -	\$ -	\$ (6,308,020)	\$ (6,308,020)

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, 2009**

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;

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

invested in capital assets, net of related debt; restricted; and unrestricted.

- **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, 2009**

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 separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009**

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

3) Workforce Investment Act Fund

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

d. Cash, Cash Equivalents, and Cash with Fiscal Agent

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

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

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

e. Landfill Closure and Postclosure Care Costs

Landfill Closure and Postclosure Care Costs are accounted for under the provisions of Statement No. 18, Accounting for Municipal Solid Waste Landfill 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, 2009). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

f. Interfund Receivables and Payables

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

g. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In the accompanying government-wide statement of net assets, all individual capital assets over the threshold amount of \$1,000 have been capitalized and depreciated. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings, structure, and improvements	50 years
Public domain infrastructure	50 to 60 years
System infrastructure	50 years
Motor vehicles	8 to 10 years
Office furniture, equipment, and fixtures	5 to 20 years
Computer equipment and software	5 years

h. Reservation of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009 amounted to approximately \$1.2 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.1 million for workers' compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

j. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as 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
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting Governmental Fund Type Definition	2010-11

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

l. Use of Estimates

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009 is presented below for the general fund and debt service funds:

	General Fund	Debt Service Fund
Excess of expenditures over revenues - budgetary basis	\$ (3,760,929)	\$ (6,308,020)
Entity differences:		
Non-budgeted expenditures	(7,332,080)	
Non-budgeted transfers in	4,490,370	8,941,379
Non-budgeted transfers-out	(7,911,870)	(4,490,370)
Non-budgeted revenues	550,595	
Reprogramming funds	(17,370,414)	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(26,342,029)	
Current year encumbrances recorded as expenditures for budgetary basis	20,389,781	
Excess of expenditures over revenues - GAAP basis	\$ (37,286,576)	\$ (1,857,011)

c. Legal Compliance

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 \$356 million differences are as follows:

Bonds payable	\$250,325,000
Capital leases	37,426,549
Note payable	17,810,335
Landfill obligation	17,200,000
Compensated absences	11,824,408
Accrued interest payable	15,688,417
Claims and judgments	1,141,955
CRIM	943,673
Christmas bonus	<u>3,211,158</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$355,571,495</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The deposits at GDB of approximately \$69.7 million that are restricted principally for capital projects activities. These funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 tax payer	< .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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 \$6,239,053. 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 2008-09, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2009, the amount collected from taxpayers and charges by CRIM of approximately \$48.6 million was less than the advances received by the Municipality for the same period by \$943,673. Such amount is presented as Due to Other Agencies in the government-wide financial statements. (Refer to Note 12).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009. 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, 2009, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$5,265,491 and \$38,766,338, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2009 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$294,772 and \$38,766,338, 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 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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
Council of Occupational Development and Human Resources	<u>8,518,077</u>
 Total	 <u>\$8,993,077</u>

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2009, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	<u>\$4,916,253</u>
		<u>\$4,916,253</u>

The balance of approximately \$4.9 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2009 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 4,490,370
Debt Service	General	7,911,870
Debt Service	Other Governmental Funds	1,029,509
Other Governmental Funds	Other Governmental Funds	<u>1,243,892</u>
		<u>\$14,675,641</u>

The transfer from the debt service fund to the general fund of \$4,490,370 represents the withdrawal of the excess of ad valorem taxes over the actual debt service requirement as established by Law No. 28 of May 4, 2001. The Municipality withdrew this amount and transferred the amount to the general fund for working capital purposes.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 629,313,058	\$ 11,701,043	\$ -	\$ 641,014,101
Construction in progress	72,476,786	42,793,897	18,983,378	96,287,305
Total capital assets, not being depreciated	<u>701,789,844</u>	<u>54,494,940</u>	<u>18,983,378</u>	<u>737,301,406</u>
Capital assets, being depreciated:				
Buildings and building improvements	250,394,994	10,004,985		260,399,979
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	46,839,146	7,265,691	220,186	53,884,651
Infrastructure	127,644,387	12,498,608		140,142,995
Total capital assets, being depreciated	<u>424,878,527</u>	<u>29,769,284</u>	<u>220,186</u>	<u>454,427,625</u>
Less accumulated depreciation for:				
Buildings and building improvements	58,422,277	6,407,038		64,829,315
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	31,206,346	4,520,544	209,503	35,517,387
Infrastructure	18,265,356	2,568,437		20,833,793
Total accumulated depreciation	<u>107,893,979</u>	<u>13,496,019</u>	<u>209,503</u>	<u>121,180,495</u>
Total capital assets, being depreciated, net	<u>316,984,548</u>	<u>16,273,265</u>	<u>10,683</u>	<u>333,247,130</u>
Governmental activities capital assets, net	<u>\$ 1,018,774,392</u>	<u>\$ 70,768,205</u>	<u>\$ 18,994,061</u>	<u>\$ 1,070,548,536</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2009 are as follows:

	<u>Governmental Fund</u>	<u>Governmental Wide</u>
Employee's Retirement System Administration	\$610,387	\$610,387
CRIM	-	943,673
Puerto Rico Regulation and Permits Administration	13,993	13,993
General Services Administration	17,367	17,367
Puerto Rico Water and Sewer Authority	156,366	156,366
Council of Occupational Development and Human Resources	<u>23,592</u>	<u>23,592</u>
Total	<u>\$821,705</u>	<u>\$1,765,378</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$38,766,338 in the general fund related to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10 (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

Special Program for Aging Title III	\$236,605
Special Fund - Fideicomiso	295,770
UDAG Program	<u>21,457</u>
	<u>\$553,832</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2009 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%.	\$ 8,320,000
\$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%	4,000,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$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%	\$ 5,505,000
\$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%	525,000
\$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%	18,525,000
\$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%	15,380,000
\$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%	12,455,000
\$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%	8,670,000
\$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%	2,315,000
\$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%	3,910,000
\$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%.	2,495,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$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%.	\$2,325,000
\$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%.	355,000
\$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%.	430,000
\$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%.	3,430,000
\$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%.	53,355,000
\$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%.	610,000
\$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%.	2,220,000
\$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%.	8,750,000
\$7,030,000 series of 2005, payable in annual installments of \$145,000 to \$480,000 until July 1, 2029, interests of 5.0%.	6,220,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	\$ 4,435,000
\$12,546,000 series of 2005, payable in annual installments of \$300,000 to \$886,000 until July 1, 2029, interests of 5%.	11,596,000
\$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%.	5,590,000
\$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%.	3,815,000
\$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%.	390,000
\$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%.	1,520,000
\$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%.	1,080,000
\$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%.	3,950,000
\$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%.	1,070,000
\$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%.	110,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$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%.	\$ 5,570,000
\$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%.	32,780,000
\$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%.	2,440,000
\$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%.	1,205,000
\$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%.	315,000
\$6,325,000 series of 2009, payable in annual installments from \$90,000 to \$530,000 until July 1, 2033, interests from 2.45% to 7.50%.	6,235,000
\$2,015,000 series of 2009, payable in annual installments from \$230,000 to \$355,000 until July 1, 2015, interests from 4.75% to 7.50%.	1,785,000
\$1,445,000 series of 2009, payable in annual installments from \$165,000 to \$255,000 until July 1, 2015, interests from 4.75% to 7.50%.	1,280,000
\$2,010,000 series of 2009, payable in annual installments from \$30,000 to \$175,000 until July 1, 2032, interests from 2.43% to 7.50%.	1,980,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$896,000 series of 2009, payable in annual installments from \$102,000 to \$157,000 until July 1, 2015, interests from 2.43% to 7.50%.	794,000
\$675,000 series of 2009, payable in annual installments from \$10,000 to \$60,000 until July 1, 2033, interests from 4.75% to 7.50%.	665,000
\$2,000,000 series of 2009, payable in annual installments from \$75,000 to \$215,000 until July 1, 2023, interests from 4.75% to 7.50%.	1,925,000
Total bonds payable	<u>\$ 250,325,000</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.	\$ 3,510,000
\$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%.	2,165,000
\$7,028,503 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.	6,239,053

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$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.	1,941,000
Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.	2,906,954
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%.	<u>1,048,328</u>
Total notes payable	<u>17,810,335</u>
Total bonds, notes, and other long-term debt	<u>\$268,135,335</u>

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2009, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	Principal	Interest	Principal	Interest
2010	\$ 12,152,000	\$ 14,797,060	\$ 1,475,423	\$ 891,357
2011	12,605,000	14,589,666	1,511,683	817,411
2012	13,499,000	13,822,357	1,322,166	739,760
2013	14,268,000	12,992,110	1,114,119	679,226
2014	11,863,000	12,110,345	1,129,778	541,347
2015-2019	67,192,000	48,603,268	3,519,408	2,508,953
2020-2024	64,010,000	28,818,687	3,173,072	1,680,553
2025-2029	43,201,000	11,683,878	2,802,643	1,068,772
2030-2034	11,535,000	1,840,475	1,762,043	200,703
	<u>\$250,325,000</u>	<u>\$159,257,846</u>	<u>\$17,810,335</u>	<u>\$ 9,128,082</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

	Beginning Balance	Additions	Payments	Ending Balance	Due within One Year
Bonds payable	\$ 246,313,000	\$ 15,366,000	\$ (11,354,000)	\$ 250,325,000	\$ 12,152,000
Notes payable	19,251,354		(1,441,019)	17,810,335	1,475,424
Total long-term debt	<u>265,564,354</u>	<u>15,366,000</u>	<u>(12,795,019)</u>	<u>268,135,335</u>	<u>13,627,424</u>
Capital leases	39,035,815		(1,609,266)	37,426,549	1,759,753
Landfill obligation	19,200,000		(2,000,000)	17,200,000	2,000,000
Compensated absences	12,843,659		(1,019,251)	11,824,408	1,200,000
Total other liabilities	<u>71,079,474</u>	<u>-</u>	<u>(4,628,517)</u>	<u>66,450,957</u>	<u>4,959,753</u>
Total noncurrent liabilities	<u>\$ 336,643,828</u>	<u>\$ 15,366,000</u>	<u>\$ (17,423,536)</u>	<u>\$ 334,586,292</u>	<u>\$ 18,587,177</u>

