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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**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, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Guaynabo  
Guaynabo, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Guaynabo, as of and for the year ended June 30, 2010, 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; 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 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, 2010, the respective changes in financial position, and the budgetary comparison for the general and the debt service funds, thereof for the 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 a report dated February 23, 2011 on our consideration of the Municipality's internal control over financial reporting and 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Guaynabo's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

San Juan, Puerto Rico  
February 23, 2011

*Ortiz, Rivera, Rivera & Co.*

The stamp 2586444 was affixed to the original of this report.



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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2010**

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**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, 2010. 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 \$ 3,317,759 compared with the budget for 2009-2010. The most impacted sources of income were; Sales and Use taxes, Construction Excise Taxes and Municipal License Tax by \$ 4,960,875, \$ 3,579,048 and \$2,513,970 respectively.

- The Municipality net assets decreased by \$4,612,865.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,124,982,840 (86% percent of total municipality's assets).
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$364,970,387 (80% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$35,666,806.
- During last 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, 2010 the Municipality incurred in landfill closing costs which approximates \$3,538,317.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

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- The Municipality issued bonds amounting to \$37,945,000 to finance the acquisition of land and building, public works, capital improvements and constructions of different projects.
- In the fund financial statements, the general fund revenue decrease by \$985,183 while general fund expenditures decrease \$28,857,434.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$(6,214,118).
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(436,756).

**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, 2010

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**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, 2010**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

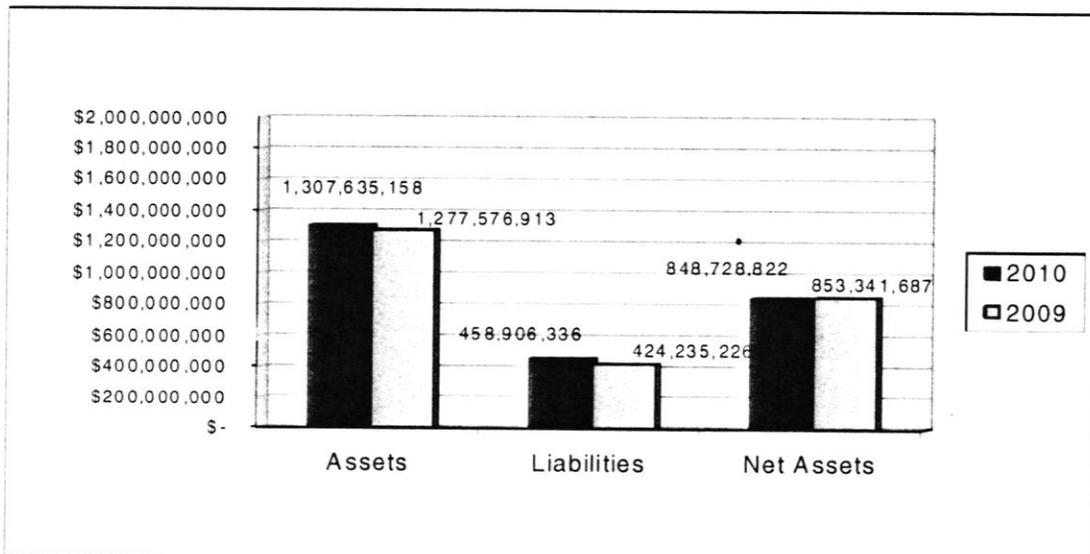
**Net Assets**

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 \$848,728,822 at the end of 2010, compared to \$853,341,687 at the end of the previous year.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets (Continued)**

<b>Condensed Statement of Net Assets</b>				
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>%</b>
Current assets	\$182,652,318	\$172,935,619	\$9,716,699	6%
Capital assets	1,124,982,840	1,104,641,294	20,341,546	2%
<b>Total assets</b>	<b>1,307,635,158</b>	<b>1,277,576,913</b>	<b>30,058,245</b>	<b>2%</b>
Current liabilities	93,935,949	89,648,934	4,287,015	5%
Noncurrent liabilities	364,970,387	334,586,292	30,384,095	9%
<b>Total liabilities</b>	<b>458,906,336</b>	<b>424,235,226</b>	<b>34,671,110</b>	<b>8%</b>
Invested in capital assets, net of related debt	852,665,840	854,316,294	(1,650,454)	-
Restricted	89,254,254	72,979,053	16,275,201	22%
Unrestricted	(93,191,272)	(73,953,660)	(19,237,612)	26%
<b>Total net assets</b>	<b>\$848,728,822</b>	<b>\$853,341,687</b>	<b>(\$4,612,865)</b>	<b>(1%)</b>



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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**Changes in Net Assets**

The Municipality's net assets decreased by \$4,612,865. This decrease was due mainly to decreases in revenues during 2009-2010, particularly in the lines of sales and use taxes and construction excise taxes.

Approximately 70 percent of the Municipality's total revenue came from taxes, while 20 percent resulted from grants and contributions, including federal aid. Charges for Services provided 4 percent of the total revenues. Interest earnings and miscellaneous provided 6 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

<b>Condensed Statement of Activities</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>%</b>
<b>Program revenues:</b>				
Charges for services	\$8,432,150	\$10,226,336	(\$1,794,186)	(18%)
Operating grants and contributions	18,215,448	21,176,978	(2,961,530)	(14%)
Capital grants and contributions	3,851,732	1,836,828	2,014,904	110%
<b>General revenues:</b>				
Property taxes	79,032,781	63,944,675	15,088,106	24%
Sales and use taxes	13,839,813	13,650,914	188,899	1%
Municipal license tax	48,109,120	48,837,669	(728,549)	(1%)
Grants and contributions not restricted to specific programs	19,236,884	12,547,175	6,689,709	53%
Interest, fines and penalties	3,734,987	6,644,358	(2,909,371)	(44%)
Gain (Loss) on retirement of Capital Assets	(818,334)	(10,683)	(807,651)	7560%
Miscellaneous	10,520,755	11,426,009	(905,254)	(8%)
<b>Total revenues</b>	<u>204,155,336</u>	<u>190,280,259</u>	<u>13,875,077</u>	7%
<b>Expenses:</b>				
General government	81,339,742	65,468,637	15,871,105	24%
Public safety	12,079,172	11,611,864	467,308	4%
Health and Sanitation	33,471,233	30,037,772	3,433,461	11%
Culture and recreation	17,496,600	15,523,073	1,973,527	13%
Public Housing and welfare	5,844,090	5,007,033	837,057	17%
Economic development	29,496,121	22,183,455	7,312,666	33%
Depreciation	14,163,938	13,496,019	667,919	5%
Interest on long-term debt	14,877,305	15,798,612	(921,307)	(6%)
<b>Total expenses</b>	<u>208,768,201</u>	<u>179,126,465</u>	<u>29,641,736</u>	17%
Change in net assets	(4,612,865)	11,153,794	(15,766,659)	(141%)
Net assets, beginning of year	<u>853,341,687</u>	<u>842,187,893</u>	<u>11,153,794</u>	1%
Net assets, end of year	<u><u>\$848,728,822</u></u>	<u><u>\$853,341,687</u></u>	<u><u>(\$4,612,865)</u></u>	(1%)

