

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**BASIC FINANCIAL STATEMENTS  
with Independent Auditors' Report Thereon  
June 30, 2013**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
FOR THE YEAR ENDED JUNE 30, 2013**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
FOR THE YEAR ENDED JUNE 30, 2013**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Guaynabo, as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparison for the general and debt services funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 to 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Guaynabo's basic financial statements. The accompanying schedule of expenditures of federal awards is

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presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of the Municipality of Guaynabo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Guaynabo's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 14, 2014

*Ortiz, Rivera, Rivera & Co.*

The stamp E96476 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2013**

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**Management's Discussion and Analysis**

As management of the Municipality of Guaynabo, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2013. 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, in terms of budgeted vs actual figures, there were deficiencies in the collections by \$ 883,875 compared with the budget for 2012-2013. The most impacted sources of income were; Sales and Use taxes and Charges for services and rent by \$4,143,482 and \$1,454,022 respectively. Notwithstanding, on a budgetary basis, actual revenues exceeded actual expenditures by \$1,805,774, due to the efforts and actions taken by the Administration in the expense reductions.

- The Municipality net position decreased by \$439,973.
- The Municipality must significant assets are capital assets, net of depreciation, amounting to \$1,148,363,905 (90% percent of total municipality's assets).
- The Municipality must significant liabilities are bonds, notes, capital leases, landfill obligation and compensated absences amounting to \$347,330,004 (79% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$29,746,254.
- During last year the Municipality initiates the Landfill closing process. This process will be realized in a four years period with a cost of \$7,200,000. As of

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

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

**YEAR ENDED JUNE 30, 2013**

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June 30, 2013 the Municipality incurred in landfill closing costs which approximates \$1,863,471.

- The Municipality used from the credit line \$4,331,881 to finance public works, capital improvements and constructions of different projects.
- In the fund financial statements, the governmental funds revenue decrease by \$7,097,166 while governmental funds expenditures decrease \$7,659,500.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$2,302,023.

**Using This Annual Report**

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

**Government-Wide Financial Statements**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

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

**YEAR ENDED JUNE 30, 2013**

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**Fund Financial Statements**

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements.

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

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

**Infrastructure Assets**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

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

**YEAR ENDED JUNE 30, 2013**

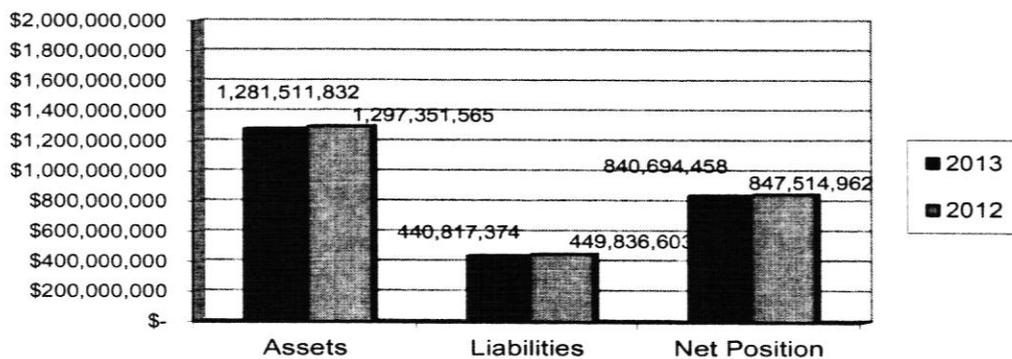
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's combined net position (excess of assets over liabilities) totaled \$840,979,458 at the end of 2013, compared to \$847,514,962 at the end of the previous year.

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

<b>Condensed Statement of Net Position</b>	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>%</b>
Current assets	\$133,147,927	\$155,027,311	(\$21,879,384)	(14%)
Capital assets	1,148,363,905	1,142,324,254	6,039,651	1%
<b>Total assets</b>	<b>1,281,511,832</b>	<b>1,297,351,565</b>	<b>(15,839,733)</b>	<b>(1%)</b>
Current liabilities	93,487,370	101,138,415	(7,651,045)	(8%)
Noncurrent liabilities	347,330,004	348,698,188	(1,368,184)	-
<b>Total liabilities</b>	<b>440,817,374</b>	<b>449,836,603</b>	<b>(9,019,229)</b>	<b>(2%)</b>
Invested in capital assets, net of related debt	893,538,905	872,401,254	21,137,651	2%
Restricted	44,456,790	66,497,376	(22,040,586)	(33%)
Unrestricted	(97,301,237)	(91,383,668)	(5,917,569)	6%
<b>Total net position</b>	<b>\$840,694,458</b>	<b>\$847,514,962</b>	<b>(\$6,820,504)</b>	<b>(1%)</b>



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2013

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**Changes in Net Position**

The Municipality's net position decreased by \$439,973. This decrease was due mainly to decreases in revenues during 2012-2013, particularly in the lines of charges for services.

