

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

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

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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, 2011, 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 bases on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Guaynabo as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
December 28, 2011

Ortiz, Rivera, Rivera & Co.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

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, 2011. 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 \$ 5,355,266 compared with the budget for 2010-2011. The most impacted sources of income were; Municipal License Tax, Construction Excise Taxes and Sales and Use taxes by \$ 6,507,599, \$ 3,311,939 and \$ 1,244,727 respectively.

- The Municipality net assets decreased by \$14,729,652.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,118,134,225 (87% percent of total municipality's assets).
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$361,022,365 (79% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$33,804,416.
- 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, 2011 the Municipality incurred in landfill closing costs which approximates \$795,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

- The Municipality issued bonds amounting to \$20,995,000 to finance the acquisition of land and building, public works, capital improvements and constructions of different projects.
- In the fund financial statements, the governmental funds revenue decrease by \$7,535,352 while governmental funds expenditures decrease \$6,687,486.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a increase of \$1,377,292.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(4,900,980).

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.



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, 2011

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

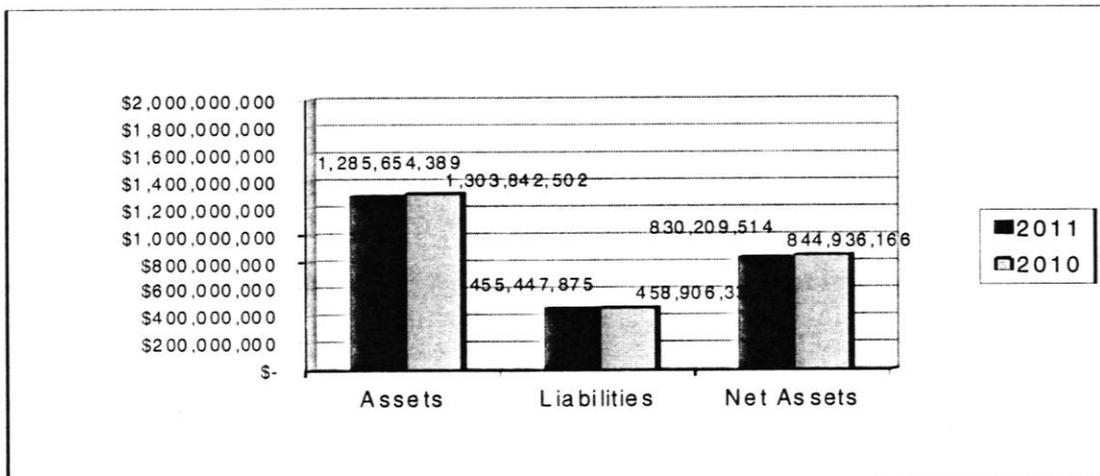
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$830,206,514 at the end of 2011, compared to \$844,936,166 at the end of the previous year.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets

	2011	2010	Change	%
Current assets	\$167,520,164	\$178,859,662	(\$11,339,498)	(6%)
Capital assets	1,118,134,225	1,124,982,840	(6,848,615)	(1%)
Total assets	1,285,654,389	1,303,842,502	(18,188,113)	(1%)
Current liabilities	94,425,510	93,935,949	489,561	1%
Noncurrent liabilities	361,022,365	364,970,387	(3,948,022)	(1%)
Total liabilities	455,447,875	458,906,336	(3,458,461)	(1%)
Invested in capital assets, net of related debt	910,976,179	852,665,840	58,310,339	7%
Restricted	79,563,916	89,254,254	(9,690,338)	(11%)
Unrestricted	(160,330,581)	(96,983,928)	(63,346,653)	65%
Total net assets	\$830,209,514	\$844,936,166	(\$14,726,652)	(2%)



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

Changes in Net Assets

The Municipality's net assets decreased by \$14,729,652. This decrease was due mainly to decreases in revenues during 2010-2011, particularly in the lines of municipal taxes and property taxes.

Approximately 67 percent of the Municipality's total revenue came from taxes, while 22 percent resulted from grants and contributions, including federal aid. Charges for Services provided 5 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, economic development and health and sanitation. 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, 2011