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 retirement's 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 (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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

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, 2009 was \$2,910,385. The Municipality's payroll for employees covered by ERS was \$31,378,816. The Municipality total payroll for all employees was \$55,547,993.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2009, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

18. LEASES

a. Capital Leases

The Municipality is obligated under several capital lease agreements with third parties that will expire at different years until 2027. These capital lease obligations are related to lease building facilities and office equipment recorded as capital assets in the accompanying government-wide statement of net assets. These lease agreements qualify as capital leases for financial reporting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2009 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2010	\$ 3,453,657
2011	3,473,057
2012	3,465,722
2013	3,547,856
2014	3,668,395
2015-2019	18,919,806
2020-2027	<u>14,682,430</u>
Total minimum lease payments schedule under agreements	51,210,923
Less:	
Interests to be paid through expiration dates of lease agreements	<u>13,784,374</u>
Present value of minimum lease payments	37,426,549
Less: Current portion of obligation under capital leases	<u>1,759,753</u>
Long-term portion of obligation under capital leases	<u>\$35,666,796</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The activity of obligation under capital leases for the year ended June 30, 2009 was as follows:

	<u>Balance at June 30, 2008</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2009</u>
Principal	\$ <u>39,035,815</u>	\$ <u>-</u>	(<u>\$1,609,266</u>)	\$ <u>37,426,549</u>

b. Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- 1) The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms ranging from one to five years.
- 2) Total income from leases during the year ended June 30, 2009 was \$1,030,752.
- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

19. CONTINGENCIES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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. As of June 30, 2009, The Municipality 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. Of these estimated costs, the Municipality recorded a liability amounting to \$19,200,000.

On July 15, 2008 the Municipality entered in an agreement with a contractor to initiate and complete the total closure of the Municipal Landfill in a three years period for a cost of \$7,200,000.

During fiscal year ended as of June 30, 2009, the Municipality incurred in landfill closing costs which approximates to \$2,000,000. The landfill obligation has been reduced to \$17,200,000 as of June 30, 2009. 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, 2009. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$69.7 million.

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYNABO

PART II

SINGLE AUDIT SECTION

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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<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	\$ 2,393,341
Emergency Shelter Grant Program	14.231		22,872
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	1,723,443
Community Development Block Grant, Section 108, Loan Guarantee	14.248		556,547
Urban Development Action Grant	14.221		359
HOME Investment Partnership Program	14.239		124,811
Pass-through Municipality of San Juan: Housing Opportunity for Persons with AIDS	14.241		72,611
Pass-through Puerto Rico Department of Housing: Public and Indian Housing	14.850		<u>397,587</u>
Subtotal U.S. Department of HUD			<u>5,291,571</u>
U.S. Department of Health and Human Services (HHS)			
Head Start	93.600	02-CH-0483	6,988,828
Pass-through the Puerto Rico Elderly Commission: Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	331,105
Nutrition Services Incentive Program	93.053		<u>214,610</u>
Subtotal U.S. Department of HHS			<u>7,534,543</u>
U.S. Department of Agriculture			
Pass-through Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	N/A	<u>664,924</u>
Subtotal U.S. Department of Agriculture			<u>664,924</u>
U.S. Department of Labor			
Pass-through the Human Resources and Occupational Development Council Workforce Investment Act			
Adult	17.258		1,837,228
Youth Activities	17.259		1,390,114
Dislocated Workers	17.260		648,013
Disability Navigators Program	17.266		<u>13,819</u>
Subtotal U.S. Department of Labor			<u>3,889,174</u>
U.S. Department of Justice			
Pass-through Department of Justice: Public Safety Partnership and Community Policing Grants	16.710		<u>2,167</u>
Subtotal U.S. Department of Justice			<u>2,167</u>
U.S. Department of Homeland Security			
Hazard Mitigation Grant Program	97.039		<u>142,342</u>
Subtotal U.S. Department of Homeland Security			<u>142,342</u>
TOTAL			<u>\$ 17,524,721</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

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. WORKFORCE INVESTMENT ACT PROGRAMS

The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Federal expenditures per schedule	3,889,174
Reimbursement to Grantor Agency	<u>1,436,770</u>
Total expenditures per basic financial statements	<u>\$5,325,944</u>

3. 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>\$17,524,721</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$13,635,547
Workforce Investment Act Programs	<u>3,889,174</u>
	<u>\$17,524,721</u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 15, 2009. 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 opinion 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 matters that we reported to management of Municipality of Guaynabo in a separate letter dated December 15, 2009.