Approximately 67 percent of the Municipality's total revenue came from taxes, while 20 percent resulted from grants and contributions, including federal aid. Charges for Services provided 5 percent of the total revenues. Interest earnings and miscellaneous provided 8 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, 2013**

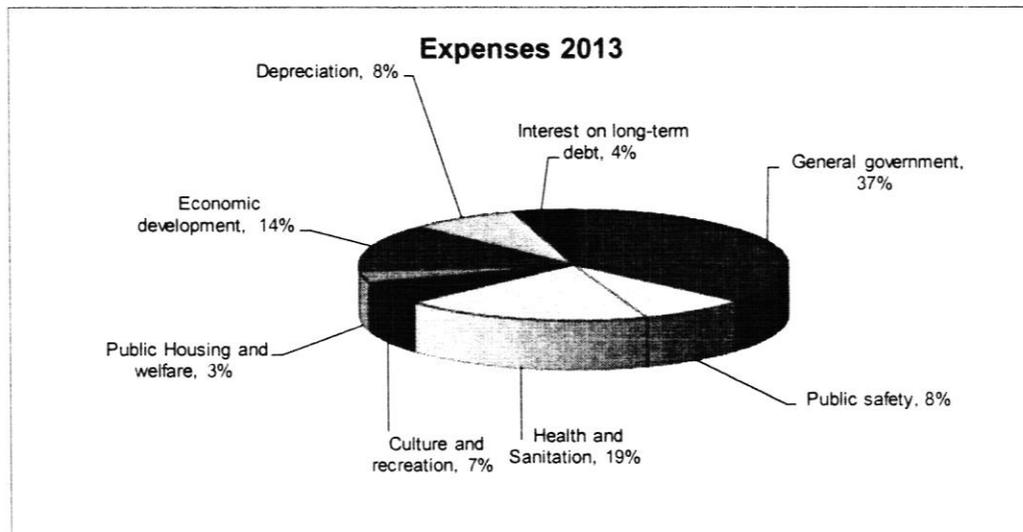
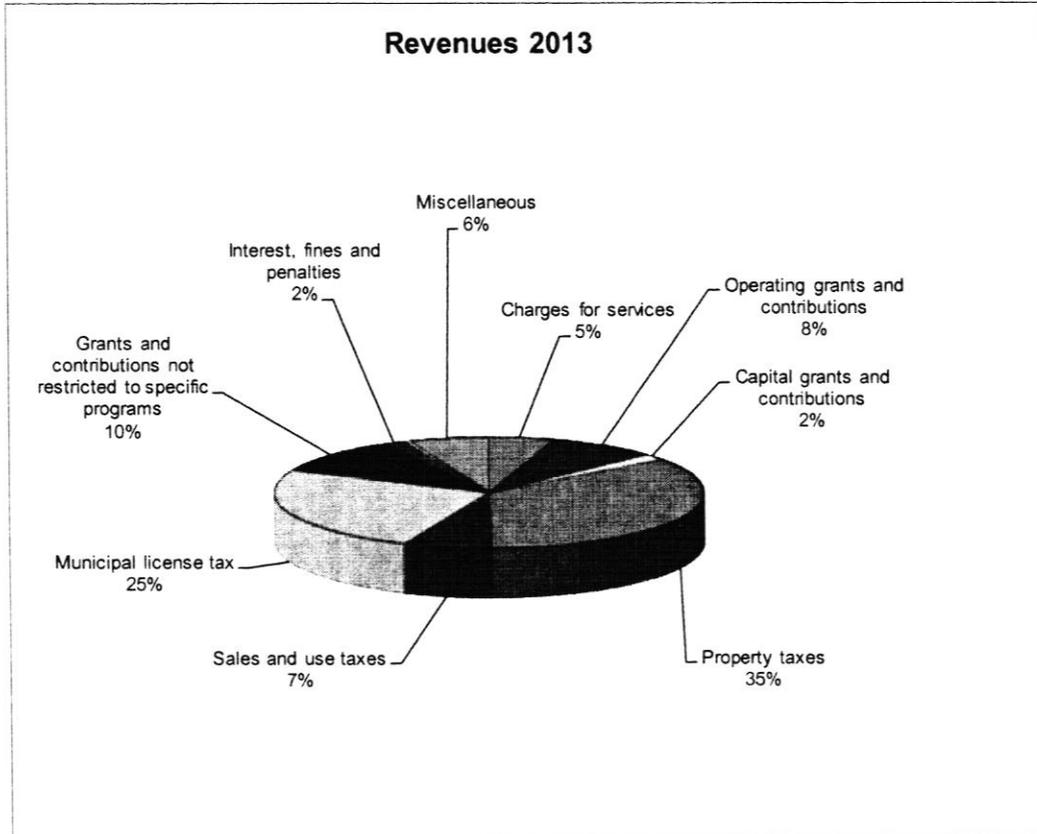
<b>Condensed Statement of Activities</b>	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>%</b>
<b>Program revenues:</b>				
Charges for services	\$10,043,011	\$12,092,479	(\$2,049,468)	(17%)
Operating grants and contributions	16,645,426	17,985,949	(1,340,523)	(7%)
Capital grants and contributions	3,447,385	4,657,136	(1,209,751)	(26%)
<b>General revenues:</b>				
Property taxes	71,344,167	70,289,828	1,054,339	1%
Sales and use taxes	13,419,908	13,551,618	(131,710)	(1%)
Municipal license tax	51,203,265	45,162,126	6,041,139	13%
Grants and contributions not restricted to specific programs	21,135,065	34,434,180	(13,299,115)	(39%)
Interest, fines and penalties	3,287,651	2,715,176	572,475	21%
Gain (Loss) on retirement of Capital Assets	(957,960)	(132,908)	(825,052)	621%
Miscellaneous	12,067,857	12,539,453	(471,596)	(4%)
<b>Total revenues</b>	<u>201,635,775</u>	<u>213,295,037</u>	<u>(11,659,262)</u>	<u>(5%)</u>
<b>Expenses:</b>				
General government	73,919,815	79,243,040	(5,323,225)	(7%)
Public safety	16,203,192	15,582,323	620,869	4%
Health and Sanitation	37,739,810	17,514,949	20,224,861	115%
Culture and recreation	13,545,683	14,035,579	(489,896)	(3%)
Public Housing and welfare	6,562,679	5,529,408	1,033,271	19%
Economic development	28,454,311	30,215,077	(1,760,766)	(6%)
Depreciation	16,552,670	16,506,276	46,394	-
Interest on long-term debt	9,097,588	17,445,882	(8,348,294)	(48%)
<b>Total expenses</b>	<u>202,075,748</u>	<u>196,072,534</u>	<u>6,003,214</u>	<u>3%</u>
Change in net assets	(439,973)	17,222,503	(17,662,476)	(103%)
Net assets, beginning of year	<u>841,134,431</u>	<u>823,911,928</u>	<u>17,222,503</u>	<u>2%</u>
Net assets, end of year	<u>\$840,694,458</u>	<u>\$841,134,431</u>	<u>(\$439,973)</u>	<u>-</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO

MANAGEMENT'S AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2013

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

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

**YEAR ENDED JUNE 30, 2013**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$49,741,659, a decrease of \$19,738,563 in comparison with the prior year. There are reservations of fund balance amounting to \$52,059,070. 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 (\$6,848,874), 2) to pay debt service (\$12,214,353), 3) to pay for capital projects (\$32,242,437) and 4) for other purposes (\$ 753,406).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2013, the general fund has a fund balance of \$ 5,284,869.

**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. For the year ended June 30, 2013 the General Fund total revenues increased by \$2,641,589 and the expenditures decrease by \$4,615,518 in compare with June 30, 2012, resulting in an excess of Revenues over Expenditures of \$3,608,726 and a Net Change in Fund Balance of \$2,302,023 as of June 30, 2013..

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO**

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

**YEAR ENDED JUNE 30, 2013**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2013, amounts to \$1,329,332,548 net of accumulated depreciation of \$180,968,643, leaving a net book value of \$1,148,363,905. 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 Net Capital Assets Activity for the year ended June 30, 2013 increased by \$12,420,182 in compare with June 30, 2012. Depreciation charges for the year totaled \$ 16,552,670.

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, 2013, the Municipality has \$32,242,437 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, 2013**

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

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on sales, property and municipal taxes as well as federal grants to carry out the governmental activities. The Municipality increase the property tax (additional special property -municipal) from 2.75% to 3.25% for the fiscal year 2013-2014. 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 2012-2013. 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 2013-2014 fiscal years.

**FINANCIAL CONTACT**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalent (Notes 2 and 5)	\$ 63,700,185
Cash with fiscal agent (Notes 2 and 5)	55,814,137
Accounts receivable:	
Property taxes (Note 6)	1,087,902
Municipal license taxes (Note 7)	4,160,491
Construction excise taxes	2,185,155
Rent, licenses, and permits	2,076,143
Interests	79,773
Sales and use tax (Note 8)	1,836,931
Deferred charges	1,041,033
Due from other agencies (Note 9)	412,771
Inventories	753,406
Capital assets, net of accumulated depreciation (Note 11)	<u>1,148,363,905</u>
 Total assets	 <u>\$ 1,281,511,832</u>
 <u>Liabilities and Net Position</u>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 9,332,842
Due to other agencies (Note 12)	7,199,669
General obligations:	
Bonds	15,013,000
Interest	6,271,132
Noncurrent liabilities (Note 15):	
Due within one year	19,941,697
Due in more than one year	327,388,307
Deferred revenues (Note 13):	
Municipal license tax	38,621,344
Federal government	458,095
Claims and judgements	942,113
Accrued interest	15,649,175
Total liabilities	<u>440,817,374</u>
<b>Net Position</b>	
Investment in capital assets, net of related debt	893,538,905
Restricted for:	
Debt service	12,214,353
Capital projects	32,242,437
Unrestricted	<u>(97,301,237)</u>
Total net position	<u>840,694,458</u>
 Total liabilities	 <u>\$ 1,281,511,832</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
<b>Primary Government:</b>				
General government	\$ 73,919,815	\$ 10,043,011	\$ -	\$ (63,876,804)
Public safety	16,203,192	873,259		(15,329,933)
Public housing and welfare	6,562,679	4,131,253		(2,431,426)
Culture and education	13,545,683	11,640,914		(1,904,769)
Health and sanitation	37,739,810			(37,739,810)
Depreciation	16,552,670		3,447,385	(16,552,670)
Economic development	28,454,311			(25,006,926)
Interest on long-term debt	9,097,588			(9,097,588)
Total primary government	<u>\$ 202,075,748</u>	<u>\$ 10,043,011</u>	<u>\$ 16,645,426</u>	<u>\$ (171,939,926)</u>
General revenues:				
Property taxes (Note 6)				71,344,167
Sales and use taxes (Note 8)				13,419,908
Municipal license taxes (Note 7)				51,203,265
Grants and contributions not restricted to specific programs				21,135,065
Interest, fines and penalties				3,287,651
Miscellaneous				12,067,857
Total general revenues				<u>172,457,913</u>
Loss on disposition of assets				(957,960)
Change in net position				(439,973)
Net position at beginning of year, as restated (Note 24)				<u>841,134,431</u>
Net position at end of year				<u>\$ 840,694,458</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, 2013

