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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS
with Independent Auditors' Report Thereon
June 30, 2012**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FOR THE YEAR ENDED JUNE 30, 2012**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FOR THE YEAR ENDED JUNE 30, 2012**

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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, 2012, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Guaynabo as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and debt services funds, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Guaynabo's financial statements. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the schedule of expenditures of federal awards* is fairly stated in all material respects in relation to the financial statements as a whole.

San Juan, Puerto Rico
December 27, 2012

Ortiz, Rivera, Rivera & Co.

The stamp E52570 was affixed to the original of this report.



ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2012

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, 2012. 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 \$ 7,081,465 compared with the budget for 2011-2012. The most impacted sources of income were; Municipal License Tax and Sales and Use taxes by \$ 3,718,277 and \$ 3,628,469 respectively.

- The Municipality net assets increased by \$17,222,503.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,142,324,254 (88% percent of total municipality's assets).
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$348,698,188 (77% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$31,862,228.
- 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, 2012 the Municipality incurred in landfill closing costs which approximates \$1,775,112.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

- The Municipality issued bonds amounting to \$4,025,000 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 increase by \$26,222,568 while governmental funds expenditures increase \$18,466,136.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$5,233,602.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$(6,283,314).
- Although there is a budgetary difference in municipal taxes and sales tax revenues, the municipal taxes increased by approximately \$5.4 million or a 14% and property taxes revenues increased by approximately \$3.3 million or a 5% when compared with fiscal year 2010-2011.
- On other hand, Municipality's other income increased by approximately \$6.2 million due to the Municipality's initiative of producing additional income through roads maintenance agreements with the Municipalities of Cidra and Aguas Buenas.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2012

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.

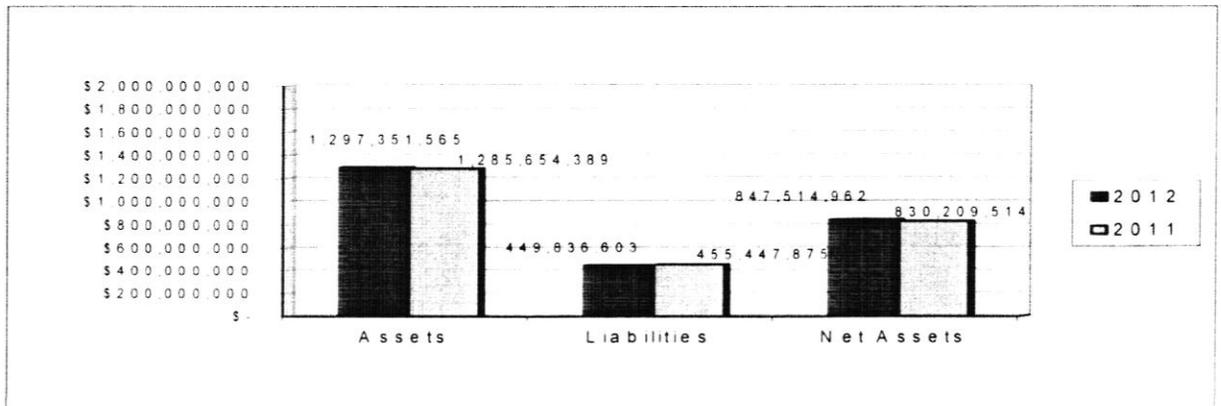
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

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 \$847,514,962 at the end of 2012, compared to \$830,292,459 at the end of the previous year.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Assets	2012	2011	Change	%
Current assets	\$155,027,311	\$167,520,164	(\$12,492,853)	(7%)
Capital assets	1,142,324,254	1,118,134,225	24,190,029	2%
Total assets	1,297,351,565	1,285,654,389	11,697,176	1%
Current liabilities	101,138,415	114,143,865	(13,005,450)	(11%)
Noncurrent liabilities	348,698,188	341,304,010	7,394,178	2%
Total liabilities	449,836,603	455,447,875	(5,611,272)	(1%)
Invested in capital assets, net of related debt	872,401,254	910,976,179	(38,574,925)	(4%)
Restricted	66,497,376	79,563,916	(13,066,540)	(16%)
Unrestricted	(91,383,668)	(160,330,581)	68,946,913	(43%)
Total net assets	\$847,514,962	\$830,209,514	\$17,305,448	2%



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

Changes in Net Assets

The Municipality's net assets increased by \$17,222,503. This increase was due mainly to increases in revenues during 2011-2012, particularly in the lines of municipal taxes, grants and contributions and property taxes.

Approximately 60 percent of the Municipality's total revenue came from taxes, while 27 percent resulted from grants and contributions, including federal aid. Charges for Services provided 6 percent of the total revenues. Interest earnings and miscellaneous provided 7 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, 2012