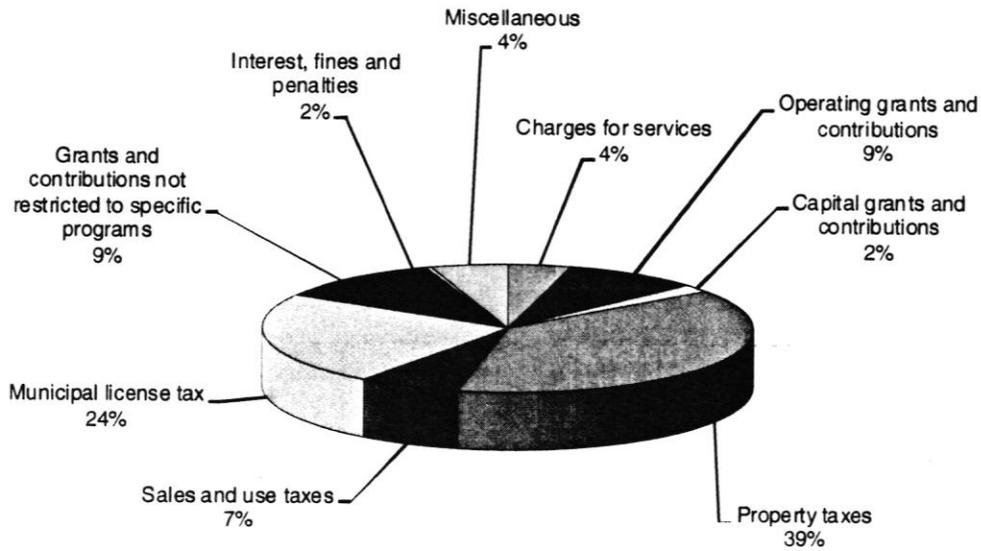
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

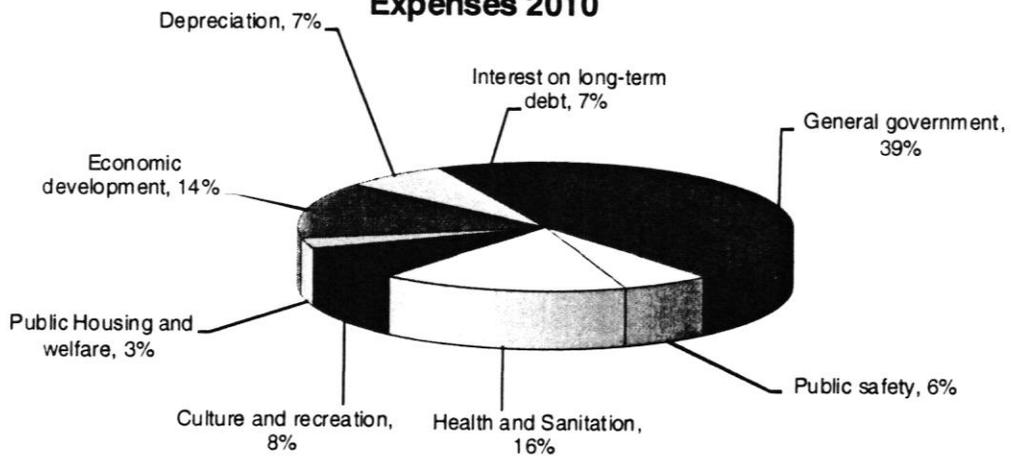
YEAR ENDED JUNE 30, 2010

Changes in Net Assets (Continued)

Revenues 2010



Expenses 2010



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2010**

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**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 \$102,964,230, an increase of \$7,356,007 in comparison with the prior year. There are reservations of fund balance amounting to \$101,686,583. 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 (\$11,091,177), 2) to pay debt service (\$13,812,712), 3) to pay for capital projects (\$75,441,542) and 4) for other purposes (\$ 1,341,152).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2010, the general fund has a fund deficiency of (\$5,593,173).

**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, 2010**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2010, amounts to \$1,259,130,820 net of accumulated depreciation of \$134,147,980, leaving a net book value of \$1,124,982,340. 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 1% in terms of net book value. Depreciation charges for the year totaled \$ 14,163,938.

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, 2010, the Municipality has \$75,441,542 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".

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, 2010**

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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 was 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 2010-2011 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 2<sup>nd</sup> floor of the Guaynabo City Hall, Guaynabo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 56,852,558
Cash with fiscal agent (Notes 2 and 5)	103,699,236
Accounts receivable:	
Property taxes (Note 6)	3,240,872
Municipal license taxes (Note 7)	6,885,582
Construction excise tax	1,261,708
Interests	172,066
Rent, fines and charges for services	2,031,280
Sales and use tax (Note 8)	1,346,750
Deferred charges	1,115,246
Due from other agencies (Note 9)	4,705,868
Inventory	1,341,152
Capital assets, net (Note 11)	1,124,982,840
Total assets	<u>\$ 1,307,635,158</u>
 <u>Liabilities and Net Assets</u> 	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 6,160,751
Due to other agencies (Note 12)	12,765,223
General obligations:	
Bonds	11,372,000
Interest	6,167,685
Deferred revenues (Note 13):	
Municipal license tax	36,027,546
Federal government	553,832
Accrued interest	17,022,958
Claims and judgements	3,865,954
Noncurrent liabilities (Note 15):	
Due within one year	19,314,073
Due in more than one year	345,656,314
Total liabilities	<u>458,906,336</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	852,665,840
Restricted for:	
Debt service	13,812,712
Capital projects	75,441,542
Unrestricted	(93,191,272)
Total net assets	<u>848,728,822</u>
Total liabilities and net assets	<u>\$ 1,307,635,158</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Functions/Programs</u>	Program Revenues			<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
General government	\$ 81,339,742	\$ 8,432,150	\$ -	\$ -	\$ (72,907,592)
Public safety	12,079,172		195,458		(11,883,714)
Public housing and welfare	5,844,090		6,126,166		282,076
Culture and education	17,496,600		11,893,824		(5,602,776)
Health and sanitation	33,471,233				(33,471,233)
Depreciation	14,163,938			3,851,732	(14,163,938)
Economic development	29,496,121				(25,644,389)
Interest on long-term debt	14,877,305				(14,877,305)
<b>Total</b>	<b>\$ 208,768,201</b>	<b>\$ 8,432,150</b>	<b>\$ 18,215,448</b>	<b>\$ 3,851,732</b>	<b>(178,268,871)</b>
<b>General revenues:</b>					
Property taxes <b>(Note 6)</b>					79,032,781
Sales and use taxes <b>(Note 8)</b>					13,839,813
Municipal license tax <b>(Note 7)</b>					48,109,120
Grants and contributions not restricted to specific programs					19,236,884
Interest, fines and penalties					3,734,987
Miscellaneous					10,520,755
Total general revenues					174,474,340
Loss on disposition of assets					(818,334)
Change in net assets					(4,612,865)
Net assets at beginning of year as restated <b>(Note 22)</b>					853,341,687
Net assets at end of year					\$ 848,728,822