Condensed Statement of Activities	2011	2010	Change	%
Program revenues:				
Charges for services	\$8,425,161	\$8,432,150	(\$6,989)	-
Operating grants and contributions	19,812,556	14,422,792	5,389,764	37%
Capital grants and contributions	2,694,339	3,851,732	(1,157,393)	(30%)
General revenues:				
Property taxes	66,900,879	79,032,781	(12,131,902)	(15%)
Sales and use taxes	13,586,662	13,839,813	(253,151)	(2%)
Municipal license tax	39,668,544	48,109,120	(8,440,576)	(18%)
Grants and contributions not restricted to specific programs	17,448,881	19,236,884	(1,788,003)	(9%)
Interest, fines and penalties	3,406,391	3,734,987	(328,596)	(9%)
Gain (Loss) on retirement of Capital Assets	(6,300)	(818,334)	812,034	(99%)
Miscellaneous	6,398,601	10,520,755	(4,122,154)	(39%)
Total revenues	<u>178,335,714</u>	<u>200,362,680</u>	<u>(22,026,966)</u>	(11%)
Expenses:				
General government	69,415,820	81,339,742	(11,923,922)	(15%)
Public safety	13,176,773	12,079,172	1,097,601	9%
Health and Sanitation	14,956,373	33,471,233	(18,514,860)	(55%)
Culture and recreation	14,806,828	17,496,600	(2,689,772)	(15%)
Public Housing and welfare	5,573,623	5,844,090	(270,467)	(5%)
Economic development	44,768,155	29,496,121	15,272,034	52%
Depreciation	16,213,424	14,163,938	2,049,486	14%
Interest on long-term debt	14,154,370	14,877,305	(722,935)	(5%)
Total expenses	<u>193,065,366</u>	<u>208,768,201</u>	<u>(15,702,835)</u>	(8%)
Change in net assets	(14,729,652)	(8,405,521)	(6,324,131)	75%
Net assets, beginning of year	<u>844,936,166</u>	<u>853,341,687</u>	<u>(8,405,521)</u>	(1%)
Net assets, end of year	<u>\$830,206,514</u>	<u>\$844,936,166</u>	<u>(\$14,729,652)</u>	(2%)

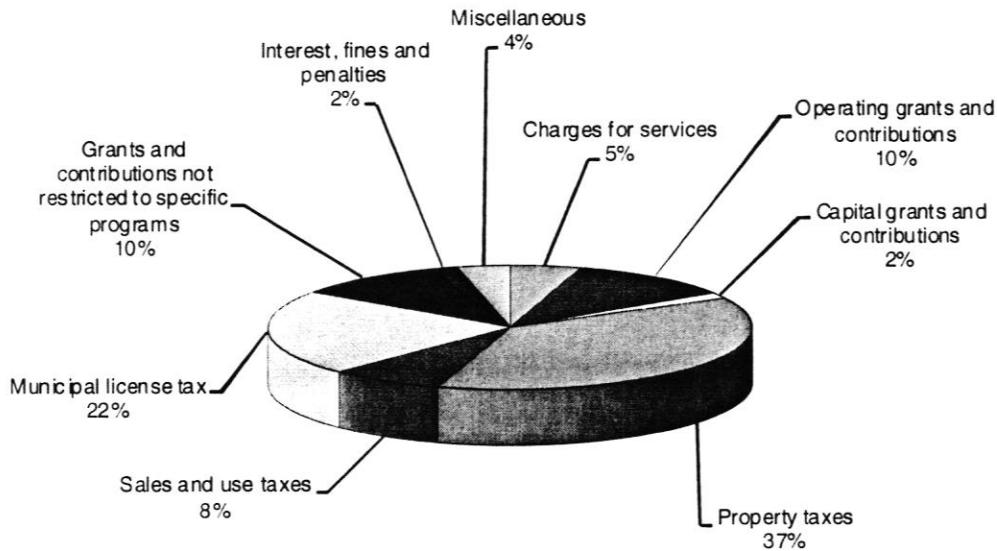
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

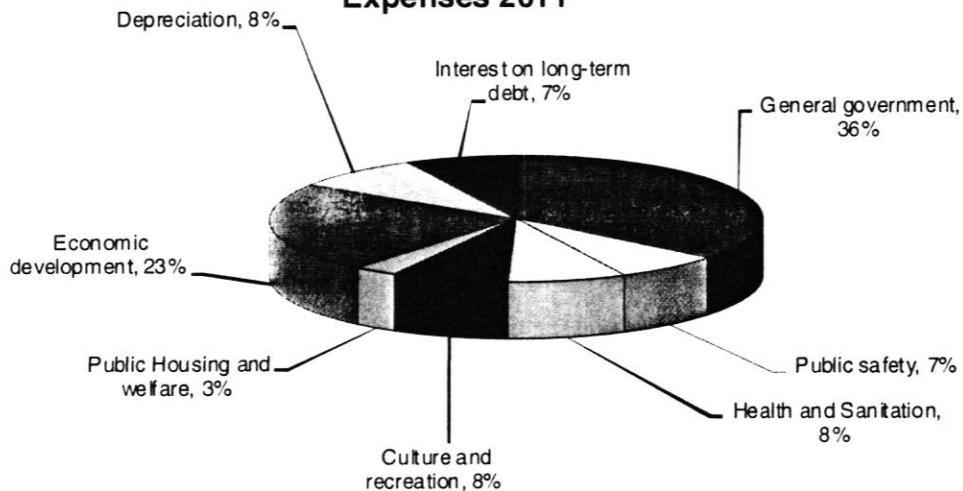
YEAR ENDED JUNE 30, 2011

Changes in Net Assets (Continued)