Condensed Statement of Activities	2012	2011	Change	%
Program revenues:				
Charges for services	\$12,092,479	\$8,425,161	\$3,667,318	44%
Operating grants and contributions	17,985,949	19,812,556	(1,826,607)	(9%)
Capital grants and contributions	4,657,136	2,694,339	1,962,797	73%
General revenues:				
Property taxes	70,289,828	66,900,879	3,388,949	5%
Sales and use taxes	13,551,618	13,586,662	(35,044)	-
Municipal license tax	45,162,126	39,668,544	5,493,582	14%
Grants and contributions not restricted to specific programs	34,434,180	17,448,881	16,985,299	97%
Interest, fines and penalties	2,715,176	3,406,391	(691,215)	(20%)
Gain (Loss) on retirement of Capital Assets	(132,908)	(6,300)	(126,608)	2010%
Miscellaneous	12,539,453	6,398,601	6,140,852	96%
Total revenues	213,295,037	178,335,714	34,959,323	20%
Expenses:				
General government	79,243,040	69,415,820	9,827,220	14%
Public safety	15,582,323	13,176,773	2,405,550	18%
Health and Sanitation	17,514,949	14,956,373	2,558,576	17%
Culture and recreation	14,035,579	14,806,828	(771,249)	(5%)
Public Housing and welfare	5,529,408	5,573,623	(44,215)	(1%)
Economic development	30,215,077	44,768,155	(14,553,078)	(33%)
Depreciation	16,506,276	16,213,424	292,852	2%
Interest on long-term debt	17,445,882	14,154,370	3,291,512	23%
Total expenses	196,072,534	193,065,366	3,007,168	2%
Change in net assets	17,222,503	(14,729,652)	31,952,155	(217%)
Net assets, beginning of year	830,292,459	844,936,166	(14,643,707)	(2%)
Net assets, end of year	<u>\$847,514,962</u>	<u>\$830,206,514</u>	<u>\$17,308,448</u>	2%

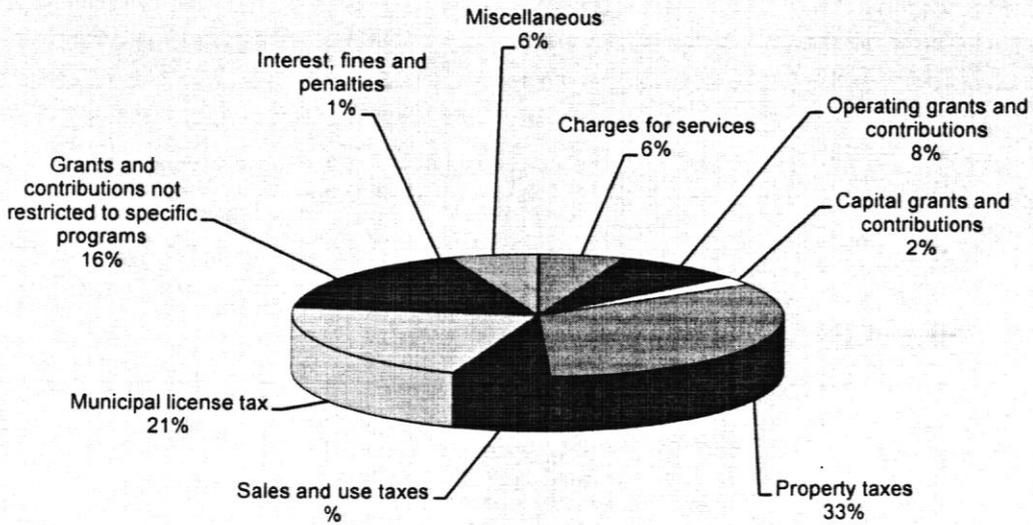
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

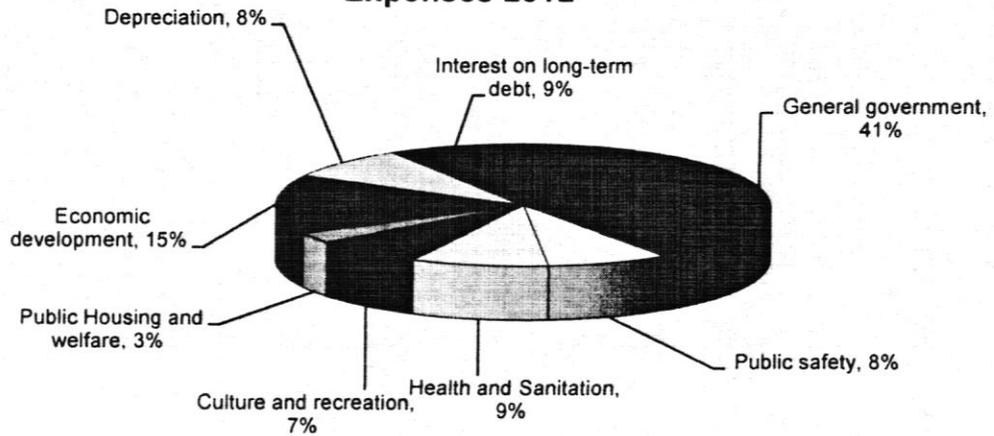
YEAR ENDED JUNE 30, 2012

Changes in Net Assets (Continued)

Revenues 2012



Expenses 2012



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2012

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 \$69,480,222, a decrease of \$18,383,087 in comparison with the prior year. There are reservations of fund balance amounting to \$77,468,706. 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 (\$9,207,602), 2) to pay debt service (\$10,780,090), 3) to pay for capital projects (\$55,717,286) and 4) for other purposes (\$ 1,763,728).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2012, the general fund has a fund deficiency of (\$7,988,484).

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, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2012, amounts to \$1,308,605,508 net of accumulated depreciation of \$166,281,254, leaving a net book value of \$1,142,324,254. 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 3% in terms of net book value. Depreciation charges for the year totaled \$ 16,506,276.

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, 2012, the Municipality has \$55,717,286 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, 2012

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 revenue of the municipality of Guaynabo. As a result, there were deficiencies in the collections compared with the budget for 2011-2012. The most impacted sources of income were; Municipal License Tax and Sales and Use taxes.

