

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GURABO**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

***MUNICIPALITY OF GURABO***  
**GURABO, PUERTO RICO**

**FINANCIAL STATEMENTS WITH THE  
INDEPENDENT AUDITOR'S REPORT THEREON**

**JUNE 30, 2004**

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*MUNICIPALITY OF GURABO, PUERTO RICO*

**BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004**

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**MUNICIPALITY OF GURABO, PUERTO RICO**

**SINGLE AUDIT REPORT  
JUNE 30, 2004**

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OMB CIRCULAR A-133**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO**

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

**YEAR ENDED JUNE 30, 2004**

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**Management's Discussion and Analysis**

Management of the Municipality of Gurabo (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2004. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, 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 Municipality net assets increased by \$7,624,772.
- In the fund financial statements, the governmental activities revenue decreased by \$96,951 (or 1%) while governmental activities expenditures increased \$2,032,738 (or 17 %).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$787,545.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$636,387.
- During the year the Municipality did not issue bonds to finance mainly capital improvements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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**Using This Annual Report**

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

**Government-Wide Financial Statements**

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

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

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

**Fund Financial Statements**

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO**

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

**YEAR ENDED JUNE 30, 2004**

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**Fund Financial Statements (Continued)**

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 demonstrates 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.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

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

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$28,857,747 at the end of 2004, compared to \$21,324,796 at the end of the previous year.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets  
June 30, 2004

Current assets	\$10,354,872
Capital assets	26,947,915
Other assets	<u>5,026,258</u>
Total assets	<u>42,329,045</u>
Current liabilities	6,053,225
Noncurrent liabilities	<u>7,418,073</u>
Total liabilities	<u>13,471,298</u>
Invested in capital assets, net of related debt	19,515,339
Restricted	8,661,037
Unrestricted	<u>681,371</u>
Total net assets	<u>\$42,329,045</u>

Changes in Net Assets

The Municipality's net assets increased by \$7,624,772. Approximately 39 percent of the Municipality's total revenue came from taxes, while 10 percent resulted from grants and contributions, including federal aid. Charges for Services provided less than zero percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, capital outlays, sanitation and health. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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Changes in Net Assets (Continued)

Condensed Statement of Activities  
June 30, 2004-

Program revenues:	
Charges for services	\$0
Operating grants and contributions	1,666,380
Capital grants and contributions	938,199
General revenues:	
Property taxes	7,052,780
Municipal license tax	2,918,309
Grants and contributions not restricted to specific programs	4,134,382
Interest and investment earnings	273,335
Miscellaneous	<u>8,472,210</u>
Total revenues	<u>25,455,595</u>
Expense:	
General government	7,185,851
Public safety	1,468,292
Public works and sanitation	3,357,531
Recreation and sports	1,154,570
Health and welfare	1,654,483
Capital outlays	2,491,763
Interest on long-term debt	<u>518,333</u>
Total expenses	<u>17,830,823</u>
Change in net assets	7,624,772
Net assets, beginning of year	<u>21,324,796</u>
Net assets, end of year	<u>\$28,949,568</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO**

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

**YEAR ENDED JUNE 30, 2004**

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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 \$9,782,892 a decrease of \$1,175,880 in comparison with the prior year. There are reservations of fund balances amounting to \$8,987,179. 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 (\$326,142), 2) to pay debt service (\$1,616,099), 3) to pay for capital projects (\$2,870,603) and 4) for other purposes (\$4,174,335).

The governmental funds include the general fund which is the principal operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of \$1,121,855.

The Financial Sector had a better financial performance in comparison to previous years and accordingly filed additional Municipal License Taxes revenues to the Municipality.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO**

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

**YEAR ENDED JUNE 30, 2004**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$26,947,915; net of accumulated depreciation of \$ 5,815,145. This investment in capital assets includes land, buildings, improvements, 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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Capital Assets**

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$447,965 in terms of net book value. Depreciation charges for the year totaled \$ 865,869.

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, 2004, the Municipality has \$3,093,743 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. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

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 GURABO**

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

**YEAR ENDED JUNE 30, 2004**

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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 property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2004-2005 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.



## **NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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### ***INDEPENDENT AUDITOR'S REPORT***

To Honorable Mayor and Members  
of the Municipality's Legislature  
of the Municipality of Gurabo  
Gurabo, Puerto Rico

We have audited the accompanying financial statements of the Governmental Activities, each major fund and the aggregate remaining fund information of the **Municipality of Gurabo**, Puerto Rico, (**the Municipality**) as of and for the year ended June 30, 2004, which collectively comprise the **Municipality's** basic financial statements as listed in the accompanying table of contents. We also have examined the accompanying statement of revenues and expenditures-budgeted and actual-budgetary basis-general fund of the Municipality for the fiscal year then ended, which is presented as part of the basic financial statements. These financial statements are the responsibility of **the Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the **Municipality of Gurabo**, Puerto Rico, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the general and debt service funds for the year then ended in conformity with the budgetary (statutory) basis of accounting, as described in Note 1.