Revenues 2011



Expenses 2011



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 \$87,777,364, a decrease of \$11,394,210 in comparison with the prior year. There are reservations of fund balance amounting to \$91,716,285. 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 (\$10,647,687), 2) to pay debt service (\$11,213,486), 3) to pay for capital projects (\$68,347,430) and 4) for other purposes (\$ 1,507,682).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2011, the general fund has a fund deficiency of (\$3,398,921).

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, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2011, amounts to \$1,268,408,349 net of accumulated depreciation of \$150,274,124, leaving a net book value of \$1,118,134,225. 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 decrease 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 \$ 16,213,424.

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, 2011, the Municipality has \$68,347,430 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, 2011

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 economic crisis that is affecting Puerto Rico and the whole world has an impact in the expectations of revenues of the Municipality of Guaynabo. As a result, there were deficiencies in the collections compared with the budget for 2010-2011. The most impacted sources of income were: Municipal License Tax, Construction Excise Taxes, and Sales and Use Taxes.

Those factors were considered when preparing the Municipality's budget for the 2011-2012 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2nd floor of the Guaynabo City Hall, Guaynabo, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF NET ASSETS
JUNE 30, 2011**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 52,001,598
Cash with fiscal agent (Notes 2 and 5)	104,101,821
Accounts receivable:	
Property taxes (Note 6)	398,977
Municipal license taxes (Note 7)	4,058,725
Construction excise taxes	408,553
Rent, licenses and permits	849,423
Interests	331,051
Sales and use tax (Note 8)	2,074,074
Deferred charges	1,236,612
Due from other agencies (Note 9)	551,648
Inventories	1,507,682
Capital assets, net of accumulated depreciation (Note 11)	1,118,134,225
Total assets	1,285,654,389
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 9,057,928
Due to other agencies (Note 12)	9,247,305
General obligations:	
Bonds	13,075,000
Interest	6,831,778
Noncurrent liabilities (Note 15):	
Due within one year	19,718,355
Due in more than one year	341,304,010
Deferred revenues (Note 13):	
Municipal license tax	38,199,187
Federal government	466,411
Claims and judgements	900,000
Accrued interest	16,647,901
Total liabilities	455,447,875
Net Assets	
Investment in capital assets, net of related debt	910,976,179
Restricted for:	
Debt service	11,213,486
Capital projects	68,347,430
Unrestricted	(160,330,581)
Total net assets	830,206,514
Total liabilities	\$ 1,285,654,389

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, 2011**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
Primary Government:				
General government	\$ 69,415,820	\$ 8,425,161	\$ 566,721	\$ (60,423,938)
Public safety	13,176,773			(13,176,773)
Public housing and welfare	5,573,623	4,387,214		(1,186,409)
Culture and education	14,806,828	14,858,621		51,793
Health and sanitation	14,956,373			(14,956,373)
Depreciation	16,213,424			(16,213,424)
Economic development	44,768,155		2,694,339	(42,073,816)
Interest on long-term debt	14,154,370			(14,154,370)
Total primary government	<u>\$ 193,065,366</u>	<u>\$ 8,425,161</u>	<u>\$ 19,812,556</u>	<u>(162,133,310)</u>
General revenues:				
Property taxes (Note 6)				66,900,879
Sales and use tax (Note 8)				13,586,662
Municipal license tax (Note 7)				39,668,544
Grants and contributions not restricted to specific programs				17,448,881
Interest, fines and penalties				3,406,391
Miscellaneous				6,398,601
Total general revenues				<u>147,409,958</u>
Loss on disposition of assets				(6,300)
Change in net assets				<u>(14,729,652)</u>
Net assets at beginning of year, as restated (Note 24)				844,936,166
Net assets at end of year				<u>\$ 830,206,514</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, 2011

<u>Assets</u>	General	Debt Service	WIA Funds	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Notes 2 and 5)	\$ 43,592,164	\$ -	\$ 506,926	\$ 7,902,508	\$ 52,001,598
Cash with fiscal agent (Notes 2 and 5)	515,913	30,586,954		72,998,954	104,101,821
Accounts receivable:					
Property taxes (Note 6)		398,977			398,977
Municipal license taxes (Note 7)	14,267				14,267
Construction excise taxes					
Rent, licenses, and permits	191,627				191,627
Interest	331,051				331,051
Sales and use tax (Note 8)	923,862	134,333			1,058,195
Due from other agencies (Note 9)	127,260				551,648
Due from other funds (Note 10)	12,595,455		424,388	1,000,000	13,595,455
Inventories	1,507,682				1,507,682
Total assets	<u>\$ 59,799,281</u>	<u>\$ 31,120,264</u>	<u>\$ 931,314</u>	<u>\$ 81,901,462</u>	<u>\$ 173,752,321</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2011**