Those factors were considered when preparing the Municipality's budget for the 2012-2013 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, 2012**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 57,750,142
Cash with fiscal agent (Notes 2 and 5)	80,005,976
Accounts receivable:	
Property taxes (Note 6)	1,065,506
Municipal license taxes (Note 7)	3,936,127
Construction excise taxes	1,192,134
Rent, licenses and permits	1,784,037
Interests	167,671
Sales and use tax (Note 8)	2,047,997
Deferred charges	1,152,122
Due from other agencies (Note 9)	4,161,871
Inventories	1,763,728
Capital assets, net of accumulated depreciation (Note 11)	1,142,324,254
Total assets	\$ 1,297,351,565
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 7,843,300
Due to other agencies (Note 12)	10,912,410
General obligations:	
Bonds	14,174,000
Interest	6,698,301
Noncurrent liabilities (Note 15):	
Due within one year	21,658,093
Due in more than one year	327,040,095
Deferred revenues (Note 13):	
Municipal license tax	40,936,415
Federal government	252,368
Claims and judgements	390,576
Accrued interest	19,931,045
Total liabilities	449,836,603
Net Assets	
Investment in capital assets, net of related debt	872,401,254
Restricted for:	
Debt service	10,780,090
Capital projects	55,717,286
Unrestricted	(91,383,668)
Total net assets	847,514,962
Total liabilities	\$ 1,297,351,565

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, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
General government	\$ 79,243,040	\$ 12,092,479	\$ 59,040	\$ (67,091,521)
Public safety	15,582,323		709,307	(14,873,016)
Public housing and welfare	5,529,408		4,423,113	(1,106,295)
Culture and education	14,035,579		12,794,489	(1,241,090)
Health and sanitation	17,514,949			(17,514,949)
Depreciation	16,506,276			(16,506,276)
Economic development	30,215,077			(25,557,941)
Interest on long-term debt	17,445,882			(17,445,882)
Total primary government	\$ 196,072,534	\$ 12,092,479	\$ 17,985,949	(161,336,970)
General revenues:				
Property taxes (Note 6)				70,289,828
Sales and use taxes (Note 8)				13,551,618
Municipal license taxes (Note 7)				45,162,126
Grants and contributions not restricted to specific programs				34,434,180
Interest, fines and penalties				2,715,176
Miscellaneous				12,539,453
Total general revenues				178,692,381
Loss on disposition of assets				(132,908)
Change in net assets				17,222,503
Net assets at beginning of year, as restated (Note 24)				830,292,459
Net assets at end of year				\$ 847,514,962

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Notes 2 and 5)	\$ 45,309,280	\$ -	\$ 30,462	\$ 12,410,400	\$ 57,750,142
Cash with fiscal agent (Notes 2 and 5)	496,715	30,385,455		49,123,806	80,005,976
Accounts receivable:					
Property taxes (Note 6)		1,065,506			1,065,506
Municipal license taxes (Note 7)	334,488				334,488
Construction excise taxes					
Rent, licenses, and permits	409,554				409,554
Interest	167,671				167,671
Sales and use taxes (Note 8)	811,650	201,430			1,013,080
Due from other agencies (Note 9)	3,387,067		656,017	118,787	4,161,871
Due from other funds (Note 10)	5,059,366				5,059,366
Inventories	1,763,728				1,763,728
Total assets	<u>\$ 57,739,519</u>	<u>\$ 31,652,391</u>	<u>\$ 686,479</u>	<u>\$ 61,652,993</u>	<u>\$ 151,731,382</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, 2012

<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	\$ 3,021,633	\$ -	\$ 572,694	\$ 623,973	\$ 4,218,300
Due to other funds (Note 10)				5,059,366	5,059,366
Due to other agencies (Note 12)	10,798,625		113,785		10,912,410
General obligations:					
Bonds		14,174,000			14,174,000
Interest		6,698,301			6,698,301
Deferred revenues: (Note 13)					
Municipal license tax	40,936,415				40,936,415
Federal government				252,368	252,368
Total liabilities	<u>54,756,673</u>	<u>20,872,301</u>	<u>686,479</u>	<u>5,935,707</u>	<u>82,251,160</u>
Fund Balances					
Reserved for:					
Nonspendable	1,763,728				1,763,728
Restricted		10,780,090		4,825,525	15,605,615
Committed				40,014,738	40,014,738
Assigned	9,207,602			10,877,023	20,084,625
Unassigned	<u>(7,988,484)</u>			<u>(7,988,484)</u>	<u>(7,988,484)</u>
Total fund balances	<u>2,982,846</u>	<u>10,780,090</u>	<u>-</u>	<u>55,717,286</u>	<u>69,480,222</u>
Total liabilities and fund balances	<u>\$ 57,739,519</u>	<u>\$ 31,652,391</u>	<u>\$ 686,479</u>	<u>\$ 61,652,993</u>	<u>\$ 151,731,382</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balances - governmental funds	\$ 69,480,222
--	---------------

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

- | | |
|--|------------------|
| <ul style="list-style-type: none"> • Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. | 1,142,324,254 |
| <ul style="list-style-type: none"> • Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4) | (372,644,809) |
| <ul style="list-style-type: none"> • Some of the Municipality's tax and other revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures. | <u>8,355,295</u> |