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2010**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 46,422,320	\$ -	\$ 97,694	\$ 10,332,544	\$ 56,852,558
Cash with fiscal agent (Notes 2 and 5)	521,594	28,111,525		75,066,117	103,699,236
Accounts receivable:					
Property taxes (Note 6)		3,240,872			3,240,872
Municipal license taxes (Note 7)	4,700				4,700
Interest	172,066				172,066
Rent, licenses, and permits	712,576				712,576
Sales and use tax (Note 8)	894,482				894,482
Due from other agencies (Note 9)	337,346		4,368,522		4,705,868
Due from other funds (Note 10)	5,846,275				5,846,275
Inventory	1,341,152				1,341,152
Total assets	<u>\$ 56,252,511</u>	<u>\$ 31,352,397</u>	<u>\$ 4,466,216</u>	<u>\$ 85,398,661</u>	<u>\$ 177,469,785</u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2010**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Account payable and accrued liabilities	\$ 1,646,630	\$ -	\$ 663,558	\$ 478,848	\$ 2,789,036
Due to other funds (Note 10)				5,846,275	5,846,275
Due to other agencies (Note 12)	10,615,724		10,002		10,625,726
General obligations:					
Bonds		11,372,000			11,372,000
Interest		6,167,685			6,167,685
Deferred revenues: (Note 13)					
Municipal license tax	36,027,546				36,027,546
Federal government				553,832	553,832
Claims and judgements	1,123,455				1,123,455
Total liabilities	<u>49,413,355</u>	<u>17,539,685</u>	<u>673,560</u>	<u>6,878,955</u>	<u>74,505,555</u>
<b>Fund Balance</b>					
Reserved for:					
Encumbrances	11,091,177				11,091,177
Debt service		13,812,712			13,812,712
Inventories	1,341,152				1,341,152
Capital projects				75,441,542	75,441,542
Unreserved fund balance (deficiency)	(5,593,173)		3,792,656	3,078,164	1,277,647
Total fund balance	<u>6,839,156</u>	<u>13,812,712</u>	<u>3,792,656</u>	<u>78,519,706</u>	<u>102,964,230</u>
Total liabilities and fund balance	<u>\$ 56,252,511</u>	<u>\$ 31,352,397</u>	<u>\$ 4,466,216</u>	<u>\$ 85,398,661</u>	<u>\$ 177,469,785</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, 2010**

Total fund balances - governmental funds \$ 102,964,230

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 1,124,982,840
  
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (390,247,056)
  
- 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. 11,028,808

Net assets of governmental activities \$ 848,728,822

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

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ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Property taxes (Note 6)	\$48,215,370	\$30,817,411	\$ -	\$ -	\$ 79,032,781
Municipal license taxes (Note 7)	46,198,957				46,198,957
Sales and use taxes (Note 8)	10,049,787	3,337,758			13,387,545
Licenses and permits	3,551,060				3,551,060
Charges for service and rents	4,377,478			500,900	4,878,378
Intergovernmental revenues (Note 14):					
Federal grants and contributions			4,043,882	18,023,298	22,067,180
State contributions	11,368,612			7,868,272	19,236,884
Interest, fines, and penalties	3,430,510	17,797		286,680	3,734,987
Other revenues	10,520,755				10,520,755
Total revenues	<u>137,712,529</u>	<u>34,172,966</u>	<u>4,043,882</u>	<u>26,679,150</u>	<u>202,608,527</u>
<b>EXPENDITURES</b>					
Current:					
General government	76,120,755			1,527,275	77,648,030
Public safety	11,985,810			93,362	12,079,172
Public housing and welfare	1,249,972			4,594,118	5,844,090
Economic development	18,220,804			11,275,317	29,496,121
Health and sanitation	26,791,001				26,791,001
Culture and education	1,450,435		8,253,436	7,792,729	17,496,600
Capital outlays	7,886,577			27,437,241	35,323,818
Debt service:					
Principal retirement		14,975,924			14,975,924
Interest and other		13,542,764			13,542,764
Total expenditures	<u>143,705,354</u>	<u>28,518,688</u>	<u>8,253,436</u>	<u>52,720,042</u>	<u>233,197,520</u>
Excess (deficiency) of revenues over expenditures	<u>(5,992,825)</u>	<u>5,654,278</u>	<u>(4,209,554)</u>	<u>(26,040,892)</u>	<u>(30,588,993)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of refunding bonds				71,975,000	71,975,000
Loan proceeds				37,945,000	37,945,000
Transfers in	3,863,334	77,252,782			81,116,116
Transfers out	(4,084,627)	(3,863,334)		(73,168,155)	(81,116,116)
Payment to refunded bonds		(71,975,000)			(71,975,000)
Total other financing sources (uses)	<u>(221,293)</u>	<u>1,414,448</u>		<u>36,751,845</u>	<u>37,945,000</u>
(Deficiency) excess of revenues and other sources over (under) expenditures and other uses	<u>(6,214,118)</u>	<u>7,068,726</u>	<u>(4,209,554)</u>	<u>10,710,953</u>	<u>7,356,007</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>13,053,274</u>	<u>6,743,986</u>	<u>8,002,210</u>	<u>67,808,753</u>	<u>95,608,223</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 6,839,156</u>	<u>\$ 13,812,712</u>	<u>\$ 3,792,656</u>	<u>\$ 78,519,706</u>	<u>\$ 102,964,230</u>

*[Handwritten signature]*  
28/09/2011

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 YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds	\$ 7,356,007
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	35,323,818
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	(14,163,938)
<ul style="list-style-type: none"> <li>• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.</li> </ul>	(37,945,000)
<ul style="list-style-type: none"> <li>• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.</li> </ul>	2,365,143
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	14,975,924
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	(818,334)
<ul style="list-style-type: none"> <li>• Change in accrued interest expense which does not require the use of current financial resources.</li> </ul>	(1,334,541)
<ul style="list-style-type: none"> <li>• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds.</li> </ul>	<u>(10,371,944)</u>
Changes in net assets of governmental activities	<u>\$ (4,612,865)</u>