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 15, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2486671 was affixed to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

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

**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, 2009. Municipality of Guaynabo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Guaynabo's management. Our responsibility is to express and opinion on Municipality of Guaynabo's compliance based on our audit.

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

As described in item 09-3 thru 09-5 in the accompanying schedule of findings and questioned costs, Municipality of Guaynabo did not comply with requirements regarding cash management, eligibility and reporting that are applicable to its Public and Indian Housing program. Compliance with such requirements is necessary, in our opinion, for Municipality of Guaynabo to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Guaynabo complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009. The results of our auditing procedures also 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 09-1, 09-2, and 09-6 thru 09-10.

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.

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

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

in internal control over compliance described in the accompanying schedule of findings and questioned costs, as item 09-4 and 09-5.

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 15, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2486672 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, 2009**

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, 2009, and have issued our report thereon dated December 15, 2009. 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 a qualified opinion on Public and Indian Housing program and unqualified opinion on the others major programs.
- 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, 2009**

- 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	Public and Indian Housing	14.850
U.S. Department of Agriculture	Child and Adult Care Food Program	10.558

- A threshold of \$525,742 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 63 to 86, 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 24, 2010 and are included in Part III. These responses and corrective action plans were delivered to us after completion of our field work and, accordingly, our procedures with respect to such corrective action plans consisted of reading the Municipality's response and including them within the body of the findings. Although the responses may indicate that the supporting

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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.
- **“OMB Circular A-102”** - Circular Letter A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009

"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, 2009**

Significant Deficiency

The findings listed on pages 63 through 86 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Reportable Condition/Noncompliance</u>		<u>Known Questioned Costs</u>	<u>Likely Questioned Costs</u>	<u>CFDA No.</u>
<u>Workforce Investment Act</u>				
SA 09-1	Inadequate cash management procedures	N/A	N/A	17.258,17.259 17.260
SA 09-2	Noncompliance with reporting	N/A	N/A	17.258,17.259 17.260
<u>Public and Indian Housing</u>				
SA 09-3	Inadequate cash management procedures	N/A	N/A	14.850
SA 09-4	Inadequate documentation participant files	N/A	N/A	14.850
SA 09-5	Noncompliance with reporting	N/A	N/A	14.850
<u>Section 8 Housing Choice Voucher Program</u>				
SA 09-6	Special Test - Housing Assistance Payments	N/A	N/A	14.871
SA 09-7	Special Test - Waiting List	N/A	N/A	14.871
<u>Head Start</u>				
SA 09-8	Noncompliance with Davis Bacon Act	N/A	N/A	93.600
SA 09-9	Noncompliance with Equipment and Real Property Management	N/A	N/A	93.600
<u>Child and Adult Care Food Program</u>				
SA 09-10	Noncompliance with Equipment and Real Property Management	N/A	N/A	10.558

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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 09-1: 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 1% limitation over the deposits made by the CDORH from July, 2008 through June, 2009.

The Consortium maintains an excess average cash balance per month of approximately \$533,000.

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 1% of the deposits made during the month.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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 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, 2009**

Finding Number SA-09-2: Reporting

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

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

Close Out Report

Program	Date to be Submitted	Date Submitted	According to law	
			Yes	No
Youth 08-09	July 31, 2009	August 24, 2009		x
Adult 08-09	July 31, 2009	August 24, 2009		x
Dislocated 08-09	July 31, 2009	August 24, 2009		x
Youth 07-08	July 31, 2009	August 24, 2009		x
Adult 07-08	July 31, 2009	August 24, 2009		x
Dislocated 07-08	July 31, 2009	August 24, 2009		x

Account Payable Close Out

Program	Date to be Submitted	Date Submitted	According to law	
			Yes	No
Youth 08-09	Oct. 31, 2009	Dec 1, 2009		x
Youth 07-08	Oct. 31, 2009	Dec 1, 2009		x
Adult 08-09	Oct. 31, 2009	Dec 1, 2009		x
Adult 07-08	Oct. 31, 2009	Dec 1, 2009		x
Dislocated 08-09	Oct. 31, 2009	Dec 1, 2009		x
Dislocated 07-08	Oct. 31, 2009	Dec 1, 2009		x
Incentive	Oct. 31, 2009	Dec 1, 2009		x
Discretionary	Oct. 31, 2009	Dec 1, 2009		x

Criteria

As per grant agreement with "Consejo de Desarrollo Ocupacional y Recursos Humanos" the Consortium should submit the federal financial reports, each month nor after fifteen (15) days after closing and the accounts payable report nor after October 31, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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

Cause

The delays caused by the design accounting system, obstruct the program to comply with federal and local applicable laws and regulation, and the ability to meet the dead line for the reporting requirement.

Effect

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

Questioned Costs

None

Recommendation

The Workforce Investment Act management program should implement a reporting calendar to keep all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the program to comply with the required reporting deadlines.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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.