Net assets of governmental activities	<u><u>\$ 847,514,962</u></u>
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The accompanying notes are an integral part of these basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Debt Service	WIA Funds	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 6)	\$ 45,493,616	\$ 24,796,212	\$ -	\$ -	\$ 70,289,828
Municipal license taxes (Note 7)	45,604,945				45,604,945
Sales tax (Note 8)	11,359,318	2,173,262			13,532,580
Licenses and permits	3,787,983				3,787,983
Charges for service and rents	5,445,861			1,358,367	6,804,228
Intergovernmental revenues (Note 14):					
Federal grants and contributions			3,585,264	19,057,821	22,643,085
State contributions	14,642,411			15,791,769	30,434,180
Interest, fines, and penalties	2,694,359	19,757		1,060	2,715,176
Other revenues	12,538,478			975	12,539,453
Total revenues	<u>141,566,971</u>	<u>26,989,231</u>	<u>3,585,264</u>	<u>36,209,992</u>	<u>208,351,458</u>
EXPENDITURES					
General government	81,917,576			1,226,207	83,143,783
Public safety	14,913,116			669,207	15,582,323
Public housing and welfare	1,408,220			4,121,188	5,529,408
Culture and education	1,599,676		3,585,264	8,850,639	14,035,579
Health and sanitation	17,256,742			258,207	17,514,949
Economic development	21,018,286			9,196,791	30,215,077
Capital outlays	7,101,736			29,727,477	36,829,213
Debt service:					
Principal retirement		15,971,166			15,971,166
Interest and other		14,162,738			14,162,738
Total expenditures	<u>145,215,352</u>	<u>30,133,904</u>	<u>3,585,264</u>	<u>54,049,716</u>	<u>232,984,236</u>
Deficiency of revenues under expenditures	<u>(3,648,381)</u>	<u>(3,144,673)</u>	<u>-</u>	<u>(17,839,724)</u>	<u>(24,632,778)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from credit line				2,224,691	2,224,691
Loan proceeds				4,025,000	4,025,000
Transfers in	15,755	2,727,032			2,742,787
Transfers out	(1,600,976)	(15,755)		(1,126,056)	(2,742,787)
Total other financing sources (uses)	<u>(1,585,221)</u>	<u>2,711,277</u>		<u>5,123,635</u>	<u>6,249,691</u>
Deficiency of revenues and other sources over expenditures and other uses	<u>(5,233,602)</u>	<u>(433,396)</u>	<u>-</u>	<u>(12,716,089)</u>	<u>(18,383,087)</u>
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED (Note 24)					
	8,216,448	11,213,486	-	68,433,375	87,863,309
FUND BALANCE AT END OF YEAR					
	<u>\$ 2,982,846</u>	<u>\$ 10,780,090</u>	<u>\$ -</u>	<u>\$ 55,717,286</u>	<u>\$ 69,480,222</u>

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 [Signature]
 18/Jul/2012

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, 2012**

Net change in fund balances - total governmental funds	\$ (18,383,087)
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.	40,829,213
• 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.	(16,506,276)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(6,249,691)
• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.	1,076,487
• 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.	15,971,166
• 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.	(132,908)
• Change in accrued interest expense which does not require the use of current financial resources.	(3,283,144)
• 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.	<u>3,900,743</u>
Changes in net assets of governmental activities	<u><u>\$ 17,222,503</u></u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Budgeted Amounts		Actual	
	Original	Final		Original	Final		
REVENUES							
Property taxes	\$ 45,303,615	\$ 45,303,615	\$ 45,303,615	\$ -	\$ 23,909,445	\$ 24,796,212	\$ 886,767
Municipal license taxes	49,003,000	49,003,000	45,284,723	(3,718,277)			
Sales and use taxes	15,100,000	15,100,000	11,471,531	(3,628,469)	3,378,250	2,173,262	(1,204,988)
Licenses and permits	4,065,100	4,065,100	3,787,984	(277,116)			
Charges for services and rent	7,920,393	7,920,393	7,273,242	(647,151)			
Intergovernmental revenues:							
State contributions	14,725,503	14,725,503	14,642,411	(83,092)			
Interest, fines and penalties	2,800,000	2,800,000	2,584,346	(215,654)		19,757	19,757
Other revenues	397,100	1,702,700	3,190,994	1,488,294			
Total revenues	139,314,711	140,620,311	133,538,846	(7,081,465)	27,287,695	26,989,231	(298,464)
EXPENDITURES							
Current:							
General government	81,267,433	79,138,670	78,494,044	644,626			
Public safety	13,835,197	15,054,339	15,045,539	8,800			
Public housing and welfare	1,636,144	1,470,149	1,469,582	567			
Culture and education	1,132,498	1,341,948	1,323,114	18,834			
Health and sanitation	15,837,446	17,163,142	17,152,453	10,689			
Economic development	25,605,993	27,468,063	27,353,428	114,635			
Debt service:							
Principal					15,527,250	15,971,166	443,916
Interest					11,760,445	14,162,738	2,402,293
Total expenditures	139,314,711	141,636,311	140,838,160	798,151	27,287,695	30,133,904	2,846,209
OTHER FINANCING SOURCES							
Reprogramming funds		1,016,000	1,016,000				
Excess of expenditures over revenues	\$ -	\$ -	\$ (6,283,314)	\$ (6,283,314)	\$ -	\$ (3,144,673)	\$ (3,144,673)

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, 2012**

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, 2012

- 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 governments 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, 2012**

- 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, 2012.

b. Government-Wide and Governmental 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.

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 effects of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

The Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*".

During fiscal year 2011, The Municipality implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*". 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

3) Workforce Investment Act Fund

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

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

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund. Cash with fiscal agent in the other governmental funds consist of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

e. Landfill Closure and Postclosure Care Costs

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

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In the accompanying government-wide statement of net assets, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and postclosing costs are made using current costs (costs that would be incurred if the closing date of the landfill would have been June 30, 2012).