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

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
<b>REVENUES</b>							
Property taxes	\$ 46,939,612	\$ 47,878,024	\$ 47,878,024	\$ 24,724,887	\$ 30,817,411	\$ 6,092,524	
Municipal license taxes	49,003,000	49,003,000	46,489,030	(2,513,970)			
Sales and use taxes	15,060,000	15,060,000	10,099,125	(4,960,875)			
Licenses and permits	7,130,108	7,130,108	3,551,060	(3,579,048)	3,337,758	815,864	
Charges for services and rent	5,057,981	5,057,981	4,324,656	(733,325)			
Intergovernmental revenues:							
State contributions	8,486,540	8,760,856	8,730,463	(30,393)			
Interest, fines and penalties	5,800,000	5,800,000	3,280,615	(2,519,385)			
Other revenues	105,100	505,100	11,524,337	11,019,237	17,797	17,797	
Total revenues	137,582,341	139,195,069	135,877,310	(3,317,759)	27,246,781	34,172,966	6,926,185
<b>EXPENDITURES</b>							
Current:							
General government	79,535,653	79,532,966	77,513,044	2,019,922			
Public safety	12,489,101	12,526,053	12,495,412	30,641			
Public housing and welfare	1,238,789	1,273,029	1,263,510	9,519			
Economic development	15,197,612	22,672,400	22,234,349	438,051			
Health and sanitation	27,540,201	27,299,857	27,097,415	202,442			
Culture and education	1,580,985	1,803,439	1,623,011	180,428			
Debt service:							
Principal					9,202,000	14,975,924	5,773,924
Interest					9,808,075	13,542,764	3,734,689
Reserve					8,236,706	8,236,706	(8,236,706)
Total expenditures	137,582,341	145,107,744	142,226,741	2,881,003	27,246,781	28,518,688	1,271,907
<b>OTHER FINANCING SOURCES</b>							
Reprogramming funds		5,912,675	5,912,675				
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (436,756)	\$ (436,756)	\$ -	\$ 5,654,278	\$ 5,654,278

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, 2010**

**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).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- **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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 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 is 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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, 2010**

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, 2010**

**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, 2010).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

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

**f. Interfund Receivables and Payables**

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

**g. Capital Assets**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**h. Reservation of Fund Balance**

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

The Municipality has the following reservations of fund balance:

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Project Fund

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

4) Federal Programs

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

**i. Risk Financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2010 amounted to approximately \$1 million.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2 million for workers' compensation insurance covering all municipal employees.

**j. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as 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>
54	Fund Balance Reporting Governmental Fund Type Definition	2010-11
57	OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus- on Amendment of GASB No. 14 and 34	2012-13

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<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AND AICPA Pronouncements.	2012-13

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

**I. Use of Estimates**

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

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

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

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

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

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

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

**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, 2010 is presented below for the general fund and debt service funds:

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	<b>General Fund</b>	<b>Debt Service Fund</b>
Excess (deficiency) of revenues over expenditures - budgetary basis	\$ (436,756)	\$ 5,654,278
Entity differences:		
Non-budgeted expenditures	(659,449)	
Non-budgeted transfers in	3,863,334	77,252,782
Non-budgeted transfers-out	(4,084,627)	(3,863,334)
Payment to refunded bonds		(71,975,000)
Non-budgeted revenues	10,314,659	
Reprogramming funds	(5,912,675)	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(20,389,781)	
Current year encumbrances recorded as expenditures for budgetary basis	11,091,177	
Excess (deficiency) of revenues over expenditures - GAAP basis	\$ (6,214,118)	\$ 7,068,726

**c. Legal Compliance**

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

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

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



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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	< <u>.20%</u> >	< <u>.20%</u> >
	<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.

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.

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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). The Municipality has not received the preliminary settlement from CRIM related to fiscal year 2009-2010.

**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, 2010. 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, 2010, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$6,885,582 and \$36,027,546, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2010 the municipal license tax receivable (net) and the

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respective deferred revenues amounted to \$4,700 and \$36,027,546, 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 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:

Council of Occupational Development and Human Resources	\$4,368,522
CRIM	<u>337,346</u>
Total	<u>\$4,705,868</u>

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**10. INTERFUND TRANSACTIONS**

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

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	<u>\$5,846,275</u>

The balance of approximately \$5.8 million due to the general fund from other governmental funds resulted from loans made to construction projects that will be paid during the subsequent year.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 3,863,334
Debt Service	General	4,084,627
Debt Service	Other Governmental Funds	<u>73,168,155</u>
		<u>\$81,116,116</u>

The transfer from the debt service fund to the general fund of \$3,863,334 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.

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**11. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 641,014,101	\$ 9,077,661	\$ -	\$ 650,091,762
Construction in progress	96,907,760	26,859,835	77,878,711	45,888,884
Total capital assets, not being depreciated	<u>737,921,861</u>	<u>35,937,496</u>	<u>77,878,711</u>	<u>695,980,646</u>
Capital assets, being depreciated:				
Buildings and building improvements	271,994,650	60,522,481		332,517,131
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	53,874,651	6,548,752	2,014,787	58,408,616
Infrastructure	162,030,627	10,193,300		172,223,927
Total capital assets, being depreciated	<u>487,899,928</u>	<u>77,264,533</u>	<u>2,014,787</u>	<u>563,149,674</u>
Less accumulated depreciation for:				
Buildings and building improvements	64,829,315	6,523,628		71,352,943
Vehicles, equipment, furniture, and fixtures (including equipment under capital leases)	35,517,387	4,952,623	1,184,911	39,285,099
Infrastructure	20,833,793	2,687,687	11,542	23,509,938
Total accumulated depreciation	<u>121,180,495</u>	<u>14,163,938</u>	<u>1,196,453</u>	<u>134,147,980</u>
Total capital assets, being depreciated, net	<u>366,719,433</u>	<u>63,100,595</u>	<u>818,334</u>	<u>429,001,694</u>
Governmental activities capital assets, net	<u>\$ 1,104,641,294</u>	<u>\$ 99,038,091</u>	<u>\$ 78,697,045</u>	<u>\$ 1,124,982,340</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2010 are as follows:

	<u>Governmental Fund</u>	<u>Governmental Wide</u>
Employee's Retirement System Administration	\$ 2,061,834	\$ 2,061,834
CRIM	895,002	3,034,499
General Services Administration	14,408	14,408
Puerto Rico Water and Sewer Authority	152,781	152,781
Council of Occupational Development and Human Resource	10,002	10,002
State Insurance Fund	979,397	979,397
ASES	<u>6,512,302</u>	<u>6,512,302</u>
Total	<u>\$10,625,726</u>	<u>\$12,765,223</u>

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**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$36,027,546 in the general fund related to municipal license tax collected in fiscal year 2009-2010 that will be earned in fiscal year 2010-2011 (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>