**INDEPENDENT AUDITOR'S REPORT**  
(Continuation)

As described in Note 1, on July 1, 2003 **the Municipality** adopted a new financial reporting model required by GASB Statement No. 34 (GASB No.34), *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. In conjunction with the adoption of GASB No. 34, the Municipality has also adopted the following pronouncements: (1) GASB Statement No. 37-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, (2) GASB Statement No. 38-*Certain Financial Statement Note Disclosures*, and (3) GASB Interpretation No. 6-*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This results in a change in the format and content of the basic financial statements.

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

January 21, 2005  
San Juan, Puerto Rico

*Nieves Velazquez & Co. P.S.C.*

CPA Stamp #1981592 was affixed  
to the record copy of this report.



**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004.**

<b>Assets</b>	<b>Governmental Activities</b>
<b>Current assets:</b>	
Cash	\$ 9,622,179
<b>Receivables:</b>	
Interest	1,188
Local governmental entities	269,287
Municipal license taxes	14,155
Federal government	448,063
<b>Total current assets</b>	<u>10,354,872</u>
<b>Noncurrent assets:</b>	
<b>Restricted assets:</b>	
Cash with fiscal agent	4,885,487
Other assets	140,771
<b>Capital assets:</b>	
<b>Nondepreciable assets:</b>	
Land and construction in progress	16,180,605
<b>Depreciable assets:</b>	
Buildings, equipment and others	16,582,455
<b>Total capital assets</b>	<u>32,763,060</u>
Less: Accumulated depreciation	(5,815,145)
<b>Total capital assets, net of accumulated depreciation</b>	<u>26,947,915</u>
<b>Total noncurrent assets</b>	<u>31,974,173</u>
<b>Total assets</b>	<u>\$ 42,329,045</u>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued liabilities	\$ 2,041,451
Due to:Other governmental entities	193,332
Deferred revenues:	2,647,905
General obligations, bonds and notes	534,273
Compensated absences	457,975
Interest payable	178,289
<b>Total current liabilities</b>	<u>6,053,225</u>
<b>Noncurrent liabilities:</b>	
General obligations, bonds and notes	6,612,478
Compensated absences	805,595
<b>Total noncurrent liabilities</b>	<u>7,418,073</u>
<b>Total liabilities</b>	<u>13,471,298</u>
<b>Net Assets</b>	
Invested in capital assets, net of depreciation and related debt	19,515,339
<b>Restricted for:</b>	
Debt service	1,616,099
Capital projects	2,870,603
Other purposes	4,174,335
Unrestricted	681,371
<b>Total net assets</b>	<u>28,857,747</u>
Commitments and contingencies (Note 15)	-
<b>Total liabilities and net assets</b>	<u>\$ 42,329,045</u>

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

**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
		<u>Charges for Services and other</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental activities:</b>					
General government	\$ 7,185,851	-	-	497,869	(6,687,982)
Capital outlays	2,491,763	-	938,199	-	(1,553,564)
Welfare	226	-	-	-	(226)
Public works	1,423,205	-	-	-	(1,423,205)
Recreation and sports	1,154,570	-	-	-	(1,154,570)
Sanitation	1,934,326	-	-	-	(1,934,326)
Public safety and security	1,468,292	-	-	-	(1,468,292)
Health	1,654,257	-	-	1,168,511	(485,746)
Interest	518,333	-	-	-	(518,333)
<b>Total governmental activities</b>	<b>17,830,823</b>	<b>-</b>	<b>938,199</b>	<b>1,666,380</b>	<b>(15,226,244)</b>
<b>General revenues</b>					
Taxes:					
Property taxes					7,052,780
Volume of business taxes					2,918,309
Intergovernmental revenue, unrestricted					4,134,382
Interest revenues					273,335
Licenses, permits, fines and forfeits					1,797,850
Capital Assets-donation					5,635,810
Miscellaneous					1,038,550
<b>Total general revenues</b>					<b>22,851,016</b>
Change in net assets					7,624,772
Net assets - beginning of year					21,232,975
Net assets - end of year					<b>\$ 28,857,747</b>

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

**MUNICIPALITY OF GURABO, PUERTO RICO**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004**

	Major Funds					Total Governmental Funds
	General Fund	State Legislative Join Resolutions Special Revenue Fund	Bonds & Notes Fund	Debt Service Fund	Other Governmental Funds	
<b>ASSETS</b>						
Cash (including certificates of deposits of \$ 6,400,425)	\$ 3,826,765	2,583,803	-	-	3,211,611	9,622,179
Restricted assets:						
Cash with fiscal agent	-	-	3,093,743	1,791,744	-	4,885,487
Receivables:						
Accts. Receiv.-Municipal license taxes	14,155	-	-	-	-	14,155
From other funds	1,744,790	-	-	-	4,433	1,749,222
From other Federal Agencies	-	-	-	-	448,063	448,063
From other governmental entities	168,394	-	-	-	100,893	269,287
Other	-	-	-	140,771	-	140,771
Interests	-	-	-	1,188	-	1,188
<b>Total assets</b>	<b>\$ 5,754,104</b>	<b>2,583,803</b>	<b>3,093,743</b>	<b>1,933,703</b>	<b>3,764,999</b>	<b>17,130,352</b>

(Continues)