Finding Number SA 09-3: Cash Management

Condition

We realized Cash Management Test and after our procedures were performed we found the following exceptions:

- a. The program did not maintain effective control procedures to minimize the time elapsed between the transfers of funds from the Puerto Rico Public Housing Authority.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

- b. The program maintained an excess average monthly cash balance of \$242,000.
- c. Cash balance as per bank reconciliation as of June 30 2009 amounts to approximately \$486,000.

Criteria

Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (7) states that units of general local governments shall use procedures to minimize the time elapsed between the transfer of funds by the US Treasury Authority and disbursements by grantees and subgrantees.

Cause

The program receives a monthly assistance payment from the Puerto Rico Public Housing Authority amounting to approximately \$60,000, the average monthly expenses amounts to approximately \$33,000.

Effect

The Municipality did not comply with the Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (7).

Recommendation

We recommend to the Municipality management to periodically compare actual program cash requirements to the funds advanced from the Puerto Rico Public Housing Authority and prepare and submit a revised requisition to reduce monthly advances.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Finding Number SA 09-4: 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 was not maintaining all the require 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 twenty (20) participant files and noted the following exceptions:

<u>Unit Number</u>	<u>Exceptions:</u>						
	1	2	3	4	5	6	7
28	x						
102	x			x			x
188	x					x	x
192	x		x				
222	x		x			x	
302	x		x			x	x
304	x					x	
48		x					x
64		x					x
70		x					x
97		x					
141		x					x
95			x		x		x
186			x		x		x
192			x				x
283			x		x		
106					x		
127					x		x
187					x		x
232					x		x
245					x		x

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

1. Form HUD 50058 was not updated in the computer software.
2. Participant's reexaminations were not performed since 2007.
3. Files did not include the participant's family composition photo.
4. Files did not include the participants Good Behavior Certificate for participants with eighteen years or older.
5. The form HUD 50058 did not include the date in which the participant was added to the waiting list.
6. The notification for reexamination was not send to the participant with 90 days of anticipation as required by HUD.
7. We do not found evidence of corrections of deficiencies found by inspectors in the housing units.

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. The program has not repair the software used to update the Form HUD 50058 of the participants.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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.

Questioned Costs

None

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.

Finding Number SA 09-5: Reporting

Condition

During our audit we found that the program does not have effective system of internal control to ensure the accurate preparation and timely submission of federal financial reports of the program. We noted the following situations:

- a. The required Monthly Invoice Report, with a statement of receipts and disbursements, a balance sheet, etc. was not submitted to the Puerto Rico Public Housing Administration (PRPHA) by the 20th day of each month as required for the months of September, 2008 through May, 2009 and June, 2009.
- b. We do not obtain evidence supporting that the program submits to Puerto Rico Public Housing Administration (PRPHA) a quarterly report comparing actual and budgeted figures for receipts and disbursements as required.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

c. We reconciled the disbursements as per Monthly Budget Report and found the following differences:

<u>Monthly Budget Report:</u>	<u>Line</u> <u>Operating Expenses</u>	<u>Amount</u> <u>per books</u>	<u>Amount</u> <u>per report</u>	<u>Difference</u>
Month ended				
November 30, 2008		156,474.43	149,692.84	6,781.59
December 31, 2008		189,773.45	184,378.90	5,394.55
January 31, 2009		213,322.00	235,729.68	(22,407.68)
February 28, 2009		244,400.88	266,265.62	(21,864.74)
March 30, 2009		272,062.97	293,927.71	(21,864.74)
April 30, 2009		309,345.52	331,210.26	(21,864.74)
May 31, 2009		333,341.59	355,496.33	(22,154.74)
June, 2009		397,587.46	424,078.95	(26,491.49)

Criteria

The PRPHA Section 17.1 (A) states that the program shall establish and maintain a comprehensive system of records, books and accounts in a manner satisfactory to the PRPHA regarding the project.

The PRPHA Section 17.1 (B) states that the program shall prepare a quarterly report comparing actual and budgeted figures for receipts and disbursements, and shall submit each report to the PRPHA within (15) calendar days after the end of the quarter covered.

The PRPHA Section 17.1 (F) states that by the 20th day of each month, the Program shall furnish the PRPHA with a monthly invoice report, both in form and substance acceptable to the PRPHA, with a statement of receipts and disbursements, a balance sheet, and any other financial information reflecting the status as of the end of the previous month, as required by the PRPHA.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Cause

The Program did not have adequate procedures in order to assure that all financial and programmatic reports are submitted on time.

The Program did not maintain an adequate internal control to assure that the Monthly Reports are accurately prepared in order to assure that the information reported is in accordance with the accounting records.

Effect

The Program did not comply with the Intergovernmental Management Agreement established with the PRPHA Section 17.1 (A), (B) & (F) Records, Audits and Reports.

Recommendation

We recommend that the Program should implement procedures in order to assure that all financial and programmatic reports are submit on time to the PRPHA and prepare in accordance with the required accounting basis.