**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

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- 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, 2010, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2010 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%.	\$ 8,000,000
\$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%	3,115,000
\$15,965,000 series of 1995, payable in annual installments of \$385,000 to \$1,540,000 until July 1, 2013, interests from 6.11% to 7.71%	4,285,000
\$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%	410,000
\$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%	17,550,000
\$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%	14,640,000

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\$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%	\$ 11,920,000
\$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%	8,385,000
\$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%	2,240,000
\$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%	3,790,000
\$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%.	2,420,000
\$2,715,000 series of 2003, payable in annual installments from \$45,000 to \$215,000 until July 1, 2027, interests from 5.00% to 6.50%.	2,255,000
\$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%.	420,000
\$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%.	3,335,000
\$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%.	535,000

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\$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%.	\$ 2,155,000
\$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%.	8,055,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	4,080,000
\$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%.	5,225,000
\$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%.	3,670,000
\$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%.	270,000
\$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%.	1,490,000
\$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%.	835,000
\$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%.	3,730,000
\$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%.	1,050,000

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\$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%.	\$ 85,000
\$6,020,000 series of 2007, payable in annual installments of \$140,000 to \$550,000 until July 1, 2026, interests of 6.60% to 7.50%.	5,395,000
\$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%.	32,140,000
\$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%	2,395,000
\$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%.	1,145,000
\$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%.	260,000
\$6,325,000 series of 2009, payable in annual installments from \$90,000 to \$530,000 until July 1, 2033, interests from 1.53% to 7.50%.	6,135,000
\$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%.	1,540,000
\$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%.	1,105,000

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\$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%.	\$ 1,945,000
\$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%.	684,000
\$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%.	655,000
\$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%.	1,845,000
\$6,270,000 series of 2010, payable in annual installments from \$115,000 to \$465,000 until July 1, 2034, interests from 4.75% to 6.00%.	6,155,000
\$12,350,000 series of 2010, payable in annual installments from \$220,000 to \$910,000 until July 1, 2034, interests from 4.75% to 7.50%.	12,130,000
\$24,015,000 series of 2010, payable in annual installments from \$405,000 to \$1850,000 until July 1, 2034, interests from 4.75% to 7.50%.	23,610,000
\$4,885,000 series of 2010, payable in annual installments from \$195,000 to \$490,000 until July 1, 2024, interests from 4.75% to 7.50%.	4,690,000
\$9,045,000 series of 2010, payable in annual installments from \$130,000 to \$755,000 until July 1, 2034, interests from 4.75% to 7.50%.	8,915,000
\$53,355,000 series of 2010, payable in annual installments from \$1,647,000 to \$4,434,000 until July 1, 2028, interests from 4.60% to 5.77%.	<u>51,708,000</u>
Total bonds payable	\$ <u>276,397,000</u>

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**Notes Payable**

<p>\$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.</p>	<p>\$ 2,920,000</p>
<p>\$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%.</p>	<p>1,998,000</p>
<p>\$7,028,503 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.</p>	<p>6,111,007</p>
<p>\$2,000,000 note payable to The Bank of New York. The term of the loan is for twenty years is payable annually each August, started in August of 2007.</p>	<p>1,878,000</p>
<p>Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.</p>	<p>2,780,564</p>
<p>Note payable of \$3,411,005 represents a financing agreement with CRIM to the repayment of catastral digitalization. The agreement is due in semester payment of \$228,743 until November 28, 2011 at interest rate of 5.95%.</p>	<p><u>647,340</u></p>
<p>Total notes payable</p>	<p><u>16,334,911</u></p>
<p>Total bonds, notes, and other long-term debt</p>	<p><u>\$292,731,911</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2010, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 13,190,000	\$ 16,154,645	\$ 1,511,683	\$ 868,313
2012	14,144,000	16,195,449	1,322,166	789,184
2013	14,953,000	15,386,996	1,114,119	727,171
2014	12,603,000	14,473,288	1,129,779	669,971
2015	13,329,000	13,792,621	1,115,045	611,890
2016-2020	74,015,000	56,845,202	3,057,263	2,324,620
2021-2025	66,745,000	34,128,589	3,139,961	1,554,403
2026-2030	44,778,000	15,857,578	2,742,413	832,748
2031-2034	22,640,000	3,414,075	1,202,482	98,153
	<u>\$ 276,397,000</u>	<u>\$186,248,443</u>	<u>\$16,334,911</u>	<u>\$ 8,476,453</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustment</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 250,325,000	\$ 37,945,000	\$ (13,500,500)	\$ 1,627,500	\$ 276,397,000	\$ 13,190,000
Notes payable	17,810,335		(1,475,424)		16,334,911	1,511,683
Total long-term debt	<u>268,135,335</u>	<u>37,945,000</u>	<u>(14,975,924)</u>	<u>1,627,500</u>	<u>292,731,911</u>	<u>14,701,683</u>
Capital leases	37,426,549		(1,759,743)		35,666,806	1,862,390
Landfill obligation	17,200,000		(1,538,317)		15,661,683	1,500,000
ASES	-	6,680,232			6,680,232	-
Compensated absences	11,824,408	2,405,347			14,229,755	1,250,000
Total other liabilities	<u>66,450,957</u>	<u>9,085,579</u>	<u>(3,298,060)</u>	<u>-</u>	<u>72,238,476</u>	<u>4,612,390</u>
Total noncurrent liabilities	<u>\$ 334,586,292</u>	<u>\$ 47,030,579</u>	<u>\$ (18,273,984)</u>	<u>\$ 1,627,500</u>	<u>\$ 364,970,387</u>	<u>\$ 19,314,073</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have

attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico.

The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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, 2010 was \$2,949,312. The Municipality's payroll for employees covered by ERS was \$31,798,512. The Municipality total payroll for all employees was \$54,098,075.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**17. RISK MANAGEMENT**

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

**18. LEASES**

**a. Capital Leases**

The Municipality is obligated under several capital lease agreements with third parties that will expire at different years until 2024. 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, 2010 is as follows:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Year ending June, 30</u>	<u>Amount</u>
2011	\$ 3,473,057
2012	3,465,722
2013	3,547,856
2014	3,668,395
2015	3,769,416
2016-2020	18,941,743
2021-2025	<u>10,891,078</u>
Total minimum lease payments schedule under agreements	47,757,267
Less:	
Interests to be paid through expiration dates of lease agreements	<u>12,090,461</u>
Present value of minimum lease payments	35,666,806
Less: Current portion of obligation under capital leases	<u>1,862,390</u>
Long-term portion of obligation under capital leases	<u>\$ 33,804,416</u>

The activity of obligation under capital leases for the year ended June 30, 2010 was as follows:

	<u>Balance at June 30, 2009</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2010</u>
Principal	\$ <u>37,426,549</u>	\$ <u>-</u>	(\$ <u>1,759,743</u> )	\$ <u>35,666,806</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, 2010 was \$1,348,305.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**19. CONTINGENCIES**

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

**20. LANDFILL CLOSURE AND POSTCLOSURE COSTS**

The Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs issued by the Governmental Accounting Standard Board*. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws or regulations to incur closure and postclosure care costs.