<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)	\$ 51,113,649	\$ -	\$ 365,630	\$ 12,220,906	\$ 63,700,185
Cash with fiscal agent (Notes 2 and 5)	492,166	32,194,958		23,127,013	55,814,137
Accounts receivable:					
Property taxes (Note 6)		1,087,902			1,087,902
Municipal license taxes (Note 7)	204,366				204,366
Construction excise taxes	474,412				474,412
Rent, licenses, and permits	79,773				79,773
Interest	821,701	215,625			1,037,326
Sales and use taxes (Note 8)			183,653	229,118	412,771
Due from other agencies (Note 9)	2,174,573				2,174,573
Due from other funds (Note 10)	753,406				753,406
Inventories					
Total assets	<u>\$ 56,114,046</u>	<u>\$ 33,498,485</u>	<u>\$ 549,283</u>	<u>\$ 35,577,037</u>	<u>\$ 125,738,851</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, 2013**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Debt Service</u>	<u>WIA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>					
Account payable and accrued liabilities	\$ 4,665,901	-	\$ 340,009	\$ 701,932	\$ 5,707,842
Due to other funds (Note 10)				2,174,573	2,174,573
Due to other agencies (Note 12)	6,990,395		209,274		7,199,669
General obligations:					
Bonds		15,013,000			15,013,000
Interest		6,271,132			6,271,132
Deferred revenues: (Note 13)					
Municipal license tax	38,621,344			458,095	38,621,344
Federal government	551,537				458,095
Claims and judgements	50,829,177				551,537
Total liabilities	<u>50,829,177</u>	<u>21,284,132</u>	<u>549,283</u>	<u>3,334,600</u>	<u>75,997,192</u>
<b>Fund Balances</b>					
Reserved for:					
Nonspendable	753,406				753,406
Restricted		12,214,353		4,778,544	16,992,897
Committed				20,338,885	20,338,885
Assigned	6,848,874			7,125,008	13,973,882
Unassigned	(2,317,411)				(2,317,411)
Total fund balances	<u>5,284,869</u>	<u>12,214,353</u>	<u>-</u>	<u>32,242,437</u>	<u>49,741,659</u>
Total liabilities and fund balances	<u>\$ 56,114,046</u>	<u>\$ 33,498,485</u>	<u>\$ 549,283</u>	<u>\$ 35,577,037</u>	<u>\$ 125,738,851</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 POSITION**  
**JUNE 30, 2013**

Total fund balances - governmental funds	\$ 49,741,659
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<ul style="list-style-type: none"> <li>• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</li> </ul>	1,148,363,905
<ul style="list-style-type: none"> <li>• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 4)</b></li> </ul>	(366,994,755)
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<u>9,583,649</u>
Net position of governmental activities	<u><u>\$ 840,694,458</u></u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General	Debt Service	WIA Funds	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes (Note 6)	\$ 44,815,186	\$ 26,528,981	\$ -	\$ -	\$ 71,344,167
Municipal license taxes (Note 7)	50,848,779				50,848,779
Sales tax (Note 8)	11,166,569	2,488,651			13,655,220
Licenses and permits	4,720,252				4,720,252
Charges for service and rents	3,301,354			801,136	4,102,490
Intergovernmental revenues (Note 14):					
Federal grants and contributions			2,932,954	17,159,857	20,092,811
State contributions	14,023,203			7,111,862	21,135,065
Interest, fines, and penalties	3,265,360	21,171		1,120	3,287,651
Other revenues	12,067,857				12,067,857
Total revenues	<u>144,208,560</u>	<u>29,038,803</u>	<u>2,932,954</u>	<u>25,073,975</u>	<u>201,254,292</u>
<b>EXPENDITURES</b>					
General government	77,886,672				77,886,672
Public safety	15,422,435			780,757	16,203,192
Public housing and welfare	1,771,489			4,791,190	6,562,679
Culture and education	1,927,776		2,932,954	8,684,953	13,545,683
Health and sanitation	21,925,405			814,405	22,739,810
Economic development	19,039,763			9,414,548	28,454,311
Capital outlays	2,626,294			27,304,518	29,930,812
Debt service:					
Principal retirement		16,622,119			16,622,119
Interest and other		13,379,458			13,379,458
Total expenditures	<u>140,599,834</u>	<u>30,001,577</u>	<u>2,932,954</u>	<u>51,790,371</u>	<u>225,324,736</u>
Excess (deficiency) of revenues over expenditures	<u>3,608,726</u>	<u>(962,774)</u>	<u>-</u>	<u>(26,716,396)</u>	<u>(24,070,444)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from credit line				4,331,881	4,331,881
Loan proceeds					-
Transfers in	16,817	2,413,854		5655	2,436,326
Transfers out	(1,323,520)	(16,817)		(1,095,989)	(2,436,326)
Total other financing sources (uses)	<u>(1,306,703)</u>	<u>2,397,037</u>		<u>3,241,547</u>	<u>4,331,881</u>
Net change in fund balance	2,302,023	1,434,263	-	(23,474,849)	(19,738,563)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>2,982,846</u>	<u>10,780,090</u>	<u>-</u>	<u>55,717,286</u>	<u>69,480,222</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 5,284,869</u>	<u>\$ 12,214,353</u>	<u>\$ -</u>	<u>\$ 32,242,437</u>	<u>\$ 49,741,659</u>

Checked  
 08/05/2013

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, 2013**

Net change in fund balances - total governmental funds	\$ (19,738,563)
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.	29,930,812
• 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.	(16,552,670)
• Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(4,331,881)
• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements.	1,339,443
• 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.	16,622,119
• 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.	(957,960)
• Change in accrued interest expense which does not require the use of current financial resources.	4,281,870
• 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.	(11,033,143)
Changes in net position of governmental activities	<u>\$ (439,973)</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, 2013