Questioned Cost

None

C. Section 8 - Housing Choice Voucher (CFDA 14.871)

Program Description

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

Under the Housing Choice Voucher Program, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is no limit on the amount of rent that an owner

- 77 -

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
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

may charge for a unit. However at initial occupancy of any unit where the gross rent exceeds the payment standard, but a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities. A voucher subsidy is set based on the difference between the PHA's applicable payment standard for the family or the gross rent and the total tenant's payment (generally 30 percent of the family's monthly-adjusted income). This is the maximum quantity of the subsidy that a family may receive regardless of the rent the owner charges for the unit.

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

Finding Number SA 09-6: Special Test- Housing Assistance Payments

Condition

During our verification of forty (40) participant files we noted the following exceptions related to the Housing Assistance Payment (HAP) calculation:

- a. In six (6) Cases the Housing Assistance Payment Contract was signed subsequently to the effective date of the annual reexamination. That situation cause that the program paid an erroneous HAP payment or utility reimbursements.
- b. In one (1) case the program paid \$470 as HAP payment to the owner instead of \$473. This occurred because the payment was issued using the prior year HAP Contract.
- c. The PHA is not making the HAP Payments during the first days of the month. We noted that for June, 2009 the HAP Payments were realized on June 11, 2009.
- d. In one (1) case we do not obtain evidence supporting that the utility reimbursement for \$24 which corresponded to the months of April, May and June, 2009 was reimbursed to the tenant as established in the HAP contract.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

- e. In two (2) cases we found discrepancies between the utilities to be provided by the owner or the tenant in the HAP Contract, when compared it to Family Report (Form 50058) or the Municipal Contract. These discrepancies did not affect the HAP calculation.

Criteria

Code of Federal Regulations 24 CFR, Section 982.158 and 982 Subpart K establishes the procedures to follow in order to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, Chapter six (6) establishes procedures for the HAP's calculation.

Cause

The Municipality internal control and procedures failed to assure that the HAP calculation for these participants were correctly calculated.

Effect

In these cases the Municipality was not in compliance with 24 CFR, Section 982.158.

Questioned Costs

None

Recommendation

We recommend the Municipality to improve its monitoring procedures in order to assure that HAP's are duly calculated.

Finding Number SA 09-7: Special Tests- Selection from the Waiting List

Condition

During our waiting list test we noted the following exceptions in one (1) case we

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

could not determined the reasons management provides the opportunity to obtain a voucher to participant # 37 after participant # 40. There was a delay of approximately two months.

Criteria

Code of Federal Regulations 24 (CFR), sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.

Cause

The program did not leave a clear audit trail in the participants' selection from the waiting list.

Effect

The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.

Recommendation

The Municipality must assure that the documentation of the selection of participants from the waiting list leave a clear audit trial that can be used to verify that each participant has been selected in accordance with the methods specified in the administrative plan.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

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

Program Description

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

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

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

Finding Number SA 09-8: Davis Bacon Act

In two (2) cases Head Start program formalized construction renovations projects over \$2,000 and did not formalize a contract which includes the required clauses of prevailing wage rate for the Davis Bacon Act compliance.

Criteria

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

Non-federal entities shall include in their construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Construction). This includes a requirement for the contractor or subcontractor to submit to the Non- Federal entity weekly, for each week in

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This requirement for Davis Bacon is contained in the A-102 Common Rule. 45 CFR Section 1309.54 states that construction and renovations projects (Incidental alterations and improvements to facilities) and subcontracts financed with funds awarded under the Head Start program are subject to the Davis Bacon Act.

Cause

The program internal controls procedures fail to assure that all payments realized for construction, renovations or alteration in excess of \$2,000 comply with the Davis Bacon Act requirements,

Effect

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

Questioned Costs

None

Recommendation

The Head Start program management should establish procedures to assure that the David Bacon Act requirements are follows in all construction contracts over \$2,000.

Finding Number SA-09-9: Equipment and Real Property Management

Condition

The Head Start Program does not have effective internal control over compliance with the property management requirement. In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The Head Start Program does not count with a person in charge of property and equipment management. The accountant provides us some information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

and reports originated by the property office of the Municipality, not the Head Start program. This report is not reconciled with the program records.

- The program has not performed an adequate physical inventory counting of equipment and a proper reconciliation with the perpetual inventory maintained by the Property Office of the Municipality.

Criteria

Code of Federal Regulations, 24 CFR, Sections 85.32 (c)(4), (d)(1) and (2) states that (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. Any difference between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determined causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization and continued need for the equipment.

Cause

The Program has inadequate internal control procedures to prepare and record transactions in a fixed assets subsidiary ledger.

Effect

The Municipality is not in compliance with the property and equipment management requirement. The lack of proper internal control procedures results in noncompliance with Federal Regulations, which may expose the Municipality to cost disallowance by the federal awarding agency. Additionally, the continued occurrence of this situation may result in the misappropriation of assets acquired with federal funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Recommendation

We recommended that the Program management should assign an employee to be in charge of the Head Start property management by preparing and maintaining a property subsidiary ledger, perform a physical inventory counting and reconciliates and correct difference with the property subsidiary ledger maintained by the property Office of the Municipality. The new additions recorded in the subsidiary ledger must be reconciled with the monthly disbursements made by the program.