<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>
Liabilities					
Account payable and accrued liabilities	\$ 4,372,530	\$ -	\$ 693,232	\$ 492,166	\$ 5,557,928
Due to other funds (Note 10)	1,000,000			12,595,455	13,595,455
Due to other agencies (Note 12)	8,011,116		238,082		8,249,198
General obligations:					
Bonds		13,075,000			13,075,000
Interest		6,831,778			6,831,778
Deferred revenues: (Note 13)					
Municipal license tax	38,199,187				38,199,187
Federal government				466,411	466,411
Total liabilities	<u>51,582,833</u>	<u>19,906,778</u>	<u>931,314</u>	<u>13,554,032</u>	<u>85,974,957</u>
Fund Balances					
Reserved for:					
Nonspendable	1,507,682				1,507,682
Restricted		11,213,486		3,808,706	15,022,192
Committed	10,647,687			60,462,039	60,462,039
Assigned	(3,938,921)			4,076,685	14,724,372
Unassigned	<u>8,216,448</u>	<u>11,213,486</u>	<u>-</u>	<u>68,347,430</u>	<u>(3,938,921)</u>
Total fund balances	<u>\$ 59,799,281</u>	<u>\$ 31,120,264</u>	<u>\$ 931,314</u>	<u>\$ 81,901,462</u>	<u>\$ 173,752,321</u>
Total liabilities and fund balances					

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, 2011**

Total fund balances - governmental funds \$ 87,777,364

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. 1,118,134,225

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (383,068,373)

- 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. 7,363,298

Net assets of governmental activities \$ 830,206,514

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

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ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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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, 2011**

	General	Debt Service	WIA Funds	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$45,074,622	\$21,826,257	\$ -	\$ -	\$ 66,900,879
Municipal license taxes (Note 7)	42,504,968				42,504,968
Sales tax (Note 8)	10,844,653	2,178,398			13,023,051
Licenses and permits	3,753,169				3,753,169
Charges for service and rents	5,607,230			578,825	6,186,055
Intergovernmental revenues (Note 14):					
Federal grants and contributions			5,086,548	17,420,347	22,506,895
State contributions	12,608,369			4,840,512	17,448,881
Interest, fines, and penalties	3,385,565	20,115		711	3,406,391
Other revenues	6,398,601				6,398,601
Total revenues	<u>130,177,177</u>	<u>24,024,770</u>	<u>5,086,548</u>	<u>22,840,395</u>	<u>182,128,890</u>
EXPENDITURES					
General government	80,294,655			2,004,474	82,299,129
Public safety	13,101,263			75,510	13,176,773
Public housing and welfare	1,340,434			4,233,189	5,573,623
Culture and education	690,092		5,086,548	9,030,188	14,806,828
Health and sanitation	14,825,394			130,979	14,956,373
Economic development	14,923,980			29,844,175	44,768,155
Capital outlays	1,842,050			7,529,059	9,371,109
Debt service:					
Principal retirement		15,036,683			15,036,683
Interest and other		14,529,427			14,529,427
Total expenditures	<u>127,017,868</u>	<u>29,566,110</u>	<u>5,086,548</u>	<u>52,847,574</u>	<u>214,518,100</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,159,309</u>	<u>(5,541,340)</u>	<u>-</u>	<u>(30,007,179)</u>	<u>(32,389,210)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds			-	20,995,000	20,995,000
Transfers in	16,459	2,958,573			2,975,032
Transfers out	(1,798,476)	(16,459)		(1,160,097)	(2,975,032)
Total other financing sources (uses)	<u>(1,782,017)</u>	<u>2,942,114</u>	<u>-</u>	<u>19,834,903</u>	<u>20,995,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,377,292	(2,599,226)	-	(10,172,276)	(11,394,210)
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 24)					
	6,839,156	13,812,712	-	78,519,706	99,171,574
FUND BALANCE AT END OF YEAR	<u>\$ 8,216,448</u>	<u>\$11,213,486</u>	<u>\$ -</u>	<u>\$68,347,430</u>	<u>\$ 87,777,364</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ (11,394,210)

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 9,371,109
- 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. (16,213,424)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (20,995,000)
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. (3,786,876)
- 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. 15,036,683
- In the statements of activities, only the loss on disposition of assets is reported, whereas the governmental funds, the proceeds from sales increase financial resources. Thus, the change in net asset book value of the asset sold. (6,300)
- Change in accrued interest expense which does not require the use of current financial resources. 375,057
- 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. 12,883,309