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. As of June 30, 2010, 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

During fiscal year ended as of June 30, 2009 and June 30, 2010, the Municipality incurred in landfill closing costs which approximates to \$2,000,000 and \$1,538,000, respectively. The landfill obligation has been reduced to \$15,662,000 as of June 30, 2010. 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, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$75.1 million.

**22. RESTATEMENTS**

**a. Net Assets:**

During the fiscal year 2009-10 the Municipality recorded construction projects that were not recorded in prior years.

The beginning balance of net assets as of July 1, 2009 has been restated as follows:

Net assets at beginning of year as previously reported	\$ 819,248,929
Understatement of fixed assets	<u>34,092,758</u>
Net assets at beginning of year as restated	<u>\$ 853,341,687</u>

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

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Section 8 Housing Choice Vouchers	14.871	RQ46-E016-001-007	\$ 2,376,734
Emergency Shelter Grant Program	14.231		25,421
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	1,779,442
Community Development Block Grant Program/Entitlement Grants- ARRA	14.253		75,573
Community Development Block Grant, Section 108, Loan Guarantee	14.248		29,746
HOME Investment Partnership Program	14.239		1,866,572
ARRA/ Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262		18,944
Pass-through Municipality of San Juan: Housing Opportunity for Persons with AIDS	14.241		58,869
Pass-through Puerto Rico Department of Housing: Public and Indian Housing	14.850		489,077
Subtotal U.S. Department of HUD			<u>6,720,378</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Head Start	93.600	02-CH-0483	7,489,032
ARRA- Head Start	93.708		287,021
Pass-through the Puerto Rico Elderly Commission:  Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	419,745
Nutrition Services Incentive Program	93.053		215,412
Subtotal U.S. Department of HHS			<u>8,411,210</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Puerto Rico Department of Education: Child and Adult Care Food Program	10.558	N/A	612,356
Summer Food Service Program	10.559		4,474
Subtotal U.S. Department of Agriculture			<u>616,830</u>
<b>U.S. Department of Labor</b>			
Pass-through State Office of the Governor's Office of Economic Opportunity: Workforce Investment Act			
Adult	17.258		2,164,441
Youth Activities	17.259		1,450,959
Dislocated Workers	17.260		787,152
Adult - ARRA	17.258		640,707
Youth Activities - ARRA	17.259		1,747,696
Dislocated Workers - ARRA	17.260		333,790
Subtotal U.S. Department of Labor			<u>7,124,745</u>
<b>U.S. Department of Justice</b>			
Pass-through Department of Justice:  Public Safety Partnership and Community Policing Grants	16.710		34,822
Subtotal U.S. Department of Justice			<u>34,822</u>
<b>U.S. Department of Homeland Security</b>			
Hazard Mitigation Grant Program	97.039		58,540
Subtotal U.S. Department of Homeland Security			<u>58,540</u>
<b>TOTAL</b>			<u>\$ 22,966,525</u>

See notes to Schedule of Expenditure of Federal Awards.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

**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	\$7,124,745
Reimbursement to Grantor Agency	<u>1,128,691</u>
Total expenditures per basic financial statements	<u>\$8,253,436</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>\$22,966,525</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$15,841,780
Workforce Investment Act Programs	<u>7,124,745</u>
	<u>\$22,966,525</u>

**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, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated February 23, 2011. 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 control 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 February 23, 2011.

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  
February 23, 2011

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to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON 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 Municipality of Guaynabo's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Guaynabo' major federal programs for the year ended June 30, 2010. Municipality of Guaynabo' 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 an opinion on Municipality of Guaynabo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 compliance with those requirements.

As described in items 10-4 to 10-6 in the accompanying Schedule of findings and questioned cost, Municipality of Guaynabo did not comply with requirements regarding cash management, reporting, and eligibility 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 to 10-3.

#### 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 internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention

by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-4 to 10-6 to be significant deficiencies.

Municipality's responses 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 management, Commissioner Office of Municipal Affairs, others within the entity 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  
February 23, 2011

*Ortiz, Rivera, Rivera & Co.*

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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, 2010**

**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, 2010, and have issued our report thereon dated February 23, 2011. 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.
- 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

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<u>Funding Source</u>	<u>Program</u>	<u>CFDA No.</u>
U.S. Department of Labor	Workforce Investment Act Dislocated Workers	17.260
U.S. Department of Labor	Workforce Investment Act Adult Program- ARRA	17.258
U.S. Department of Labor	Workforce Investment Act Youth Activities- ARRA	17.259
U.S. Department of Labor	Workforce Investment Act Dislocated Workers- ARRA	17.260
U.S. Department of Health and Human Services	Head Start	93.600
U.S. Department of Health and Human Services	Head Start- ARRA	93.708
U.S. Department of Health and Human Services	Early Head Start	93.600
U.S. Department of Housing and Urban Development	HOME Investment Partnership Program	14.239
U.S. Department of Housing and Urban Development	Community Development Block Grant/ Entitlement Grants	14.218
U.S. Department of Housing and Urban Development	Community Development Block Grant/ Entitlement Grants- ARRA	14.253
U.S. Department of Housing and Urban Development	Public and Indian Housing	14.850

- A threshold of \$688,995 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 66 to 77, 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 14, 2011 and are included in Part III. These

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

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

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

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- **“OMB Circular A-102”** - Circular Letter A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled “Grants and Cooperative Agreements with State and Local Governments,” dated March 3, 1988. This Circular Letter establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, Local, and federally recognized Indian tribal governments.
- **“CFR”** - This is the “Code of Federal Regulations” issued by the Federal Government. The CFR is a codification of the general and permanent rules published by the Federal Government. The Code is divided into 50 titles that represent broad areas subject to Federal regulation. Each title is divided into chapters that usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
- **“Common Rule”** - The Common Rule refers to the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” which establishes uniform administrative rules for Federal grants and cooperative agreements and subwards to State, local, and Indian Tribal governments.
- **“Basic Standards”** - “Revised Regulation on Basic Standards for the Municipalities of Puerto Rico” approved by the Office of the Commissioner of Municipal Affairs. The Basic Standards were created under Article 19.011 of Law 81, enacted on August 30, 1991, “Autonomous Municipalities Law of the Commonwealth of Puerto Rico”. It establishes the rules and operational standards applicable to the municipalities in relation to the accountability of funds, property and other financial and fiscal matters administered by the municipalities of Puerto Rico. Its main purpose is to allow for the efficient use and administration of the municipal operations.
- **“Autonomous Municipalities Law of the Commonwealth of Puerto Rico”** - The “Autonomous Municipalities Law of the Commonwealth of Puerto Rico”, Law 81 of August 30, 1991, as amended, was enacted to establish standard rules and regulations regarding the creation, organization, administration and functions of the municipal governments in Puerto Rico. It establishes the main guidelines and requirements that govern all the municipal functions and activities.