Questioned Cost

None

E. Child and Adult Care Food Program (CACFP) (CFDA 10,558)

Program Description

The CACFP assists States, through grants-in-aid and donated foods, to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings.

The U.S. Department of Agriculture's (USDA) Food and Nutrition Services (FNS) administers the CACFP through grants-in-aid to States. The program is administered within most States by the State educational agency. In a few States, it is administered by an alternate agency, such as the State department of health or social services. At the discretion of the Governor, different agencies within a State may administer the program's child care and adult day care components.

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child-care centers, adult day care center, outside-school hours care centers, at risk afterschool programs, family and group day care homes, and emergency shelters. Child and adult day care centers and outside-school-hours care centers, as well as at risk afterschool programs and emergency shelters, may operate independently under agreements with their administering agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which an administering agency

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

enters into an agreement for the operation of the CACFP, be it an independent center or a sponsoring organization, is known as an "institution".

A sponsoring organization usually does not provide child care services itself. Rather, it assumes administrative and financial responsibility for CACFP operations in centers and day care homes under its sponsorship. In that capacity, sponsoring organizations generally pass Federal funds received from their administering agencies through to their homes and centers; in some cases, however, sponsoring organizations provide meals to their centers in lieu of cash reimbursement.

Eligible child-care centers include public, private non-profit, and certain for profit child care centers.

Finding Number SA-09-10: Equipment and Real Property Management

Condition

The Child Care Program does not have effective internal control over compliance with the property management requirement. In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The Child Care Program does not count with a person in charge of property and equipment management. The accountant provides us some information and reports originated by the property office of the Municipality, not the Head Start program. This report is not reconciliated with the program records.
- The program has not performed an adequate physical inventory counting of equipment and a proper reconciliation with the perpetual inventory maintained by the Property Office of the Municipality.

Criteria

Code of Federal Regulations, 7 CFR, Sections 3016.32 (c)(4), (d)(1) and (2) states that (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. Any difference between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determined causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization and continued need for the equipment.

Cause

The Program has inadequate internal control procedures to prepare and record transactions in a fixed assets subsidiary ledger.

Effect

The Municipality is not in compliance with the property and equipment management requirement. The lack of proper internal control procedures results in noncompliance with Federal Regulations, which may expose the Municipality to cost disallowance by the federal awarding agency. Additionally, the continued occurrence of this situation may result in the misappropriation of assets acquired with federal funds.

Recommendation

We recommended that the Program management should assign an employee to be in charge of the Child Care property management by preparing and maintaining a property subsidiary ledger, perform a physical inventory counting and reconciliates and correct difference with the property subsidiary ledger maintained by the property Office of the Municipality. The new additions recorded in the subsidiary ledger must be reconciled with the monthly disbursements made by the program.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009**

<u>Program</u>	<u>Finding / Noncompliance</u>	<u>Status</u>
WIA CFDA No. 17.258, 17.259, and 17.260	Condition SA-08-01 The consortium's internal control failed in spending at least the thirty percent of the total youth fund for out school activities	Condition corrected
WIA CFDA No. 17.258, 17.259, and 17.260	Condition SA-08-02 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
Public and Indian Housing CFDA 14.850	Condition SA-08-03 The Municipality is not maintaining all the required documents and information in each file as required by the program regulation.	Condition still prevails
C.D.B.G. CFDA.No.14.218	Condition SA-08-04 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.	Condition still prevails

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



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

March 28, 2010

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, 2009

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, 2009

The findings from the June 30, 2009 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 09-1: WORKFORCE INVESTMENT ACT ("WIA") (CFDA 17.258,17.259 and 17.260)

Reportable Condition: See Condition 09-1

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 Consortium adopts an immediate correction plan which consist in reconcile the information in the MIP System and bank statements in order to determine the amount to be reimbursed to CDORH. As of February 28, the Consortium eliminates its excess

of cash through a reimbursement to the CDORH, due to unexpended funds, amounted to \$137,626. In addition, 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 procedures 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 09-2: WORKFORCE INVESTMENT ACT ("WIA") (CFDA 17.258, 17.259, 17.260)

Reportable Condition: See Condition 09-2

Recommendation

The Workforce Investment Act management program should implement a reporting calendar to keep all personnel aware of the reporting deadlines of each federal financial report. This will provide an additional tool to help the program to comply with the required reporting deadlines.

Action Taken

The WIA Management will review the reports to be submitted and will implement a calendar with dead line of the reports jointly with Finance Department. The Internal Audit Office will give follow up to close out reports and account payable close out reports as a part of its continuing monitoring process and audits work plan.

Finding 09-3: PUBLIC AND INDIAN HOUSING (CFDA 14.850)

Reportable Condition: See Condition 09-3

Recommendation

We recommend to the Municipality management to periodically compare actual program cash requirements to the funds advanced from the Puerto Rico Public Housing Authority and prepare and submit a revised requisition to reduce monthly advances.