	General Fund			Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts Original	Final	Actual	Budgeted Amounts Original	Final	Actual	
<b>REVENUES</b>							
Property taxes	\$ 44,815,186	\$ 44,815,186	\$ 44,815,186	\$ 23,779,694	\$ 23,779,694	\$ 26,528,981	\$ 2,749,287
Municipal license taxes	49,000,000	49,000,000	50,978,902				1,978,902
Sales and use taxes	15,300,000	15,300,000	11,156,518	3,730,115	3,730,115	2,488,651	(1,241,464)
Licenses and permits	4,045,100	4,045,100	4,720,252				675,152
Charges for services and rent	5,122,937	5,122,937	3,668,915				(1,454,022)
Intergovernmental revenues:							
State contributions	13,751,968	13,751,968	13,712,922				(39,046)
Interest, fines, and penalties	3,300,000	3,300,000	3,305,006			21,171	21,171
Other revenues	1,697,000	2,097,000	4,190,615				2,093,615
Total revenues	137,032,191	137,432,191	136,548,316	27,509,809	27,509,809	29,038,803	1,528,994
<b>EXPENDITURES</b>							
Current:							
General government	94,236,083	88,461,571	86,111,211				2,350,360
Public safety	15,705,337	15,853,097	15,788,068				65,029
Public housing and welfare	1,826,113	1,813,699	1,782,197				31,502
Culture and education	-	-	-				-
Health and sanitation	9,494,774	10,609,107	10,534,772				74,335
Economic development	15,769,884	20,694,717	20,526,294				168,423
Debt service:							
Principal				12,770,559	12,770,559	16,622,119	3,851,560
Interest				14,739,250	14,739,250	13,379,458	(1,359,792)
Total expenditures	137,032,191	137,432,191	134,742,542	27,509,809	27,509,809	30,001,577	2,491,768
<b>OTHER FINANCING SOURCES</b>							
Reprogramming funds							
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 1,805,774	\$ -	\$ -	\$ (962,774)	\$ (962,774)

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, 2013**

**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 Position - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net position 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, 2013**

- 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, 2013**

- 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, 2013.

**b. Government-Wide and Governmental Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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, 2013**

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.

On July 1, 2012, the Municipality adopted the provision of GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

The 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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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. General capital assets acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital lease are reported as other financing sources.

Property taxes, sales 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 investments with an original maturity of three months or less to be cash equivalents.

**e. Landfill Closure and Postclosure Care Costs**

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

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In the accompanying

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

government-wide statement of net position, 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.

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 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, 2013 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 Position consist of bond issuance costs, net of accumulated amortization of \$1 million. Deferred charges

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 position, 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

**j. Fund Balances**

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

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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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, 2013.

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.

**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, 2013 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.

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**I. 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:

<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
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
69	Government Combinations and Disposal of Government Operations	2013-14

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<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
70	Accounting and Financial Reporting for Non exchange Financial Guarantees	2013-14
71	Pension Transition for Contribution Made Subsequent to the Measurement Data	2014-15

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

**n. Deferred Inflows**

On July 1, 2012 the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of deferred Outflows of resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arises when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *earned but unavailable revenue* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2013 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying statement of net position). No *earned but*

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*unavailable revenue*" is accounted for in the accompanying statement of net position.

**o. 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

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GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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, 2013 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, 2013 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess (deficiency) of revenues over expenditures - budgetary basis	\$ 1,805,774	\$ (962,774)
Entity differences:		
Non-budgeted transfers in	16,817	2,413,854
Non-budgeted transfers-out	(1,323,520)	(16,817)
Non-budgeted revenues	4,161,680	
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(9,207,602)	6,848,874
Current year encumbrances recorded as expenditures for budgetary basis		
Excess (deficiency) of revenues over expenditures - GAAP basis	<u>\$ 2,302,023</u>	<u>\$ 1,434,263</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 position of governmental activities as reported in the government-wide statement of net position. 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 \$ 367 million differences are as follows:

Bonds payable	\$ 257,735,000
Capital leases	29,746,254
Puerto Rico Health Insurance Administration	15,000,000
Note payable	12,386,943
Landfill obligation	11,228,100
Compensated absences	14,677,135
Accrued interest payable	15,649,175
Credit line	6,556,572
Claims and judgments	390,576
Christmas bonus	<u>3,625,000</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 366,994,755</u>

**5. DEPOSITS - CUSTODIAL CREDIT RISK**

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

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

The deposits at GDB of approximately \$23 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 10.08% for real property and 8.08% 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	3.25%	3.25%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>10.08%</u>	<u>8.08%</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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2012-13, but not the final settlement as the six month period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

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

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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 \$5,676,544. This amount will be repaid through advances from property taxes (refer to note 15).

Based on the preliminary settlement already received, during the year ended June 30, 2013, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by \$576,253. Such amount is presented as due to CRIM in the accompanying financial statements. (See Note 15)

**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, 2013. 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, 2013, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) and the respective deferred revenues amounted to \$4,160,491 and \$38,621,344, respectively, in the accompanying government-wide financial statements. In addition, as of June 30, 2013 the municipal license tax receivable (net) and the respective deferred revenues amounted to \$204,366 and \$38,621,344, respectively, in the accompanying fund financial statements.