Changes in net assets of governmental activities \$ (14,729,652)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund				Debt Service Fund				Variance with Final Budget- Positive (Negative)	
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)		Budgeted Amounts		Actual		Variance with Final Budget- Positive (Negative)
	Original	Final		Original	Final	Original	Final			
REVENUES										
Property taxes	\$ 45,293,833	\$ 45,293,833	\$ 45,284,708	\$ (9,125)	\$ 23,805,064	\$ 23,805,064	\$ 21,826,257	\$ (1,978,807)		
Municipal license taxes	49,003,000	49,003,000	42,495,401	(6,507,599)						
Sales and use taxes	12,060,000	12,060,000	10,815,273	(1,244,727)	3,650,843	3,650,843	2,178,398	(1,472,445)		
Licenses and permits	7,065,108	7,065,108	3,753,169	(3,311,939)						
Charges for services and rent	4,233,669	4,233,669	5,626,164	1,392,495						
Intergovernmental revenues:										
State contributions	12,636,915	12,952,879	12,608,370	(344,509)						
Interest, fines and penalties	2,595,309	2,595,309	3,860,791	1,265,482			20,115	20,115		
Other revenues	105,100	2,878,207	6,282,863	3,404,656						
Total revenues	132,992,934	136,082,005	130,726,739	(5,355,266)	27,455,907	27,455,907	24,024,770	(3,431,137)		
EXPENDITURES										
Current:										
General government	77,280,968	82,483,562	82,213,966	269,596						
Public safety	12,709,146	13,131,419	13,127,336	4,083						
Public housing and welfare	1,253,143	1,374,321	1,372,778	1,543						
Culture and education	772,176	1,025,286	988,392	36,894						
Health and sanitation	24,522,103	17,690,554	17,661,961	28,593						
Economic development	16,455,398	20,376,863	20,263,286	113,577						
Debt service:										
Principal							16,713,332	15,036,683	(1,676,649)	
Interest							10,742,575	14,529,427	3,786,852	
Reserve										
Total expenditures	132,992,934	136,082,005	135,627,719	454,286	27,455,907	27,455,907	29,566,110	2,110,203		
Excess of expenditures over revenues	\$ -	\$ -	\$ (4,900,980)	\$ (4,900,980)	\$ -	\$ -	\$ (5,541,340)	\$ (5,541,340)		

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, 2011**

1. ORGANIZATION

The Municipality of Guaynabo, Puerto Rico (the "Municipality"), is a local government constituted with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

- 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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

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.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2011.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

For the fiscal year ended June 30, 2011, the Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011).

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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

h. Fund Balances

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.
Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2011.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying fund financial statements as of and for the fiscal year ended June 30, 2011 have not been affected for this change in accounting principle. Accordingly, the accompanying fund financial statements have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2011.

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, 2011 amounted to approximately \$1.7 million.

The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.9 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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:

Statement Number	Statement Name	Adoption Required in Fiscal Year
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34	2012-13
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre - November 30, 1989 FASB and AICPA Pronouncements	2012-13
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2012-13
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53	2011-12

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

I. Use of Estimates

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

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

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

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

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, 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.

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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.

The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2011 representing the original budget.

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, 2011 is presented below for the general fund and debt service funds:

	General Fund	Debt Service Fund
Excess of expenditures over revenues - budgetary basis	\$ (4,900,980)	\$ (5,541,340)
Entity differences:		
Non-budgeted transfers in	16,459	2,958,573
Non-budgeted transfers-out	(1,798,476)	(16,459)
Non-budgeted revenues	8,503,779	
Timing differences:		
Prior year encumbrances recorded as Current year expenditures for GAAP basis	(11,091,177)	
Current year encumbrances recorded as expenditures for budgetary basis	10,647,687	
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ 1,377,292</u>	<u>\$ (2,599,226)</u>

**COMMONWEALTH OF PUERTO RICO
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c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The details of the approximately \$390 million differences are as follows:

Bonds payable	\$ 283,867,000
Capital leases	33,804,416
Note payable	14,823,228
Landfill obligation	14,866,683
Compensated absences	13,661,038
Accrued interest payable	16,647,901
Claims and judgments	900,000
Christmas bonus	3,500,000
CRIM	<u>998,107</u>

Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 383,068,373</u>
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5. DEPOSITS - CUSTODIAL CREDIT RISK

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

**COMMONWEALTH OF PUERTO RICO
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The deposits at GDB of approximately \$73 million that are restricted principally for capital projects activities. These funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 9.58% for real property and 7.58% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.75%	2.75%
Discounts made by state to taxpayer	< <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.