Action Taken

Public housing Projects procedures are established by the Section 8 Rent Subsidy Program. The monthly assistance send by the Commonwealth Public Housing

Administration, (PRPHA) is disbursed following the procedures of the agency. Different from other programs that the funds are disbursed after the Municipality submits a requisition for the funds. The reconciliation of accounts is done by both finance offices the PRPHA and the Federal Accounting office of Guaynabo. According to an analysis of the advances and related disbursements done by the program's accountant, in joint with PRPHA's finance personnel, we determine to reimbursed to the PRPHA \$188,972.54. Such amount was paid on December 11, 2009 by the check number 0889.

Finding 09-4: PUBLIC AND INDIAN HOUSING (CFDA 14.850)

Reportable Condition: See Condition 09-4

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. All families that do not comply with the reexamination procedures, owe rent or utilities, are submitted to the legal department for the due process. Notwithstanding the action taken, the project was included in the Annual Plan as a project to demolish and the participants must present their documents as a part of the procedure to documentation for the relocation.

Finding 09-5: PUBLIC AND INDIAN HOUSING (CFDA 14.850)

Reportable Condition: See Condition 09-5

Recommendation

We recommend that the Program should implement procedures in order to assure that all financial and programmatic reports are submit on time to the PRPHA and prepare in accordance with the required accounting basis.

Action Taken

The Program's Management will review the reports to be submitted and will implement a calendar with dead line of the reports jointly with Finance Department. The Internal Audit Office will give follow up to the monthly and quarterly reports as a part of its continuing monitoring process and audits work plan.

Finding 09-6: SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA 14.871)

Reportable Condition: See Condition 09-6

Recommendation

We recommend the Municipality to improve its monitoring procedures in order to assure that HAP's are duly calculated.

Action Taken

Related to situations (a) and (b) the Municipal Housing Directors instructed review and sign all new contracts immediately once previous contracts due. Also, in accordance with the Municipal Legal Council Office, the Housing Program considers the inclusion of a clause in the contracts to establish the adjustments results from the reexaminations. By the other hand, the new information system SISE-8 provides controls in calculations which minimize errors in payments.

Related to situations (c) and (d) the Management established that the HAP register was prepared by the Federal Affairs Office. In addition, such Office had been all efforts to comply with the dates established by Section 8 Program, jointly with the Municipality Finance Departments and the Data Processing Center. The date established to begin with the payment process is the 28 of every month, in order to make the payments during the first five days of the month.

Related to the situation (e) the reimbursement to tenant was made during March, 2010.

Related to the situation (f) the establishment of the new information system SISE-8 provides controls in calculations which minimize errors or discrepancies between the utilities to be provided by the owner or the tenant in the HAP contracts.

Finding 09-7: SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA 14.871)

Reportable Condition: See Condition 09-7

Recommendation

The Municipality must assure that the documentation of the selection of participants from the waiting list leave a clear audit trail that can be used to verify that each participant has been selected in accordance with the methods specified in the administrative plan.

Action Taken

In order to correct the situation, the Housing Directors established policies and procedures to ensure that notifications to participants be through written letters and maintain copy of such in files.

Finding 09-8: HEAD STAR (CFDA 93.600)

Reportable Condition: See Condition 09-8

Recommendation

The Head Start program management should establish procedures to assure that the David Bacon Act requirements are follows in all construction contracts over \$2,000.

Action Taken

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

Finding 09-9: HEAD STAR (CFDA 93.600)

Reportable Condition: See Condition 09-9

Recommendation

We recommended that the Program management should assign an employee to be in charge of the Head Start property management by preparing and maintaining a property subsidiary ledger, perform a physical inventory counting and reconciliates and correct difference with the property subsidiary ledger maintained by the property Office of the Municipality. The new additions recorded in the subsidiary ledger must be reconciled with the monthly disbursements made by the program.

Action Taken

Actually, the Head Start Management assigned an employee to be in charge of the property records, and who have the duty of reconcile the physical inventory against inventory records in books.

Finding 09-10: Child and Adult Care Food Program (CFDA 10.558)

Reportable Condition: See Condition 09-10

Recommendation

We recommended that the Program management should assign an employee to be in charge of the Child Care property management by preparing and maintaining a property subsidiary ledger, perform a physical inventory counting and reconciliates and correct difference with the property subsidiary ledger maintained by the property Office of the Municipality. The new additions recorded in the subsidiary ledger must be reconciled with the monthly disbursements made by the program.

Action Taken

Actually, the Early Head Start Management assigned an employee to be in charge of the property records, and who have the duty of reconcile the physical inventory against inventory records in books.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please notify to Migdalia Bernardo, Director of Federal Affairs Office; Wilfredo Martinez, Executive Director of Consortium Guaynabo-Toa Baja; Gilberto Claudio, Housing Department Director; Ibis Figueroa, Head Start and Early Head Start Programs Directors and CPA Carlos Garcia, Internal Audit 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