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**8. SALES AND USE TAXES**

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

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

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

**9. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

Labor Development Administration (WIA)	\$ 183,653
Puerto Rico Justice Department	197,620
HUD (Other governmental funds)	<u>31,498</u>
Total	\$ <u>412,771</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, 2013, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental	\$ <u>2,174,573</u>

The balance of approximately \$2.2 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, 2013 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 16,817
Debt Service	General	1,323,520
Debt Service	Other Governmental	1,090,334
Other Governmental	Other Governmental	<u>5,655</u>
		\$ <u>2,436,326</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, 2013 was as follows:

	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 670,334,783	\$ 8,708,983	\$ 477	\$ 679,043,289
Construction in progress	42,417,994	14,518,784	3,531,471	53,405,307
Total capital assets, not being depreciated	<u>712,752,777</u>	<u>23,227,767</u>	<u>3,531,948</u>	<u>732,448,596</u>
<b>Capital assets, being depreciated:</b>				
Building and building improvements	354,008,732	4,251,270	876,016	357,383,986
Vehicles and equipment	65,914,115	1,233,414	1,740,573	65,406,956
Infrastructure	169,549,353	4,750,309	206,652	174,093,010
Total capital assets, being depreciated	<u>589,472,200</u>	<u>10,234,993</u>	<u>2,823,241</u>	<u>596,883,952</u>
<b>Less accumulated depreciation for:</b>				
Building and building improvements	87,616,105	8,492,949	45,873	96,063,181
Vehicles and equipment	48,178,759	4,515,274	1,413,199	51,280,834
Infrastructure	30,486,390	3,544,447	406,209	33,624,628
Total accumulated depreciation	<u>166,281,254</u>	<u>16,552,670</u>	<u>1,865,281</u>	<u>180,968,643</u>
Total capital assets, being depreciated, net	<u>423,190,946</u>	<u>(6,317,677)</u>	<u>957,960</u>	<u>415,915,309</u>
Governmental activities capital assets, net	<u>\$ 1,135,943,723</u>	<u>\$ 16,910,090</u>	<u>\$ 4,489,908</u>	<u>\$ 1,148,363,905</u>

**12. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2013 are as follows:

Puerto Rico Health Insurance Administration	\$ 5,845,025
Puerto Rico Water and Sewer Authority	1,130,536
Labor Development Administration (WIA funds)	209,274
General Services Administration	14,807
Puerto Rico Labor Department	<u>27</u>
Total	<u>\$ 7,199,669</u>

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**13. DEFERRED REVENUES**

**a. Municipal License Tax**

The deferred revenues of \$38,621,344 in the general fund related to municipal license tax collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014 (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	\$ 278,029
Special Fund - Fideicomiso	166,266
UDAG Program	<u>13,800</u>
	<u>\$ 458,095</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, 2013, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2013 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%.	\$ 6,895,000
\$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%.	14,125,000
\$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%.	12,070,000
\$16,355,000 series of 1998, payable in annual installments from \$240,000 to \$1,365,000 until July 1, 2023, interests from 6.00% to 7.50%.	10,070,000
\$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%.	7,380,000
\$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%.	1,985,000

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\$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%.	\$ 3,370,000
\$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%.	2,160,000
\$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%.	2,015,000
\$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%.	375,000
\$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%.	3,005,000
\$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%.	285,000
\$2,515,000 series of 2005, payable in annual installments of \$55,000 to \$170,000 until July 1, 2029, interests ranging from 4.37% to 5.0%.	1,930,000
\$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%.	5,755,000
\$5,960,000 series of 2005, payable in annual installments of \$275,000 to \$545,000 until July 1, 2019, interests of 5%.	2,910,000
\$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%.	3,990,000

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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\$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%.	\$ 3,190,000
\$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%.	1,380,000
\$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%.	2,970,000
\$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%.	980,000
\$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%.	4,795,000
\$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%.	29,935,000
\$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%	2,245,000
\$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%.	950,000
\$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%.	75,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

\$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%.	\$ 5,785,000
\$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%.	685,000
\$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%.	490,000
\$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%.	1,825,000
\$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%.	303,000
\$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%.	620,000
\$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%.	1,560,000
\$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%.	5,770,000
\$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%.	11,365,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

\$24,015,000 series of 2012, payable in annual installments from \$405,000 to \$1,850,000 until July 1, 2034, interests from 4.75% to 7.50%.	\$ 22,220,000
\$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%.	4,000,000
\$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%.	8,450,000
\$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%.	46,197,000
\$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%.	19,715,000
\$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%.	195,000
\$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%.	2,340,000
\$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>1,375,000</u>
Total bonds payable	\$ <u>257,735,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Notes Payable**

<p>\$5,870,000 note payable to The Bank of New York. The term of the loan is for twenty years and the principal is payable annually each August 30, started in August of 2005. During the first two years, the Municipality had a moratorium. The annual installments are from \$560,000 to \$590,000, at the fluctuating interest established by the U. S. Department of Treasury.</p>	<p>\$ 1,150,000</p>
<p>\$3,000,000 note payable to The Bank of New York. The term of the loan is for twenty years and the principal is payable annually each August 1, starting in August of 2004. During the first year the Municipality has a moratorium. The annual installments are \$167,000, at an approximate rate of 4.50%.</p>	<p>1,497,000</p>
<p>\$7,028,503 note payable that represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is payable in annual aggregate principal installments of \$81,312 approximately, plus interest rate of 6.25% until July 1, 2032.</p>	<p>5,676,544</p>
<p>\$2,000,000 note payable to The Bank of New York. The term of the loan is for twenty years is payable annually each August, started in August of 2007.</p>	<p>1,662,000</p>
<p>Note payable of \$3,159,732 represents a financing agreement with CRIM to the repayment of bonds issued for the sale of delinquent accounts.</p>	<p>2,401,399</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The Municipality entered in payment plan with the Puerto Rico Health Reform of the Commonwealth of Puerto Rico for the concepts of medical claims for previous years. The term of agreement is a \$3,000,000 down-payment and \$1,500,000 payable annually for the next ten years \$ 15,000,000