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM. Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for \$6,239,053. This amount will be repaid through advances from property taxes (refer to Note 15).

Based on the preliminary settlement already received, during the year ended June 30, 2011, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by approximately \$998,107. Such amount is presented as due to CRIM in the accompanying financial statements. (See Note 12)

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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, 2011. 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, 2011, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$4,058,725 and \$38,199,187, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2011 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$14,267 and \$38,199,187, 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

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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	\$ 424,388
CRIM	<u>127,260</u>
Total	<u>\$ 551,648</u>

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2011, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$12,595,435
Other governmental fund	General fund	<u>1,000,000</u>
		<u>\$13,595,455</u>

The balance of approximately \$12.6 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.

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b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2011 consisted of the following:

Transfer In	Transfer Out	Amount
General	Debt Service	\$ 16,459
Debt Service	General	1,798,476
Debt Service	Other Governmental Funds	<u>1,160,097</u>
		<u>\$ 2,975,032</u>

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, 2011 was as follows:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 650,091,762	\$ 6,173,790	\$ -	\$ 656,265,552
Construction in progress	45,888,884	1,858,851	3,857,456	43,890,279
Total capital assets, not being depreciated	<u>695,980,646</u>	<u>8,032,641</u>	<u>3,857,456</u>	<u>700,155,831</u>
Capital assets, being depreciated:				
Building and building improvements	332,517,131	1,172,234		333,689,365
Vehicles and equipment	58,409,116	1,338,468	93,580	59,654,004
Infrastructure	172,223,927	2,685,222		174,909,149
Total capital assets, being depreciated	<u>563,150,174</u>	<u>5,195,924</u>	<u>93,580</u>	<u>568,252,518</u>
Less accumulated depreciation for:				
Building and building improvements	71,352,943	8,048,955		79,401,898
Vehicles and equipment	39,285,099	4,705,565	87,280	43,903,384
Infrastructure	23,509,938	3,458,904		26,968,842
Total accumulated depreciation	<u>134,147,980</u>	<u>16,213,424</u>	<u>87,280</u>	<u>150,274,124</u>
Total capital assets, being depreciated, net	<u>429,002,194</u>	<u>(11,017,500)</u>	<u>6,300</u>	<u>417,978,394</u>
Governmental activities capital assets, net	<u>\$ 1,124,982,840</u>	<u>\$ (2,984,859)</u>	<u>\$ 3,863,756</u>	<u>\$ 1,118,134,225</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2011 are as follows:

	<u>Governmental Fund</u>	<u>Governmental Wide</u>
CRIM (Liquidation 2009-2010)	\$ 2,132,369	\$ 2,132,369
CRIM (Preliminary liquidation 2010-11)	-	998,107
General Services Administration	14,698	14,698
Puerto Rico Water and Sewer Authority	43,093	43,093
Council of Occupational Development and Human Resource	238,082	238,082
ASES	<u>5,820,956</u>	<u>5,820,956</u>
Total	<u>\$ 8,249,198</u>	<u>\$ 9,247,305</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$38,199,187 in the general fund related to municipal license tax collected in fiscal year 2010-2011 that will be earned in fiscal year 2011-2012 (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	\$236,606
Special Fund - Fideicomiso	208,348
UDAG Program	<u>21,457</u>
	<u>\$466,411</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, 2011, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2011 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%.	\$ 7,660,000
\$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%	2,155,000
\$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%	2,965,000
\$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%	285,000
\$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%	16,495,000
\$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%	13,845,000

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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%	\$ 11,345,000
\$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%	8,075,000
\$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%	2,160,000
\$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%	3,660,000
\$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%.	2,340,000
\$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%.	2,180,000
\$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%.	405,000
\$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%.	3,230,000
\$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%.	455,000

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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%.	\$ 2,085,000
\$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%.	7,325,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	3,710,000
\$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%.	4,840,000
\$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%.	3,520,000
\$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%.	140,000
\$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%.	1,455,000
\$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%.	575,000
\$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%.	3,495,000
\$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%.	1,030,000

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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%.	\$ 60,000
\$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%.	5,210,000
\$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%.	31,455,000
\$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%.	2,350,000
\$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%.	1,085,000
\$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%.	200,000
\$6,325,000 series of 2010, payable in annual installments from \$90,000 to \$530,000 until July 1, 2033, interests from 1.53% to 7.50%.	6,025,000
\$2,015,000 series of 2010, payable in annual installments from \$230,000 to \$355,000 until July 1, 2015, interests from 4.75% to 7.50%.	1,275,000
\$1,445,000 series of 2010, payable in annual installments from \$165,000 to \$255,000 until July 1, 2015, interests from 4.75% to 7.50%.	915,000