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**Significant Deficiency**

The findings listed on pages 66 through 77 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.

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<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 10-1	Inadequate cash management procedures	N/A	N/A	17.258,17.259 17.260	
<u>Home Investment Partnership Program</u>					
SA 10-2	Inadequate cash management procedures	N/A	N/A	14.239	
SA 10-3	Noncompliance with reporting	N/A	N/A	14.239	
<u>Public and Indian Housing</u>					
SA 10-4	Inadequate cash management procedures	N/A	N/A	14.850	
SA 10-5	Participant files	N/A	N/A	14.850	
SA 10-6	Noncompliance with reporting	N/A	N/A	14.850	

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

***Program Description***

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

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

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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 10-1: 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, 2009 through June, 2010.

The Consortium maintains an excess average cash balance per month of approximately \$235,000.

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.

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

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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

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**B. Home Investment Partnership Program (CFDA 14.239)**

***Program Description***

The objectives of the Home Investment Partnership Program ("HOME") include: expanding the supply of decent and affordable housing, particularly housing for low and very low-income Americans; strengthening the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and extending and strengthening partnerships among all levels of government and the private sector, including for-profit and not for profit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

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

**Finding SA-10-2: Cash Management**

**Condition**

The Municipality of Guaynabo's internal control regarding with Home Investment Partnership Program is not in compliance with the cash management requirement since the Municipality is not minimizing the time elapsed between the receipt of funds and final disbursement for payment. Additionally on December 16 and 17, 2009 the Municipality duplicate a drawn down of funds by the amounts of \$12,768.

**Criteria**

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

When entities are funded on a reimbursement basis, program costs must be paid by entity funds before a reimbursement is requested from the Federal Government. When funds are advanced, means that a Federal Program Agency

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transfers the actual amount of federal funds to a State that will be paid by the State, in a lump sum, not more than three business days prior to the day that the State issues checks or initiates AFT payments and therefore recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipients.

When advance payments procedures are used, recipients must establish similar procedure for sub recipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on sub recipients as cash balances and cash disbursements in sufficient time to enable the pass-through entity. Pass-through entities must cash drawdown by their sub recipients to assure that sub recipients conform substantially to the same standard of timing and amounts as apply to the pass-through entity.

Interest earned on advances by the municipality is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$ 100 per year may be kept for administrative expenses. Interest earned by non-State, nonprofit entities on federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, PO Box 6021, Rockville, MD 20852.

Cause

The Municipality consume a lot of time since the purchase order has been created until the disbursement voucher is authorized and is ready to be paid.

Effect

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

Questioned Costs

None

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Recommendation

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period.

**Finding SA 10-3: Noncompliance with Submission Date Report**

Condition

The HOME Investment Partnership Program does not have an effective system of internal control to ensure 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:

***Federal Cash Transaction Report***

Quarter	Date to be Submitted	Date Submitted	According to Law	
			Yes	No
Jul - Sep 09	October 15, 2009	Oct/23/09		x
Oct - Dec 09	January 15, 2010	Jan/26,10		x
Jan - Mar 10	April 15, 2010	Apr/28/10		x
Apr - Jun 10	July 15, 2010	Aug/6/10		x

Criteria

As per the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Section 41 (b), the federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal

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agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support.

When reports are required on a quarterly or semiannual basis, they will be due 15 days after the reporting period. When required on annual basis, they will be due 90 days after the grant year. Financial reports will be due 90 days after the expiration or termination of grant support.

Cause

The conditions described above result because the Municipality did not have an employee with a required password for the submission of the financial report.

Effect

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.

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

Questioned Costs

None

Recommendation

The 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 the complying of the required reporting deadlines.

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**C. Public and Indian Housing - (CFDA 14.850)**

**Program Description**

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

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

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

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

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

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

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**Finding Number SA 10-4: 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.
- b. The program maintained an excess average monthly cash balance of \$367,000.
- c. Cash balance as per bank reconciliation as of June 30 2010 amounts to approximately \$301,000.

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 sub grantees.

Cause

The program receives a monthly assistance payment from the Puerto Rico Public Housing Authority in excess of the monthly expenses.

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

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Housing Authority and prepare and submit a revised requisition to reduce monthly advances.

Questioned Cost

None

**Finding Number SA 10-5: Eligibility**

Condition

In testing compliance and internal control over compliance with the requirement of participant's eligibility we selected 10 participants who received assistance during FY 2009-10 to ascertain whether participants receiving assistance were eligible to participate in the program.

For the participants selected, we were unable to determine compliance with the abovementioned requirements as the Municipality could not provide us with the participant's file. As the program is in the closing process the participant's file were returned to the Puerto Rico Housing Authority.

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 program is in the closeout process.

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Effect

We can't evaluated that the program is on 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 program should establish a system to ensure that the records and documentation are retained for the time period required by applicable requirements.

**Finding Number SA 10-6: 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 20<sup>th</sup> day of each month as required for the months September, November, December, March, April, May and June.
- 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.

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.

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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 20<sup>th</sup> 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.

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

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

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SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDING AND QUESTIONED COSTS (CONTINUED)  
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<u>Program</u>	<u>Finding / Noncompliance</u>	<u>Status</u>
<p><b>WIA CFDA No. 17.258, 17.259, and 17.260</b></p>	<p><b>Condition SA-09-01</b></p> <p>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.</p>	<p>Condition still prevails.</p>
<p><b>WIA CFDA No. 17.258, 17.259, and 17.260</b></p>	<p><b>Condition SA-09-02</b></p> <p>The program failed in the timely submission of federal financial reports of the program.</p>	<p>Condition was corrected.</p>
<p><b>Public and Indian Housing CFDA 14.850</b></p>	<p><b>Condition SA-09-03</b></p> <p>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.</p>	<p>Condition still Prevails.</p>
<p><b>Public and Indian Housing CFDA 14.850</b></p>	<p><b>Condition SA-09-04</b></p> <p>The Municipality not maintaining all the require documents in each file for support participant's eligibility.</p>	<p>Condition still prevails.</p>
<p><b>Public and Indian Housing CFDA 14.850</b></p>	<p><b>Condition SA-09-05</b></p> <p>The program does not have an effective system of internal control to ensure the accurate preparation and timely submission of the federal financial reports.</p>	<p>Condition still prevails.</p>