Total notes payable 27,386,943

Total bonds, notes, and other long-term debts \$ 285,121,943

The annual debt service requirements for the bonds payable and advances from CRIM at June 30, 2013, are as follows:

	<i><b>Bonds</b></i>		<i><b>Notes Payable</b></i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 13,203,000	\$ 14,936,963	\$ 1,129,778	\$ 712,212
2015	13,969,000	15,198,632	1,115,044	651,284
2016	14,027,000	14,375,070	572,956	604,161
2017	14,837,000	13,549,156	590,552	570,326
2018	15,767,000	12,668,875	609,888	502,381
2019-2023	78,650,000	51,421,743	3,215,143	1,955,629
2024-2028	60,782,000	27,941,205	2,857,599	1,275,985
2029-2033	38,630,000	10,112,484	2,295,983	336,724
2034-2036	<u>7,870,000</u>	<u>654,825</u>		
	<u>\$ 257,735,000</u>	<u>\$ 160,858,953</u>	<u>\$ 12,386,943</u>	<u>\$ 6,608,702</u>

As described in Note 6, the Municipality levies an annual special tax of 3.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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 \$6.5 million as of year ended June 30, 2013. 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	\$ 273,243,000	\$ -	\$ (15,508,000)	\$ 257,735,000	\$ 13,203,000
Credit line	2,224,691	4,331,881		6,556,572	
Notes payable	13,501,062		(1,114,119)	12,386,943	1,129,778
<b>Total long-term debt</b>	<u>288,968,753</u>	<u>4,331,881</u>	<u>(16,622,119)</u>	<u>276,678,515</u>	<u>14,332,778</u>
Capital leases	31,862,228		(2,115,974)	29,746,254	2,338,919
Landfill obligation	13,091,571		(1,863,471)	11,228,100	420,000
A.A.A.	1,000,000		(1,000,000)	-	
A.S.E.S.		15,000,000		15,000,000	1,500,000
Compensated absences	13,775,636	901,499		14,677,135	1,350,000
<b>Total other liabilities</b>	<u>59,729,435</u>	<u>15,901,499</u>	<u>(4,979,445)</u>	<u>70,651,489</u>	<u>5,608,919</u>
<b>Total noncurrent liabilities</b>	<u>\$ 348,698,188</u>	<u>\$ 20,233,380</u>	<u>\$ (21,601,564)</u>	<u>\$ 347,330,004</u>	<u>\$ 19,941,697</u>

**16. RETIREMENT PLAN**

**a. Plan Description**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYNABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013**

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 11.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2013 was \$3,367,793. The Municipality's payroll for employees covered by ERS was \$29,869,561. The Municipality total payroll for all employees was \$55,171,020.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013, 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, 2013**

**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 position. 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, 2013 is as follows:

<u>Year ending June, 30</u>	<u>Amount</u>
2014	\$ 3,668,395
2015	3,769,416
2016	3,791,119
2017	3,788,713
2018	3,786,248
2019-2023	16,871,727
2024	<u>1,595,012</u>
Total minimum lease payments schedule under agreements	37,270,630

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Less:		
Interests to be paid through expiration dates of lease agreements		\$ 7,524,376
Present value of minimum lease payments		29,746,254
Less: Current portion of obligation under capital leases		<u>2,338,920</u>
Long-term portion of obligation under capital leases		<u>\$ 27,407,334</u>

The activity of obligation under capital leases for the year ended June 30, 2013 was as follows:

	<u>Balance at June 30, 2012</u>	<u>Issuances</u>	<u>Payments</u>	<u>Balance at June 30, 2013</u>
Principal	\$ <u>31,862,228</u>	\$ <u>          </u> -	( <u>\$2,115,974</u> )	\$ <u>29,746,254</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, 2013 was \$1,925,029.
- 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, 2013**

**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, 2013, The Municipality determined that the present value of total estimated post-closing care costs amount to \$11,228,100. Of these estimated costs, the Municipality recorded a liability amounting to \$11,228,100.

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, 2013, the Municipality incurred in landfill post-closing costs which approximates to \$297,500. The landfill obligation has been reduced to \$11,228,100 as of June 30, 2013. 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, 2013**

**21. COMMITMENTS**

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2013. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$23.0 million.

**22. FUND BALANCES**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable				
Inventory	\$ 753,406	\$ -	\$ -	\$ 753,406
Restricted:				
Federal Programs			4,778,544	4,778,544
Debt service		12,214,353		12,214,353
Committed:				
Public works			20,338,885	20,338,885
Assigned:				
General government	3,548,459		7,125,008	10,673,467
Public safety	579,701			579,701
Public works	1,822,799			1,822,799
Culture				-
Health and sanitation	849,443			849,443
Public housing and welfare	48,472			48,472
Unassigned	<u>(2,317,411)</u>			<u>(2,317,411)</u>
	<u>\$ 5,284,869</u>	<u>\$ 12,214,353</u>	<u>\$ 32,242,437</u>	<u>\$ 49,741,659</u>

**23. NET POSITION**

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

Capital assets, net of accumulated depreciation.	\$ 1,148,363,905
Outstanding balance on capital related debt	<u>(254,825,000)</u>
Total invested in capital assets, net of related debt	<u>\$ 893,538,905</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**24. RESTATEMENTS**

**Net Position**

The beginning balance of net position of July 1, 2012 has been restated as follows:

Net position at beginning of year as previously reported	\$ 847,514,962
Overstatement of fixed assets	<u>(6,380,531)</u>
Net position at beginning of year as restated	<u><u>\$ 841,134,431</u></u>

**25. SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 14, 2014, the date the financial statements were available to be issued.