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. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

The carrying value of inventories are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2012 since they are not expected to be converted to cash after the current fiscal year-end.

h. Deferred Charges

Deferred charges in the accompanying Statement of Net Assets consist of bond issuance costs, net of accumulated amortization of \$1 million. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

i. 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 which are expensed as incurred. In the accompanying government-wide statement of net assets, all individual capital assets over the threshold amount of \$1,000 have been capitalized and depreciated. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

j. Fund Balances

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54) during fiscal year 2011, 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.
- 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

k. 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, 2012 amounted to approximately \$2.0 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.0 million for workers' compensation insurance covering all municipal employees.

l. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

m. 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
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13

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Statement Number	Statement Name	Adoption Required in Fiscal Year
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
65	Items Previously Reported as Assets and Liabilities	2013-14
66	Technical Corrections - 2012- an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15

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

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n. 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

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reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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, 2012 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, 2012 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess of expenditures over revenues - budgetary basis	\$ (6,283,314)	\$ (3,144,673)
Entity differences:		
Non-budgeted transfers in	15,755	2,727,032
Non-budgeted transfers-out	(1,600,976)	(15,755)
Non-budgeted revenues	4,075,018	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(10,647,687)	
Current year encumbrances recorded as expenditures for budgetary basis	<u>9,207,602</u>	
Excess of expenditures over revenues - GAAP basis	<u>\$ (5,233,602)</u>	<u>\$ (433,396)</u>

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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 \$373 million differences are as follows:

Bonds payable	\$ 273,243,000
Capital leases	31,862,228
Note payable	13,501,062
Landfill obligation	13,091,571
Compensated absences	13,775,636
Accrued interest payable	19,931,045
Claims and judgments	390,576
Christmas bonus	3,625,000
Puerto Rico Water and Sewer Authority	1,000,000
Credit line	<u>2,224,691</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$ 372,644,809</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held

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by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The deposits at GDB of approximately \$49 million are restricted principally for capital project activities. These funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposit in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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

6. PROPERTY TAXES

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

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

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.75%	2.75%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>9.58%</u>	<u>7.58%</u>

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The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. 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).

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Based on the preliminary settlement already received, during the year ended June 30, 2012, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by \$317,260. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 9)

7. MUNICIPAL LICENSE TAXES

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, 2012. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that 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, 2012, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$3,936,127 and \$40,936,415, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2012 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$334,488 and \$40,936,415, 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

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

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

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

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Agreements with Aguas Buenas y Cidra	\$ 2,808,161
Labor Development Administration (WIA)	656,017
CRIM	317,260
Puerto Rico Public Housing Department	136,449
Puerto Rico Justice Department	64,730
Labor Development Administration (General Fund)	60,467
OCAM (Other governmental funds)	<u>118,787</u>
Total	<u>\$ 4,161,871</u>

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10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2012, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ <u>5,059,366</u>

The balance of approximately \$5.0 million due to the general fund from other governmental funds resulted from loans made to construction projects that will be paid during the subsequent year.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 15,755
Debt Service	General	1,600,976
Debt Service	Other Governmental Funds	<u>1,126,056</u>
		<u>\$ 2,742,787</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, 2012 was as follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 656,265,552	\$ 14,308,697	\$ 239,466	\$ 670,334,783
Construction in progress	43,890,279	11,677,702	13,149,987	42,417,994
Total capital assets, not being depreciated	<u>700,155,831</u>	<u>25,986,399</u>	<u>13,389,453</u>	<u>712,752,777</u>
Capital assets, being depreciated:				
Building and building improvements	333,689,365	20,319,367		354,008,732
Vehicles and equipment	59,654,004	6,892,165	632,054	65,914,115
Infrastructure	174,909,149	1,020,735		175,929,884
Total capital assets, being depreciated	<u>568,252,518</u>	<u>28,232,267</u>	<u>632,054</u>	<u>595,852,731</u>
Less accumulated depreciation for:				
Building and building improvements	79,401,898	8,214,207		87,616,105
Vehicles and equipment	43,903,384	4,774,521	499,146	48,178,759
Infrastructure	26,968,842	3,517,548		30,486,390
Total accumulated depreciation	<u>150,274,124</u>	<u>16,506,276</u>	<u>499,146</u>	<u>166,281,254</u>
Total capital assets, being depreciated, net	<u>417,978,394</u>	<u>11,725,991</u>	<u>132,908</u>	<u>429,571,477</u>
Governmental activities capital assets, net	<u>\$ 1,118,134,225</u>	<u>\$ 37,712,390</u>	<u>\$ 13,522,361</u>	<u>\$ 1,142,324,254</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2012 are as follows:

Puerto Rico Health Insurance Administration	\$ 5,820,956
CRIM (Preliminary liquidation 2010-11)	2,394,163
PRIDCO	1,500,000
Puerto Rico Water and Sewer Authority	1,062,759
Labor Development Administration	113,785
General Services Administration	<u>20,747</u>
Total	<u>\$10,912,410</u>

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13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of \$40,936,415 in the general fund related to municipal license tax collected in fiscal year 2011-2012 that will be earned in fiscal year 2012-2013 (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	\$ 61,866
Special Fund - Fideicomiso	176,702
UDAG Program	<u>13,800</u>
	<u>\$ 252,368</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, 2012, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2012 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%.	\$ 7,290,000
\$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%	1,120,000
\$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%	1,540,000
\$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%	150,000
\$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%	15,355,000
\$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%	12,990,000