**MUNICIPALITY OF GURABO, PUERTO RICO**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004  
(CONTINUATION)**

	<b>Major Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>State Legislative Join Resolutions Special Revenue Fund</b>	<b>Bonds &amp; Notes Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 1,734,436	-	-	-	196,015	1,930,451
Due to:						
Other governmental entities	126,266	-	-	-	67,066	193,332
Others funds	-	-	103,206	3,498	1,642,518	1,749,222
Deferred revenues	2,771,547	-	-	125,000	388,803	3,285,350
Matured bonds & notes:						
Principal	-	-	-	160,000	-	160,000
Interests	-	-	-	29,106	-	29,106
<b>Total liabilities</b>	<b>4,632,249</b>	<b>-</b>	<b>103,206</b>	<b>317,604</b>	<b>2,294,402</b>	<b>7,347,460</b>

(Continues)

**MUNICIPALITY OF GURABO, PUERTO RICO**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**June 30, 2004  
(CONTINUATION)**

	<u>Major Funds</u>					
	<u>General Fund</u>	<u>State Legislative Join Resolutions Special Revenue Fund</u>	<u>Bonds &amp; Notes Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>FUND BALANCE</b>						
Reserved for:						
Encumbrances	326,142	-	-	-	-	326,142
Debt service	-	-	-	1,616,099	-	1,616,099
Capitals projects	-	2,583,803	286,800	-	-	2,870,603
Other purposes	-	-	2,703,737	-	1,470,598	4,174,335
Unreserved	<u>795,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>795,713</u>
Total fund balance	<u>1,121,855</u>	<u>2,583,803</u>	<u>2,990,537</u>	<u>1,616,099</u>	<u>1,470,598</u>	<u>9,782,892</u>
Commitments and contingencies (Note 15)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<b>\$ <u>5,754,104</u></b>	<b><u>2,583,803</u></b>	<b><u>3,093,743</u></b>	<b><u>1,933,703</u></b>	<b><u>3,764,999</u></b>	<b><u>17,130,352</u></b>

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

*MUNICIPALITY OF GURABO, PUERTO RICO*

**Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets**

**June 30, 2004**  
(Continuation)

Total fund balances for governmental funds	\$9,782,892
Total net assets reported in the statement of governmental activities is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Funds Statement. Those assets consist of:	
Land	\$14,280,552
Construction in progress	1,900,053
Buildings and improvements, equipment and vehicles, net of \$5,815,145 accumulated depreciation	<u>10,767,310</u>
Total capital assets	26,947,915
Some of <b>the Municipality's</b> taxes and other revenues will be collected after the year end but are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as deferred revenues in the Governmental Funds Statement.	637,445
Some of interest expenditures on long-term debt incurred during the year were not matured after year-end, therefore are not reported in the Governmental Funds Statement.	(149,184)
Long-term liabilities applicable to the Municipality's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term-are reported in the Net Assets. Balances at June 30, 2004, were:	
Compensated Absences	(1,263,570)
Legal Claims	(111,000)
Bonds and notes payable	<u>(6,986,751)</u>
Total net assets of governmental activities	<u>\$28,857,747</u>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

	<u>Major Funds</u>					<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>State Legislative Join Resolutions Special Revenue Fund</u>	<u>Loans &amp; Bonds Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
<b><u>REVENUES</u></b>						
Property taxes	\$ 6,001,197	-	-	926,583	-	6,927,780
Volume of business tax	2,918,309	-	-	-	-	2,918,309
Licenses, permits, fines and forfeits	1,797,850	-	-	-	-	1,797,850
Intergovernmental grants and others	1,182,784	1,019,768	-	-	1,931,831	4,134,383
Interests	273,004	-	-	-	331	273,335
Federal grants	-	-	-	-	2,316,668	2,316,668
Miscellaneous	<u>1,038,550</u>	-	-	-	-	<u>1,038,550</u>
<b>Total revenues</b>	<u>13,211,694</u>	<u>1,019,768</u>	<u>-</u>	<u>926,583</u>	<u>4,248,830</u>	<u>19,406,874</u>

(Continues)

**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004  
(CONTINUATION)**

	<u>Major Funds</u>					<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>State Legislative Join Resolutions Special Revenue Fund</u>	<u>Loans &amp; Bonds Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
<b>EXPENDITURES</b>						
General government	6,493,056	-	-	-	1,149,843	7,642,899
Public safety and security	1,408,474	-	-	-	108,689	1,517,163
Sanitation	1,778,470	-	-	-	-	1,778,470
Health	325,471	-	-	-	1,328,786	1,654,257
Recreation and sports	1,151,884	-	-	-	-	1,151,884
Public works	1,752,356	-	-	-	-	1,752,356
Capital outlays	838,528	405,685	1,138,474	-	1,830,968	4,213,655
Bonds & notes:						
Principal	-	-	-	502,921	-	502,921
Interest	-	-	-	369,149	-	369,149
<b>Total expenditures</b>	<b>13,748,239</b>	<b>405,685</b>	<b>1,138,474</b>	<b>872,070</b>	<b>4,418,286</b>	<b>20,582,754</b>

(Continues)