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF GUAYNABO**

**PART II**

**SINGLE AUDIT SECTION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Grant Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>			
Section 8 Housing Choice Vouchers	14.871	RQ46-E016-001-007	\$ 2,643,691
Emergency Shelter Grant Program	14.231		107,608
Community Development Block Grant Program/Entitlement Grants	14.218	B-92-MC-72-0006	1,898,969
Community Development Block Grant Program/Entitlement Grants- ARRA	14.253		158,468
HOME Investment Partnership Program	14.239		497,125
ARRA/ Homeless Prevention and Rapid Re-Housing Program			
Technical Assistance	14.257		193,646
Pass-through Municipality of San Juan:			
Housing Opportunity for Persons with AIDS	14.241		70,019
Pass-through Puerto Rico Department of Housing:			
Public and Indian Housing	14.850		521,400
Subtotal U.S. Department of HUD			<u>6,090,926</u>
<b>U.S. Department of Health and Human Services (HHS)</b>			
Head Start	93.600	02-CH-0483	8,660,532
Pass-through the Puerto Rico Elderly Commission:			
Special Programs for Aging Title III, Part C, Nutrition Services	93.045	69-066-0042	261,243
Nutrition Services Incentive Program	93.053		331,983
Subtotal U.S. Department of HHS			<u>9,253,758</u>
<b>U.S. Department of Agriculture</b>			
Pass-through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	N/A	699,010
Summer Food Service Program	10.559		4,042
Subtotal U.S. Department of Agriculture			<u>703,052</u>
<b>U.S. Department of Labor</b>			
Pass-through Labor Development Administration			
Workforce Investment Act			
Adult	17.258		1,386,255
Youth Activities	17.259		1,039,218
Dislocated Workers	17.278		507,481
Subtotal U.S. Department of Labor			<u>2,932,954</u>
<b>U.S. Department of Justice</b>			
Pass-through Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		80,000
Public Safety Partnership and Community Policing Grants	16.710		700,757
Subtotal U.S. Department of Justice			<u>780,757</u>
<b>U.S. Department of Transportation</b>			
Federal Transit-Formula Grants	20.507		239,935
Subtotal U.S. Department of Transportation			<u>239,935</u>
<b>TOTAL</b>			<u><u>\$ 20,001,382</u></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, 2013**

**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>\$20,001,382</u>
Federal expenditures per basic financial statements included within:	
Federal expenditures included in other governmental funds	\$17,068,428
Workforce Investment Act Programs	<u>2,932,954</u>
	<u>\$20,001,382</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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise Municipality's basic financial statements, and have issued our report thereon dated March 14, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality'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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico  
March 14, 2014

*Ortiz, Rivera, Rivera & Co.*

The stamp E96477 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for each Major Federal Program**

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 of Municipality's major federal programs for the year ended June 30, 2013. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls 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 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 a

combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico  
March 14, 2014

The stamp E96478 of the Puerto Rico Society of Certified Public Accountants 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, 2013**

**I. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified 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?   X   Yes      No

Type of auditors' report issued on compliance for major programs: Unmodified 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>
14.850	Public and Indian Housing
93.600	Head Start
17.258	Workforce Investment Act - Adult Program
17.259	Workforce Investment Act - Youth Program
17.278	Workforce Investment Act - Dislocated Program

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

Dollar threshold used to distinguish between Type A and Type B programs: \$600,041.

Audited qualified as low-risk auditee?   X   Yes        No

**II. FINANCIAL STATEMENTS FINDINGS**

None

**III. FEDERAL AWARDS FINDING AND QUESTIONED COSTS**

**Finding Number SA 13-1: Reporting**

Condition

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

- a. The required Monthly Financial Report was not submitted to the Puerto Rico Public Housing Authority (PRPHA) by the 20<sup>th</sup> day of each month as required for the months of August and December 2012 and January, March, May, and June 2013.
- b. We reconciled the disbursements as per the Monthly Budget Report and found the following differences:

<u>Monthly Budget Report:</u>	<u>Project</u>	<u>Amount per books</u>	<u>Amount per report</u>	<u>Difference</u>
Month ended				
June 30, 2013	Villas de Mabó	\$160,924.00	\$181,430.00	\$20,506.00

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

Criteria

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

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

Cause

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

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

Effect

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

Recommendation

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

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYNABO  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013**

<u>Program</u>	<u>Finding/Non Compliance</u>	<u>Status</u>
<b>CDBG-CFDA No. 14.218</b>	The program failed in the timely submission of federal financial report of the program.	Condition was corrected.

## **CORRECTIVE ACTION PLAN**



## CORRECTIVE ACTION PLAN

March 14, 2014

Cognizant or Oversight Agency for Audit:

Municipality of Guaynabo respectfully submits the following corrective action plan for the year ended June 30, 2013.

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, 2013.

The finding from the June 30, 2013 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

### FINDINGS - FEDERAL AWARD PROGRAM AUDITS

#### A. Public and Indian Housing – CFDA No. 14.850

- **Finding Number SA 13-1: Reporting**

Recommendation

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

Action Taken

The Program's Management will review the reports to be submitted and will implement a calendar with dead line of the reports jointly with Finance

Department. The Internal Audit Office will give follow up to the monthly and quarterly reports as a part of its continuing monitoring process and audits work plan.

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

Cordially,



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Gilberto Claudio  
Director  
Public Housing Office