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\$2,010,000 series of 2010, payable in annual installments from \$30,000 to \$175,000 until July 1, 2032, interests from 2.43% to 7.50%.	\$ 1,910,000
\$896,000 series of 2010, payable in annual installments from \$102,000 to \$157,000 until July 1, 2015, interests from 2.43% to 7.50%.	566,000
\$675,000 series of 2010, payable in annual installments from \$10,000 to \$60,000 until July 1, 2033, interests from 4.75% to 7.50%.	645,000
\$2,000,000 series of 2010, payable in annual installments from \$75,000 to \$215,000 until July 1, 2023, interests from 4.75% to 7.50%.	1,755,000
\$6,270,000 series of 2011, payable in annual installments from \$115,000 to \$465,000 until July 1, 2034, interests from 4.75% to 6.00%.	6,035,000
\$12,350,000 series of 2011, payable in annual installments from \$220,000 to \$910,000 until July 1, 2034, interests from 4.75% to 7.50%.	11,890,000
\$24,015,000 series of 2011, payable in annual installments from \$405,000 to \$1850,000 until July 1, 2034, interests from 4.75% to 7.50%.	23,180,000
\$4,885,000 series of 2011, payable in annual installments from \$195,000 to \$490,000 until July 1, 2024, interests from 4.75% to 7.50%.	4,475,000
\$9,045,000 series of 2011, payable in annual installments from \$130,000 to \$755,000 until July 1, 2034, interests from 4.75% to 7.50%.	8,770,000
\$53,355,000 series of 2011, payable in annual installments from \$1,647,000 to \$4,434,000 until July 1, 2028, interests from 4.60% to 5.77%.	49,976,000

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\$20,690,000 series of 2011, payable in annual installments from \$300,000 to \$1,720,000 until July 1, 2035, interest from 6.01% to 7.50%.	20,390,000
\$270,000 series of 2011 payable in annual installments from \$35,000 to \$55,000 until July 1, 2017, interest from 6.00% to 7.50%.	<u>270,000</u>
Total bonds payable	<u>\$ 283,867,000²</u>

Notes Payable

\$5,870,000 note payable to The Bank of New York. The term of the loan is for twenty years and the principal is payable annually each August 30, started in August of 2005. During the first two years the Municipality had a moratorium. The annual installments are from \$560,000 to \$590,000, at the fluctuating interest established by the U.S. Department of Treasury.	\$ 2,330,000
\$3,000,000 note payable to The Bank of New York. The term of the loan is for twenty years and the principal is payable annually each August 1, starting in August of 2004. During the first year the Municipality has a moratorium. The annual installments are \$167,000, at an approximate rate of 4.50%.	1,831,000
\$7,028,503 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.	5,974,916
\$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.	1,811,000

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts. \$ 2,654,174

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%. 222,138

Total notes payable 14,823,228

Total bonds, notes, and other long-term debt \$ 298,690,228

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2011, are as follows:

	<u>Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 14,504,000	\$ 15,858,717	\$ 1,322,166	\$ 789,184
2013	15,343,000	16,909,495	1,114,119	727,171
2014	13,028,000	15,960,538	1,129,779	669,970
2015	13,779,000	15,253,995	1,115,044	611,890
2016	13,827,000	14,743,820	572,956	524,427
2017-2021	79,365,000	59,021,853	3,160,006	2,027,353
2022-2026	65,705,000	35,852,288	3,116,121	1,540,160
2027-2031	46,531,000	16,690,077	2,677,331	672,522
2032-2035	21,785,000	3,070,350	615,706	30,682
	<u>\$ 283,867,000</u>	<u>\$ 193,361,133</u>	<u>\$ 14,823,228</u>	<u>\$ 7,593,359</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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 276,397,000	\$ 20,995,000	\$ (13,525,000)	\$ 283,867,000	\$ 14,504,000
Notes payable	16,334,911		(1,511,683)	14,823,228	1,322,166
Total long-term debt	<u>292,731,911</u>	<u>20,995,000</u>	<u>(15,036,683)</u>	<u>298,690,228</u>	<u>15,826,166</u>
Capital leases	35,666,806		(1,862,390)	33,804,416	1,942,189
Landfill obligation	15,661,683		(795,000)	14,866,683	750,000
ASES	6,680,232		(6,680,232)	-	-
Compensated absences	14,229,755		(568,717)	13,661,038	1,200,000
Total other liabilities	<u>72,238,476</u>	<u>-</u>	<u>(9,906,339)</u>	<u>62,332,137</u>	<u>3,892,189</u>
Total noncurrent liabilities	<u>\$ 364,970,387</u>	<u>\$ 20,995,000</u>	<u>\$ (24,943,022)</u>	<u>\$ 361,022,365</u>	<u>\$ 19,718,355</u>

16. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2011 was \$3,155,646. The Municipality's payroll for employees covered by ERS was \$34,023,137. The Municipality total payroll for all employees was \$53,858,634.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2012	\$ 3,465,722
2013	3,547,856
2014	3,668,395
2015	3,769,416
2016	3,791,119
2017-2021	18,933,951
2022-2025	<u>7,107,750</u>
Total minimum lease payments schedule under agreements	44,284,209
Less:	
Interests to be paid through expiration dates of lease agreements	<u>10,479,793</u>
Present value of minimum lease payments	33,804,416
Less: Current portion of obligation under capital leases	<u>1,942,189</u>
Long-term portion of obligation under capital leases	<u>\$ 31,862,227</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The activity of obligation under capital leases for the year ended June 30, 2011 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2011</u>
Principal	\$ <u>35,666,806</u>	\$ <u> - </u>	(<u>\$1,862,390</u>)	\$ <u>33,804,416</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, 2011 was \$1,928,668.
- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

19. CONTINGENCIES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011, The Municipality determined that the present value of total estimated closing costs and post closing care costs amount to \$7,200,000 and \$12,000,000, respectively. Of these estimated costs, the Municipality recorded a liability amounting to \$19,200,000.

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

During fiscal year ended as of June 30, 2010 and June 30, 2011, the Municipality incurred in landfill closing costs which approximates to \$1,538,000 and \$795,000, respectively. The landfill obligation has been reduced to \$14,823,228 as of June 30, 2011. The liability was recorded in the accompanying government-wide financial statements.

21. COMMITMENTS

- a. The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2011. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$73.0 million.
- b. The Municipality has a dispute with the Puerto Rico Health Insurance Administration (PRHIA), for the concept of medical claims under the Health Reform of the Commonwealth of Puerto Rico. The Municipality, after an extensive analysis has recorded in the accompanying financial statements as of June 30, 2011, approximately \$5.8 million, which the PRHIA has estimated as of April 30, 2011, approximately \$23.5 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

22. FUND BALANCES

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable				
Inventory	\$ 1,507,682	\$ -	\$ -	\$ 1,507,682
Restricted:				
Federal Programs			3,808,706	3,808,706
Debt service		11,213,486		11,213,486
Committed:				
Public works			60,462,039	60,462,039
Assigned:				
General government	4,644,903		4,076,684	8,721,587
Public safety	166,725			166,725
Public works	3,509,064			3,509,064
Culture	338,813			338,813
Health and sanitation	1,942,234			1,942,234
Public housing and welfare	45,948			45,948
Unassigned	<u>(3,938,921)</u>			<u>(3,938,921)</u>
	<u>\$ 8,216,448</u>	<u>\$11,213,486</u>	<u>\$ 68,347,429</u>	<u>\$ 87,777,363</u>

23. NET ASSETS

Net assets invested in capital assets, net of related debt is comprised of the following:

Capital assets, net of accumulated depreciation.	\$ 1,118,134,225
Outstanding balance on capital related debt	(280,157,000)
Unspent capital debt proceeds	<u>72,998,954</u>
Total invested in capital assets, net of related debt	<u>\$ 910,976,179</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

24. RESTATEMENTS

a. Net Assets:

The beginning balance of net assets as of July 1, 2010 has been restated as follows:

Net assets at beginning of year as previously reported	\$ 848,728,822
Overstatement of account receivable	<u>(3,792,656)</u>
Net assets at beginning of year as restated	<u>\$ 844,936,166</u>

b. Fund Balance

The beginning fund balance of the fund has been restated to correct overstatement of account receivable.

	<u>WIA Fund</u>
Beginning fund balance, as previously reported	\$3,792,656
Overstatement of account receivable	<u>(3,792,656)</u>
Beginning fund balance, as restated	<u>\$ _____</u>

25. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 28, 2011, the date the financial statements were issued.



Gobierno de Puerto Rico
Municipio Autónomo de Guaynabo
Departamento de Finanzas

FINA DEL COMISIONADO
12-4-0361
01 APR 25 AM 10:40
REGISTRO
UNIDAD DE CORREO

24 de abril de 2012

Lic. Roberto Rivera Cruz
Comisionado
Oficina del Comisionado Asuntos Municipales
P O Box 70167
San Juan, PR 00936-6167

Estimado licenciado Rivera:

Con la presente incluyo el 'Basic Financial Statements' al 30 de junio de 2011, perteneciente al Municipio de Guaynabo.

Cualquier información adicional, estamos en la mejor disposición de ofrecerla.

Cordialmente,

Ivette Báez
Directora

Anejos

12 APR 26 AM 4:36
DMSION REG. AMENIACION
E INTERVENCION
JCAM