**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004  
(CONTINUATION)**

	Major Funds					Total Governmental Funds
	General Fund	State Legislative Join Resolutions Special Revenue Fund	Loans & Bonds Fund	Debt Service Fund	Other Governmental Funds	
Excess / (deficiency) of revenues over / (under) expenditures before other financing sources / (uses)	<u>(536,545)</u>	<u>614,083</u>	<u>(1,138,474)</u>	<u>54,513</u>	<u>(169,456)</u>	<u>(1,175,880)</u>
<b>OTHER FINANCING SOURCES / (USES)</b>						
Operating transfers - in	-	-	-	251,000	-	251,000
Operating transfers - out	<u>(251,000)</u>	-	-	-	-	<u>(251,000)</u>
<b>Total other financing sources (uses)</b>	<u>(251,000)</u>	-	-	<u>251,000</u>	-	-
Net change in fund balance	<u>(787,545)</u>	<u>614,083</u>	<u>(1,138,474)</u>	<u>305,513</u>	<u>(169,456)</u>	<u>(1,175,880)</u>
Fund balance at beginning of year	<u>1,909,400</u>	<u>1,969,721</u>	<u>4,129,011</u>	<u>1,310,586</u>	<u>1,640,054</u>	<u>10,958,772</u>
Fund balance at end of year	<u>\$ 1,121,855</u>	<u>2,583,803</u>	<u>2,990,537</u>	<u>1,616,099</u>	<u>1,470,598</u>	<u>9,782,892</u>

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

**MUNICIPALITY OF GURABO, PUERTO RICO**

**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, 2004  
(Continuation)**

Net change in fund balances-Governmental Funds Statement	(\$1,175,880)
Governmental Funds Statement reports 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. This is the amount of which capital outlay expenditures (\$3,213,888) exceeded depreciation expense (\$865,869) reported in the Statement of Activities.	2,348,019
The statement of activities statement reports as revenue donated capital asset with is not revenue for the Statement of Revenues, Expenditures and Changes in the Fund Balance Statement.	5,635,810
Property taxes revenues reported as deferred revenue in the governmental funds statement based on availability and reported as revenues in the statement of activities.	123,642
Recording of receivables and revenue in the government-wide statements for amounts not recorded in the governmental fund statements based on the availability criterion.	513,803
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under modified accrual basis of accounting until due. These adjustments combine the net changes of the following balances:	
Compensated absences	(63,359)
Accrued interest on loans	(149,184)
Legal claims	(111,000)
Payment of bond principal is an expenditure in the governmental funds, but it reduces the long-term liabilities in the Statement of Net Assets.	<u>502,921</u>
Change in Net Assets of Governmental Activities	<u>\$7,624,772</u>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL-GENERAL FUND AND DEBT SERVICE FUND**

**BUDGETARY BASIS  
Year Ended June 30, 2004**

	GENERAL FUND				DEBT SERVICE FUND			
	Original Budget	Final Budget	Adjusted Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Adjusted Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>								
Property tax	\$ 5,287,784	5,872,534	6,001,197	128,662	\$ 820,404	820,404	682,770	(137,634)
Volume of business tax	4,290,000	4,290,000	2,918,309	(1,371,691)	-	-	-	-
Licenses and permits	1,880,639	1,880,639	1,797,850	(82,789)	-	-	-	-
Intergovernmental services	-	-	-	-	-	-	-	-
Intergovernmental grants	1,176,975	1,176,975	1,182,784	5,809	-	-	-	-
Property rent	-	-	-	-	-	-	-	-
Interest	120,000	120,000	273,004	153,004	-	-	-	-
Landfill revenues	-	-	-	-	-	-	-	-
Miscellaneous	705,486	2,386,251	1,038,550	(1,347,701)	-	-	-	-
Transfer in	-	-	-	-	-	-	251,000	251,000
<b>Total Revenues</b>	<b>13,460,884</b>	<b>15,726,399</b>	<b>13,211,694</b>	<b>(2,514,705)</b>	<b>820,404</b>	<b>820,404</b>	<b>933,770</b>	<b>113,366</b>
<b>Expenditures</b>								
General government	7,791,995	9,038,289	6,338,407	2,699,882	-	-	-	-
Public works	2,919,688	3,656,084	1,755,847	1,900,237	-	-	-	-
Health & welfare	319,597	352,040	325,471	26,569	-	-	-	-
Public safety	1,480,016	1,499,304	1,408,474	90,830	-	-	-	-
Education & recreation	949,588	1,180,682	1,151,884	28,798	-	-	-	-
Sanitation	-	-	1,778,470	(1,778,470)	-	-	-	-
Capital Outlays	-	-	838,528	(838,528)	-	-	-	-
Bonds & notes	-	-	-	-	204,247	204,247	502,921	(298,674)
Interest	-	-	-	-	616,157	616,157	369,149	247,008
Transfer out	-	-	251,000	(251,000)	-	-	-	-
<b>Total Expenditures</b>	<b>13,460,884</b>	<b>15,726,399</b>	<b>13,848,081</b>	<b>1,878,318</b>	<b>820,404</b>	<b>820,404</b>	<b>872,070</b>	<b>(51,666)</b>
Excess of (expenditures) revenues over (revenues) expenditures	\$ -	-	(636,387)	(636,387)	\$ -	-	61,700	61,700

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

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### GENERAL ORGANIZATION

The **Municipality of Gurabo (the Municipality)** was founded in 1815. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen (14) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

**The Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of **the Municipality** have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Reporting Entity

**The Municipality's** financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### a. Reporting Entity (Continuation)

According to the first reporting model established by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34), which **the Municipality** adopted in prior year, the minimum required financial statement presentation applicable to **the Municipality** is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI is information presented along with, but separate from, **the Municipality's** basic financial statements. RSI is composed of the following elements: (1) Management's Discussion and Analysis (MD & A) and (2) Schedule of Finding Progress-Employee' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS).