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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%	\$ 10,730,000
\$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%	7,740,000
\$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%	2,075,000
\$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%	3,520,000
\$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%	2,255,000
\$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%	2,100,000
\$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%	390,000
\$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%	3,120,000
\$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%	370,000

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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%.	\$ 2,010,000
\$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%.	6,560,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	3,320,000
\$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%.	4,430,000
\$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%.	3,360,000
\$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%.	1,420,000
\$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%.	295,000
\$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%.	3,240,000
\$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%.	1,005,000

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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%.	\$ 30,000
\$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%.	5,010,000
\$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%.	30,720,000
\$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%.	2,300,000
\$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%.	1,020,000
\$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%.	140,000
\$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%.	5,910,000
\$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%.	990,000
\$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%.	710,000

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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%.	\$ 1,870,000
\$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%.	439,000
\$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%.	635,000
\$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%.	1,660,000
\$6,270,000 series of 2012, payable in annual installments from \$115,000 to \$465,000 until July 1, 2034, interests from 4.75% to 6.00%.	5,905,000
\$12,350,000 series of 2012, payable in annual installments from \$220,000 to \$910,000 until July 1, 2034, interests from 4.75% to 7.50%.	11,635,000
\$24,015,000 series of 2012, payable in annual installments from \$405,000 to \$1850,000 until July 1, 2034, interests from 4.75% to 7.50%.	22,715,000
\$4,885,000 series of 2012, payable in annual installments from \$195,000 to \$490,000 until July 1, 2024, interests from 4.75% to 7.50%.	4,245,000
\$9,045,000 series of 2012, payable in annual installments from \$130,000 to \$755,000 until July 1, 2034, interests from 4.75% to 7.50%.	8,615,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

\$53,355,000 series of 2012, payable in annual installments from \$1,647,000 to \$4,434,000 until July 1, 2028, interests from 4.60% to 5.77%.	\$ 48,129,000
\$20,690,000 series of 2012, payable in annual installments from \$300,000 to \$1,720,000 until July 1, 2035, interest from 6.01% to 7.50%.	20,065,000
\$305,000 series of 2012 payable in annual installments from \$35,000 to \$55,000 until July 1, 2017, interest from 6.00% to 7.50%.	235,000
\$2,415,000 series of 2012 payable in annual installments from \$35,000 to \$200,000 until July 1, 2036, interest from 6.00% to 6.50%.	2,380,000
\$1,610,000 series of 2012 payable in annual installment from 110,000 to \$215,000 until July 1, 2021, interest from 6.00% to 6.50%.	<u>1,500,000</u>
Total bonds payable	<u>273,243,000</u>

Notes Payable

\$5,870,000 note payable to The Bank of New York. The term of the loan is for twenty years and the principal is payable annually each August 30, started in August of 2005. During the first two years, the Municipality had a moratorium. The annual installments are from \$560,000 to \$590,000, at the fluctuating interest established by the U. S. Department of Treasury.	\$ 1,740,000
\$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%.	1,664,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

\$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.	\$ 5,830,274
\$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.	1,739,000
Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.	<u>2,527,788</u>
Total notes payable	<u>13,501,062</u>
Total bonds, notes, and other long-term debts	<u>\$ 286,744,062</u>

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2012, are as follows:

	<i>Bonds</i>		<i>Notes Payable</i>	
	Principal	Interest	Principal	Interest
2013	\$ 15,508,000	\$ 19,159,077	\$ 1,114,119	\$ 771,968
2014	13,203,000	15,971,020	1,129,779	712,213
2015	13,969,000	15,198,632	1,115,044	651,284
2016	14,027,000	14,675,070	572,955	604,161
2017	14,837,000	13,549,156	590,552	570,326
2018-2022	80,615,000	56,369,502	3,264,879	2,158,622
2023-2027	62,790,000	31,839,707	2,907,883	1,473,382
2028-2032	44,449,000	16,677,477	2,805,851	504,698
2033-2036	13,845,000	1,558,125	-	-
	<u>\$ 273,243,000</u>	<u>\$ 184,997,766</u>	<u>\$ 13,501,062</u>	<u>\$ 7,446,654</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

Credit Line

The Municipality has a credit line with the Government Development Bank for Puerto Rico which provides advances up to a maximum of \$7.6 million. The outstanding balance was \$2.2 million as of year ended June 30, 2012. The proceeds of these advances will be used to expropriate properties and the development of various capital projects. The interest rate was variable prime plus 1.50% with a minimum of 6.00%. Interests are payable on January 1, and July 1, of each year. The credit line is due on or before July 1, 2022 if the Municipality has the available funds to refinance the credit line through the additional special property tax (CAE).

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 283,867,000	\$ 4,025,000	\$ (14,649,000)	\$ 273,243,000	\$ 15,508,000
Credit line		2,224,691		2,224,691	
Notes payable	<u>14,823,228</u>		<u>(1,322,166)</u>	<u>13,501,062</u>	<u>1,114,119</u>
Total long-term debt	<u>298,690,228</u>	<u>6,249,691</u>	<u>(15,971,166)</u>	<u>288,968,753</u>	<u>16,622,119</u>
Capital leases	33,804,416		(1,942,188)	31,862,228	2,115,974
Landfill obligation	14,866,683		(1,775,112)	13,091,571	1,620,000
A.A.A.	-	1,000,000	-	1,000,000	-
Compensated absences	<u>13,661,038</u>	<u>114,598</u>	<u>-</u>	<u>13,775,636</u>	<u>1,300,000</u>
Total other liabilities	<u>62,332,137</u>	<u>1,114,598</u>	<u>(3,717,300)</u>	<u>59,729,435</u>	<u>5,035,974</u>
Total noncurrent liabilities	<u>\$ 361,022,365</u>	<u>\$ 7,364,289</u>	<u>\$ (19,688,466)</u>	<u>\$ 348,698,188</u>	<u>\$ 21,658,093</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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 of Agencies and Public Instrumentalities, Governor Assistants, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (10.275% 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 10.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2012 was \$2,970,729. The Municipality's payroll for employees covered by ERS was \$28,912,204. The Municipality total payroll for all employees was \$55,659,513.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