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AUDIT FINDING AND QUESTIONED COSTS (CONTINUED)  
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<u>Program</u>	<u>Finding/Non compliance</u>	<u>Status</u>
<b>Section 8 – Housing Choice Voucher CFDA No. 14.871</b>	<b>Condition SA 09-06</b>  During our verification of participants' files we noticed some errors related to the Housing Assistance Payment (HAP) calculation.	Condition was corrected.
<b>Section 8 – Housing Choice Voucher CFDA No. 14.871</b>	<b>Condition SA 09-07</b>  During our waiting list test we observed one case we could not determined the reasons management provides the opportunity to obtain a voucher to participant #37 after participant #40.	Condition was corrected.
<b>Head Start CFDA No. 93.600</b>	<b>Condition SA 09-08</b>  The Head Start program construction contact over \$2,000 did not include the require clauses of prevailing wage rate for the Davis Beacon Act compliance.	Condition was corrected.
<b>Head Start CFDA No. 93.600</b>	<b>Condition SA 09-10</b>  The municipality did not maintain a proper management of real property and equipment.	Condition was corrected.
<b>Child and Adult Care Food Program CFDA No. 10.558</b>	<b>Condition SA 09-10</b>  The Municipality did not maintain a proper real property and equipment management.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDING AND QUESTIONED COSTS (CONTINUED)  
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<u>Program</u>	<u>Finding/Non compliance</u>	<u>Status</u>
<b>WIA</b> <b>CFDA No. 17.258,</b> <b>17.259, and 17.260</b>	<b>Condition SA 08-02</b>  The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.	Condition still prevails.
<b>Public and Indian Housing</b> <b>CFDA No. 14.850</b>	<b>Condition SA 08-03</b>  The Municipality is not maintaining all the required documents and information in each file as required by the program regulation.	Condition still prevails.
<b>C.D.B.G.</b> <b>CFDA No. 14.218</b>	<b>Condition SA 08-04</b>  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 was corrected.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

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

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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*Estado Libre Asociado de Puerto Rico*  
*Municipio de Guaynabo*  
*Asuntos Federales y Planificación*

*Migdalia Bernardo Rodríguez, PPL*  
*Directora*

## **CORRECTIVE ACTION PLAN**

March 28, 2011

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2010.

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, 2010.

The findings from the June 30, 2010 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 10-1: WORKFORCE INVESTMENT ACT ("WIA") (CFDA 17.258, 17.259 and 17.260)**

Reportable Condition: See Condition 10-1

#### 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 condition is in fact true, only by virtue of excess cash on hand settled and reimbursed to the CDORH by June, 2010. This condition formed part of an initiative supervised by DOL/ETA Region II, Boston, as part of a technical assistance to resolve excess cash on hand as a result of an incorrect close-out procedure for our dislocated workers program. The situation has been corrected as corroborated by two (2) interventions performed by the CDORH; validation of P.Y. 2009-2010 close-out procedures and P.Y. 2009-2010 program and Fiscal Monitoring Report. Therefore, corrective measures have been taken as corroborated by the CDORH in fact reimbursement to CDORH totaled \$253,068.34, paid with two payments: \$95,300.57 on December, 2009 and \$157,767.77 by June, 2010.

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 procedure substitute the procedure to request funds on a projected expenses basis. This measure will help Consortium to minimize the time elapsing between the transfers of funds from the pass-through entity and their disbursements.

### **Finding 10-2: HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA. 14.239)**

Reportable Condition: See Condition 10-2

#### Recommendation

The Municipality should expedite the internal process preparing and sending the actual list of expenditures to be disbursed during the period and establish an effective follow up system for payment to comply with the requirement to disburse the funds within the required time period.

#### Action Taken

The Federal Accounting Supervisor sends all the payment vouchers to the pre-intervention unit to be evaluated and approved for the final drawdown. The funds are petitioned through the IDIS system, the wire transfer from the treasury department to the bank account may take 24 to 48 hours. The duplicate drawdown, mentioned in this finding, was one time incident. The following procedures have been implemented to avoid this situation. The IDIS report on

drawdowns by activity will be available for review and confirmation regarding the payment of the invoice or certification approved.

**Finding 10-3: HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA 14.238)**

Reportable Condition: See Condition 10-3

Recommendation

The 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 the complying of the required reporting deadlines.

Action Taken

To complete the Federal Cash Transaction Report, data from the bank accounts monthly reconciliations are needed. The following procedures will be implemented to comply with the due dates. A reporting calendar will be provided to all personnel dealing with the data needed to complete the reports, to comply with the deadlines.

**Finding 10-4: PUBLIC AND INDIAN HOUSING (CFDA 14.850)**

Reportable Condition: See Condition 10-4

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

The State Public Housing Accounting Department, (AVP), and the Federal Accounting Division of the Municipality of Guaynabo are reviewing the funds received and expenses of the Alamo residential project since the beginning of the project to avoid any discrepancies. After all accounts are reconciled, the funds in the bank account will be return to AVP. All this process will be completed by June 2011.

**Finding 10-5: PUBLIC AND INDIAN HOUSING (CFDA 14.850)**

Reportable Condition: See Condition 10-5

Recommendation

The program should establish a system to ensure that the records and documentation are retained for the time period required by applicable requirements

Action Taken

All residents of Los Alamos Public Housing project have been relocated. No move-out can be completed or approved by the State Public Housing Department, if the resident did not comply with the reexamination procedures including all the income verification documents. We must conclude that all the residents comply with the conditions of admission and income eligibility.

**Finding 10-6: PUBLIC AND INDIAN HOUSING (CFDA 14.850)**

Reportable Condition: See Condition 10-6

Recommendation

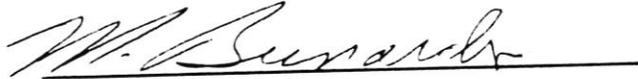
We recommend that the Program should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the PRPHA and prepared in accordance with the required accounting basis.

Action Taken

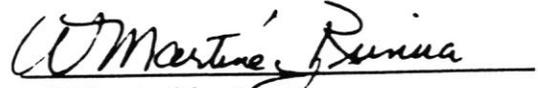
All Financial and programmatic reports regarding Los Alamos Housing Project were submitted on time and in accordance to the instructions of the State Housing Department Accounting Division. Last reports and reconciliation of accounts are being prepared to close all accounts of Los Alamos Housing Project.

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,



Migdalia Bernardo  
Director  
Federal Affairs Office



Wilfredo Martinez  
Executive Director  
WIA Programs



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

31 de marzo de 2011

Hon. Omar Negrón  
Comisionado  
OCAM

Estimado señor Negrón:

Conforme a los requerimientos establecidos, le incluyo el "Single Audit Report" al 30 de junio de 2010, perteneciente al Municipio de Guaynabo.

Para su conocimiento y acción correspondiente.

Cordialmente,

Janira López Morales, CPA  
Directora

OCAM  
DIVISION REQUERIMIENTO  
E INTERVENCION  
11 MAR 31 PM 2:36

REGISTRO DE DOCUMENTOS  
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