MD & A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality's** financial activities for the year ended June 30, 2004, based on **the Municipality's** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD & A also highlights certain key fiscal policies that control **the Municipality's** operations.

The Schedule of Finding Progress-Employee' Retirement System of the Government of Puerto Rico and Its Instrumentalities provides a three-year trend information (using latest data available) of the funding status of ERS, which is a multi-employer cost-sharing retirement system in which **the Municipality** is a participating employer.

Other supplementary information presented in this report for purposes of additional analysis consist of: (1) combining and individual governmental fund financial statements, (2) budgetary comparison schedule-debt service fund, and (3) schedule of capital assets used in the operations of governmental funds, as listed in the accompanying table of contents.

The **Municipality of Gurabo** is required to implement this Standard for the fiscal year ended June 30, 2004.

# **MUNICIPALITY OF GURABO, PUERTO RICO**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

#### **b. Financial Reporting Entity**

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of **the Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality** may be such that exclusion of their financial statements from those of **the Municipality** would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity* (GASB No.14.)

**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** as of June 30, 2004 nor for the year then ended.

#### **c. Basic Financial Statements-GASB Statement No. 34**

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### c. Basic Financial Statements-GASB Statement No. 34 (Continuation)

The government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the substantiality of **the Municipality** the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund statements into the governmental wide statements.

#### d. Basis of Presentation

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. **The Municipality** reports the following major funds on **Fund Financial Statements**:

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### d. Basis of Presentation (Continuation)

##### *Major Funds*

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund Head Start– The special revenue fund of Head Start is a major fund used by **the Municipality** to account for revenues derived from the grant that is legally restricted by outside parties for use on specific purpose. The uses and limitations of this revenue fund is specified by municipal ordinances or federal and state statutes.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality's** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Debt Service Fund - Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund - Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements which are not financed by other funds.

#### e. Basis of Accounting

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### e. Basis of Accounting (Continuation)

##### Measurement Focus, Basis of Accounting

Government-wide Financial Statements (GWFS). The accompanying GWFS are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements report information of all of the Municipality's governmental activities as a whole but do not report governmental fund information but rather. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of the GWFS is on operational accountability information about **the Municipality** as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is **the Municipality's** responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on **the Municipality's** principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about **the Municipality's** financial position by presenting all of **the Municipality's** assets and liabilities, with the difference between these two items reported as "net assets" (equity) and or net deficit. This statement assists management in assessing the level or services that can be provided by **the Municipality** in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### e. Basis of Accounting (Continuation)

##### Measurement Focus, Basis of Accounting (Continuation)

##### Government-wide Financial Statements (GWFS) (Continuation)

Net assets are classified in the accompanying statement of net assets within the following three categories:

- *Invested in capital assets, net of related debt* – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- *Restricted net assets* – This net asset category consist of net resources restricted by external parties (such as creditors, grantors, contributors, Acts or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes **the Municipality** to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

The classification of restricted net assets identifies resources that have been received or earned by **the Municipality** with an explicit understanding between **the Municipality** and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit use of bond to specific purposes.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### e. Basis of Accounting (Continuation)

##### Measurement Focus, Basis of Accounting (Continuation)

##### Government-wide Financial Statements (GWFS) (Continuation)

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

**The Municipality** has reported the following types of restricted net assets in the accompanying statement of net assets:

- *Encumbrances* – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Capital Projects* – Represent net assets available to finance future capital outlays.
- *Unrestricted net assets* – These net asset category consist of net resources that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints that are imposed by management, but can be removed or modified.

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

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### e. Basis of Accounting (Continuation)

##### Measurement Focus, Basis of Accounting (Continuation)

Governmental Funds Financial Statement. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or 60 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types/Governmental Activities. Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality's** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**f. Encumbrances**

Governmental funds employ encumbrances accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year-end are reported as reservations of fund balance and they constitute neither expenditures, nor liabilities. Encumbrances constitute the equivalent of expenditures for budgetary purposes only, and, accordingly, are reported with expenditures in all budgetary basis statements.