17. RISK MANAGEMENT

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

18. LEASES

a. Capital Leases

The Municipality is obligated under several capital lease agreements with third parties that will expire at different years until 2024. These capital lease obligations are related to lease building facilities and office equipment recorded as capital assets in the accompanying government-wide statement of net assets. These lease agreements qualify as capital leases for financial reporting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the respective inception dates. The present value of the future minimum capital lease payments as of June 30, 2012 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2013	\$ 3,547,856
2014	3,668,395
2015	3,769,416
2016	3,791,119
2017	3,788,713
2018-2022	18,928,790
2023-2025	<u>3,324,199</u>
Total minimum lease payments schedule under agreements	40,818,488

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Less:		
Interests to be paid through expiration dates of lease agreements		\$ 8,956,260
Present value of minimum lease payments		31,862,228
Less: Current portion of obligation under capital leases		<u>2,115,974</u>
Long-term portion of obligation under capital leases		<u>\$ 29,746,254</u>

The activity of obligation under capital leases for the year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
Principal	\$ <u>33,804,416</u>	\$ <u> </u> -	(<u>\$1,942,188</u>)	\$ <u>31,862,228</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, 2012 was \$2,038,286.
- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

19. CONTINGENCIES

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

20. LANDFILL CLOSURE AND POSTCLOSURE COSTS

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

According to this statement, closure and postclosure care costs are recorded while the landfill is operating. As of June 30, 2012, The Municipality determined that the present value of total estimated closing costs and post closing care costs amount to \$1,389,071 and \$11,702,500, respectively. Of these estimated costs, the Municipality recorded a liability amounting to \$13,091,571.

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 four year period for a cost of \$7,200,000.

During fiscal year ended as of June 30, 2011 and June 30, 2012, the Municipality incurred in landfill closing costs which approximates to \$795,000 and \$1,775,112, respectively. The landfill obligation has been reduced to \$13,091,571 as of June 30, 2012. The liability was recorded in the accompanying government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

21. COMMITMENTS

- a. The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2012. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$40.0 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, 2012, approximately \$5.8 million, which the PRHIA has estimated as of June 30, 2012, approximately \$28.5 million.

22. FUND BALANCES

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable				
Inventory	\$ 1,763,728	\$ -	\$ -	\$ 1,763,728
Restricted:				
Federal Programs			4,825,525	4,825,525
Debt service		10,780,090		10,780,090
Committed:				
Public works			40,014,738	40,014,738
Assigned:				
General government	3,462,689		10,877,023	14,339,712
Public safety	279,041			279,041
Public works	4,396,373			4,396,373
Culture	12,795			12,795
Health and sanitation	787,467			787,467
Public housing and welfare	269,237			269,237
Unassigned	(7,988,484)			(7,988,484)
	<u>\$ 2,982,846</u>	<u>\$ 10,780,090</u>	<u>\$ 55,717,286</u>	<u>\$ 69,480,222</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

23. NET ASSETS

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

Capital assets, net of accumulated depreciation.	\$ 1,142,324,254
Outstanding balance on capital related debt	<u>(269,923,000)</u>
Total invested in capital assets, net of related debt	<u>\$ 872,401,254</u>

24. RESTATEMENTS

a. Net Assets:

The beginning balance of net assets as of July 1, 2011 has been restated as follows:

Net assets at beginning of year as previously reported	\$ 830,206,514
Overstatement of accounts payable	<u>85,945</u>
Net assets at beginning of year as restated	<u>\$ 830,292,459</u>

b. Fund Balance

The beginning fund balance of other governmental funds has been restated to correct overstatement of account payable.

	<u>Other Governmental Funds</u>
Beginning fund balance, as previously reported	\$ 68,347,430
Overstatement of accounts payable	<u>85,945</u>
Beginning fund balance, as restated	<u>\$ 68,433,375</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

25. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through December 27, 2012, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)			
Section 8 Housing Choice Vouchers	14.871	RQ46-E016-001-007	\$ 2,642,197
Emergency Shelter Grant Program	14.231		2,300
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	1,757,518
Community Development Block Grant Program/Entitlement Grants- ARRA	14.253		163,900
HOME Investment Partnership Program	14.239		164,113
ARRA/ Homeless Prevention and Rapid Re-Housing Program			
Technical Assistance	14.257		315,564
Pass-through Municipality of San Juan:			
Housing Opportunity for Persons with AIDS	14.241		71,619
Pass-through Puerto Rico Department of Housing:			
Public and Indian Housing	14.850		257,047
Subtotal U.S. Department of HUD			<u>5,374,258</u>
U.S. Department of Health and Human Services (HHS)			
Head Start	93.600	02-CH-0483	8,012,930
ARRA- Head Start	93.708		798,312
Pass-through the Puerto Rico Elderly Commission:			
Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	217,349
Nutrition Services Incentive Program	93.053		192,609
Subtotal U.S. Department of HHS			<u>9,221,200</u>
U.S. Department of Agriculture			
Pass-through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	N/A	738,042
Summer Food Service Program	10.559		2,325
Subtotal U.S. Department of Agriculture			<u>740,367</u>
U.S. Department of Labor			
Pass-through Labor Development Administration			
Workforce Investment Act			
Adult	17.258		1,424,485
Youth Activities	17.259		1,612,546
Dislocated Workers	17.278		548,234
Subtotal U.S. Department of Labor			<u>3,585,265</u>
U.S. Department of Justice			
Pass-through Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		39,398
Public Safety Partnership and Community Policing Grants	16.710		669,207
Subtotal U.S. Department of Justice			<u>708,605</u>
U.S. Department of Energy			
Pass through the Puerto Rico Administration of Energy Affairs:			
Energy Efficiency and Conservation Block Grant Program	81.128		5,000
Subtotal U.S. Department of Energy			<u>5,000</u>
U.S. Department of Transportation			
Federal Transit-Formula Grants ARRA	20.507		1,740,889
Subtotal U.S. Department of Transportation			<u>1,740,889</u>
TOTAL			<u>\$ 21,375,584</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Guaynabo's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The expenditures of the schedule are included in the Municipality's basic financial statements within the other nonmajor governmental funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Total federal expenditures per schedule	<u>\$21,375,584</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$17,790,319
Workforce Investment Act Programs	<u>3,585,265</u>
	<u>\$21,375,584</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Guaynabo, as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

San Juan, Puerto Rico
December 27, 2012

Ortiz, Rivera, Rivera & Co.

The stamp E52571 was affixed
to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Municipality of Guaynabo's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality of Guaynabo's major federal programs for the year ended June 30, 2012. Municipality of Guaynabo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Guaynabo's management. Our responsibility is to express an opinion on Municipality of Guaynabo's compliance based on our audit.

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

In our opinion, the Municipality of Guaynabo, complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as questioned costs as item 12-1.

Internal Control over Compliance

Management of Municipality of Guaynabo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Guaynabo's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

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

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

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

San Juan, Puerto Rico
December 27, 2012

Ortiz, Rivera, Rivera & Co.

The stamp E52572 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
10.558	Child and Adult Care Food Program
14.257	Homelessness Prevention and Rapid Re-Housing Program (Recovering Act Funded)
14.218	Community Development Block Grant/Entitlement Grants

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.253	Community Development Block Grant/Entitlement Grants/ARRA
14.871	Section 8 Housing Choice Voucher
93.600	Head Start
93.708	ARRA - Head Start
20.507	Federal Transit - Formula Grants
17.258	Workforce Investment Act - Adult Program
17.259	Workforce Investment Act - Youth Program
17.278	Workforce Investment Act - Dislocated Program
16.710	Public Safety Partnership and Community Policing Grants

Dollar threshold used to distinguish between type A and Type B programs: \$641,268.

Audited qualified as low-risk auditee? Yes No

II. FINANCIAL STATEMENTS FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

A. Community Development Block Grant - CFDA No. 14.218

Finding Number SA-12-1: Reporting

The Community Development Block Grant/ARRA failed in the timely submission of federal financial reports of the Program.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Cash Transaction Report (SF-425)

Quarter	Date to be Submitted	Date Submitted	According to Law	
			Yes	No
1 st Quarter	October 30, 2011	November 10, 2011		X
4 th Quarter	July 30, 2012	August 15, 2012		X

Criteria

Federal Cash Transaction Report (SF-425)

Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

Cause

The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this Program.

Effect

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

Questioned Costs

None

Recommendation

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Program</u>	<u>Finding/Non Compliance</u>	<u>Status</u>
<p>WIA - CFDA No. 17.258, 17.259, and 17.278</p>	<p>Condition SA-11-01</p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.</p>	<p>Condition was corrected.</p>
<p>WIA - CFDA. No. 17258, 17.259, and 17.278</p>	<p>Condition SA-11-02</p> <p>The program failed in the timely submission of federal financial reports of the program.</p>	<p>Condition was corrected.</p>
<p>Energy Efficiency and Conservation Block Grant/ARRA CFDA No. 81.128</p>	<p>Condition SA-11-03</p> <p>The program did not comply with the requirement of preparing; ensure the accurate preparation and timely submission of federal financial reports.</p>	<p>Condition was corrected.</p>
<p>WIA - CFDA No. 17.258, 17.259, and 17.278</p>	<p>Condition SA-10-01</p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.</p>	<p>Condition was corrected.</p>

CORRECTIVE ACTION PLAN



*Commonwealth of Puerto Rico
Municipality of Guaynabo
Federal Affairs and Planning Office*

*Roberto M. Garcia Garcia
Director*

CORRECTIVE ACTION PLAN

March 14, 2013

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2012.

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

Audit period: Fiscal year ended June 30, 2012.

The findings from the June 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS

A. Community Development Block Grant - CFDA No. 14.218

- **Finding Number SA 12-1: Reporting**

Recommendation

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

Action Taken

Effective immediately SF-425 reports will be submitted quarterly in accordance with the following schedule:

- 1st Quarter – period covered January 01 to March 31
Due to Field Office: April 30
- 2nd Quarter – period covered April 01 to June 30
Due to Field Office: July 30
- 3rd Quarter – period covered July 01 to September 30
Due to Field Office: October 30
- 4th Quarter – period covered October 01 to December 31
Due to Field Office: January 30

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please notify to Roberto García, Director of Federal Affairs Office, and CPA Carlos Garcia, Internal Audit Director at (787)720-4040.

Cordially,



Roberto García
Director
Federal Affairs Office