**g. Budgetary Data**

**The Municipality** follows these procedures, which are in accordance with the municipal law in establishing the budgetary data reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st., the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances as described below.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### g. Budgetary Data (Continuation)

The actual results of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of **the Municipality** for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year. During the fiscal year, **the Municipality** readjusted its original budget of the General Fund Balance by \$2,265,515 from current year resources increase.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) **The Municipality** receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**g. Budgetary Data (Continuation)**

The necessary adjustments to convert the result of operations of the general fund from the modified accrual basis of accounting to the budgetary basis are as follows:

	<i><u>General Fund</u></i>	<i><u>Debt Service Fund</u></i>
Excess of revenues (expenditures) and other financing sources over expenditures (revenues) and other financing uses (Budgetary-Statutory Basis)	(\$636,387)	61,700
Prior years property taxes liquidation received in current year	-	243,813
Current year encumbrances recognized as expenditures on the budgetary basis	(326,142)	-
Prior year encumbrances recognized as expenditures on the budgetary basis	174,984	-
Excess of revenues (expenditures) and other financing sources (uses) over expenditures (revenues) and other financing sources (uses) (GAAP basis)	<u>(\$781,545)</u>	<u>305,513</u>

The Municipality has not legally adopted a budget for the special and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

**h. Unrestricted and Restricted Deposits**

The Municipality's deposits are composed of cash on hand, demand deposits in commercial banks and the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements and any excess is invested in certificates of deposit with commercial banks.

# ***MUNICIPALITY OF GURABO, PUERTO RICO***

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

#### **h. Unrestricted and Restricted Deposits (Continuation)**

Under the Acts and Regulations of the Commonwealth, public funds deposited by **the Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury deposits, but not in **the Municipality's** name.

Restricted cash consist of deposits in commercial banks and GDB that its use is limited for the specified purposes discussed below, as established by applicable agreements or required by Act.

Cash with fiscal agent in the general and debt service fund consists of property tax collections amounting to \$1,791,744, which are restricted for the payment of the Municipality's debt service, as established by Act. Cash with fiscal agent in the general fund also consists of restricted unspent proceeds of bonds, amounting to \$3,093,743, and are restricted for the acquisition, construction or improvements of major capital assets as well as for payment of legal claims.

#### **i. Inventories**

The general fund purchases office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as an expenditure and the inventory is not recorded in the basic financial statements since amount is insignificant.

#### **j. Investments**

Investments are composed of certificates of deposit with original maturities exceeding three months but not exceeding one year. Investments are held in commercial banks and are recorded at cost, which approximates fair value.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### k. Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net assets. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

**The Municipality** defines capital assets as assets with an individual cost of \$25 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$25 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net assets, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method to deflate the current costs using an approximate price index was used only in the case of certain items for which their historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net assets as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**k. Capital Assets (Continuation)**

Depreciation expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated over their estimated useful lives under the straight-line method. The estimated useful lives of major capital asset categories are:

	<u>YEARS</u>
Buildings, structures and building improvements	30-40
Infrastructure	40
Motor vehicles	5
Furniture and fixtures	5
Machinery and equipment	3-5

Depreciation expense on capital assets are recorded as direct expenses of the function/program specifically identified with the asset. Depreciation of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

**1. Deferred Revenue**

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue 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 (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### I. Deferred Revenue (Continuation)

- The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

#### m. Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences, issued by GASB (GASB No. 16)*. Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2004 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relates to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of social security taxes and medicare taxes).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by Act. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

**m. Compensated Absences (Continuation)**

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is reported in the statement of net assets. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations or retirements.

**n. Long-term Debt**

The long-term liabilities reported in the accompanying statements of net assets include **the Municipality's** bonds payable, notes payable, bond anticipation notes, obligations under capital leases, accrued compensated absences, estimated liability for municipal solid waste landfill closure and post closure care costs and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due in July 1 of the following fiscal year, are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (generally at June 30). In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### **o. Leases**

**The Municipality** classifies its lease agreements either as operating or capital leases according to FASB Statement No. 13, *Accounting for leases (FASB No. 13)*. Capital lease agreements are generally non-cancelable and involve, substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease liability at the inception of the lease. According to FASB No. 13, **the Municipality** classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the four criteria indicated in the pronouncement.

Although, **the Municipality** is prevented from entering into obligations extending beyond the current year budget, most capital lease agreements entered by **the Municipality** contain fiscal funding clauses or a cancellation clause that makes the continuation of the agreements subject to future appropriations. Therefore, all leases are considered operating leases and none capitalized.

#### **p. Claims and Judgments**

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund and in the Statement of Net Assets.

#### **q. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect 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 expenses during the reporting period. Actual results could differ from those estimates.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### r. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers (GASB No. 27)*, the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, accost sharing multi-employer defined benefit pension plan and an hybrid defined contribution plan, respectively, in which the employees of **the Municipality** participate. **The Municipality** is considered a participant and not a sponsor of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basis financial statements of such retirement system are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to **the Municipality** in the accompanying basic financial statements. The basic financial statements on the Commonwealth account for the total amount of the net pension obligation of ERS, including any amount that may be allocated to **the Municipality**.

**The Municipality** accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

#### s. Risk Management

**The Municipality** carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by CRIM (See Note 2).

**The Municipality** carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### s. Risk Management (Continuation)

**The Municipality** obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (FSE), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

**The Municipality** obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

**The Municipality** also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of **the Municipality**. The current insurance policies have not been canceled or terminated at June 30, 2004. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### t. Reservations of Fund Balances

Reservations of fund balances represent portions of fund balances in the GFFS that are legally segregated for specific future uses or are not available for appropriated. **The Municipality** has the following types of reservations of fund balances in the GFFS:

- *Encumbrances* – Represent commitments related to unperformed (Executory) contracts for goods or services (future expenditures under purchase orders, contracts and other commitments). These committed amounts represent reservations of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.
- *Debt Service* – Represent fund balances available to finance future debt service payments (principal and interest) on bonds payable.
- *Capital Projects* – Represent the reservation of financial resources to be used for future expenditures of major capital assets (including the construction, purchase or improvement of capital assets) under contracts and other commitments.
- *Other Specified Purposes* – Represent financial resources set aside for use in federal and state grant programs accounted for in the major and non major special revenue funds, and resources available in the general fund for the payment of certain accounts payable and commitments approved by GDB.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

#### u. Interfund Activities

The Municipality has the following types of reciprocal and nonreciprocal interfund activities recorded among governmental funds in the accompanying GFFS:

- *Interfund Loans* – Represent amounts provided with a requirement for repayment, which are recorded as due from in the lender governmental funds and due to in the borrower governmental funds. Interfund receivables which are not considered to be currently available financial resources are reported as advances, if any. For amounts not expected to be collected within a reasonable period of time, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan.
- *Operating Interfund Transfers* – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing sources in the governmental funds making transfers and as other financing sources in the governmental funds receiving transfers.
- *Interfund Reimbursements* – Represent repayments from the governmental funds responsible for particular expenditures or expenses to the governmental funds that initially paid for them.

In the GFFS, interfund activity has not been eliminated, as permitted by GAAP.

#### v. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since interfund eliminations have not been made.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 2. PROPERTY TAXES

The "Centro de Recaudación de Ingresos Municipales" (CRIM) created by Law No. 80 is responsible for the assessment of all real and personal property located within the **Municipality of Gurabo** and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The annual tax rate for fiscal year 2004 is 7.83% for real property and 5.83% for personal property. The annual tax rate is comprised of a basic minimum tax of 4% for personal property and 6% for real property which is appropriated for general purposes and accounted in the general fund; 1.83% assessed by the Commonwealth of Puerto Rico for the payment of general obligation bonds and an amount assessed by **the Municipality** for the payment of municipal bonds and notes.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer becomes the source of payment in these cases.

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM reports annually to **the Municipality** the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

*MUNICIPALITY OF GURABO, PUERTO RICO*

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

2. PROPERTY TAXES (Continuation)

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$136,586 during 2004.

The following is a summary of the property tax advances, which resulted as an account receivable, for the year ended June 30, 2004 and outstanding debt from 2001. The resulting receivable is presented as a deferred revenue in the general fund for Fund Financial Statement and as a revenue in the Government Wide Financial Statements. The debt has been presented in the Statement of Net Assets as a non-current liability since payment is not anticipated to be paid in near future.

Account Payable:

Advanced received, 7/1/03 - 6/30/04	\$6,038,208
Amortization through collections of property taxes by the CRIM, 7/1/03-6/30/04	(6,040,037)
Partial payment received	<u>5,299</u>
Due to CRIM	<u>\$ 3,470</u>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**3. DEPOSITS**

**The Municipality** maintains its deposits of cash in various commercial banks located in Puerto Rico and GDB. The balances deposited in commercial banks are insured by the Federal deposit Insurance Corporation (FDIC) up to a maximum of \$100,000 per depositor.

Under the Acts and Regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amounts deposited in excess of federal depository insurance. All securities pledged as collateral are held by the agents of the Commonwealth's Secretary of Treasury in the Municipality's name.

**The Municipality's** bank balances of deposits with financial institutions are categorized to provide an indication of the level of custodial credit risk assumed by **the Municipality** at year-end. Risk categories are described as follows:

- Category 1:* Insured or collateralized with securities held by the Secretary of the Treasury's agents in the Municipality's name.
- Category 2:* Collateralized with securities held by the pledging financial institution's trust department or agent in the Municipality's name.
- Category 3:* Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the Municipality's name).

The carrying amount of deposits in financial institutions at June 30, 2004 consists of the followings:

	CATEGORIES			BANK	CARRYING
	1	2	3	BALANCE	AMOUNT
Cash	-	-	X	\$ 8,545,438	8,107,241
Certificates of Deposits	-	-	X	<u>6,400,425</u>	<u>6,400,425</u>
Totals				<u>\$14,945,863</u>	<u>14,507,666</u>

Deposits at the Government Development Bank for Puerto Rico are restricted principally for debt service and capital projects. These are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks. Therefore, these have been categorized as "Uncollateralized" in the above table.

# MUNICIPALITY OF GURABO, PUERTO RICO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 4. MUNICIPAL LICENSE TAXES

The Municipality imposes a volume of business tax pursuant to Act No. 82 of August 30, 1991, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.5% for financial institutions and savings and loans associations, 0.5% for all other non-financial organizations.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during the first three months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

### 5. INTERFUND TRANSACTIONS

#### Due From/ To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General	\$1,744,790	-
State Legislative Joint Resolutions	-	-
Debt Service	-	3,498
Bond & Notes Obligation	-	103,206
Non-major funds	<u>4,432</u>	<u>1,642,518</u>
	<u>\$1,749,222</u>	<u>1,749,222</u>

The interfund receivables and payables on Fund Financial Statement are eliminated on Statement of Net Assets (Government Wide Financial Statements).

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**6. DUE FROM (TO) GOVERNMENTAL ENTITIES**

As of June 30, 2004 balances from (due to) governmental entities of the general fund consists of the following:

<i>Name</i>	<i>Due from</i>	<i>Due to</i>
Puerto Rico Power Authority	\$ 44,752	-
Municipality of Juncos	-	32,430
Puerto Rico Telephone Company	-	11,554
Puerto Rico General Service Administration	-	3,392
Centro de Recaudación Ingresos Municipales (CRIM)	-	3,470
Puerto Rico Aqueduct and Sewer Authority	-	8,355
Puerto Rico Retirement System	-	37,846
United States Housing and Urban Development (HUD)	-	67,066
Puerto Rico Treasury Department	123,642	-
Puerto Rico Labor Department	100,893	-
Puerto Rico Workmen Compensation Insurance	-	<u>29,219</u>
Totals	<u>\$269,287</u>	<u>193,332</u>

Part of the balances of due from governmental agencies were recorded as deferred revenues-others as of June 30, 2004.

**7. INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain "quasi-public" corporations, such as the Puerto Rico Electric Power Authority. For the year 2003-2004, the contribution in lieu of taxes was estimated at \$1,029,287.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**8. GENERAL LONG-TERM DEBT**

Changes in general long-term debt for the year ended June 30, 2004, are summarized as follows:

	<u>Bonds</u>	<u>Federal Loans and Notes</u>	<u>Loans</u>	<u>Total</u>
Balance at June30, 2003	\$6,652,000	651,045	350,000	7,653,045
Payments	(492,921)	(19,000)	(50,000)	(561,921)
New debt issued	—	—	—	—
Balance at June 30, 2004	<u>\$6,159,079</u>	<u>632,045</u>	<u>300,000</u>	<u>7,091,124</u>

**Bonds**

	<u>Balance</u>	<u>Balance Due within One Year</u>
Series of 1984, \$397,000 payable in annual installments of \$25,000 until 2006, with interest at 5.0%.	\$ 75,000	25,000
Series of 1992, \$615,000 payable in annual installment of \$27,000 to \$44,000 until 2015, with interest at 5.0%.	379,000	27,000
Series of 1997, \$325,000 payable in annual installments of \$11,000 to \$23,000 until 2020, with interest at 5.0%.	262,079	11,000
Series of 1999, \$449,250 payable in annual installments of \$84,000 until 2005, with interest at 4.7%.	84,000	84,000
Series of 2000, \$245,000 payable in annual installment of \$55,000 until 2005, with interest at 2.9%.	110,000	55,000
Series of 1994, \$1,319,000 payable in annual installments of \$88,000 to \$159,000 until 2015; with interests at 6.0%.	1,319,000	88,000
Series of 2002, \$755,000 payable in annual installments of \$100,000 to \$130,000 until 2009, with interests ranging from 2.9% to 4.1%.	665,000	100,000
Series of 2002, \$665,000 payable in annual installment of \$15,000 to \$55,000 until 2026, with interests ranging from 2.9% to 5.6%.	645,000	15,000
Series of 2002, \$2,715,000 payable in annual installments of \$50,000 to \$215,000 until 2027, with interest at 6.5%.	<u>2,620,000</u>	<u>50,000</u>
Total Bonds	<u>\$6,159,079</u>	<u>455,000</u>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**8. GENERAL LONG-TERM DEBT (Continuation)**

**Federal Loans and Notes**

Series of 1990, \$1,000,000 payable in annual installments of \$50,000 until 2010, with interest at 8.0%.	\$300,000	50,000
Series of 2000, \$704,000 payable in annual installments of \$20,000 to \$47,045 until 2024, with interest at 4.5%.	<u>632,045</u>	<u>20,000</u>
Total Federal Loans and Notes	<u>\$ 932,045</u>	<u>70,000</u>
Total Bonds and Federal Loans and Notes	<u>\$7,091,124</u>	<u>525,000</u>

**Other Long-Term Debt with Governmental Agencies**

\$101,983 due to the Treasury Department, payable in monthly installments of \$773 until June 30, 2010.	<u>\$55,627</u>	<u>9,273</u>
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The annual requirements to amortize the general long-term debt outstanding at June 30, 2004, including interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 685,000	382,212	1,067,212
2006	404,000	357,609	761,609
2007	427,000	337,337	764,337
2008	422,000	315,595	737,595
2009	440,000	293,647	733,647
2010-2014	1,622,000	1,179,738	2,801,738
2015 thereafter	<u>3,091,124</u>	<u>1,293,338</u>	<u>4,384,462</u>
TOTALS	<u>\$7,091,124</u>	<u>4,159,476</u>	<u>11,250,600</u>

**The Municipality** is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the **Municipality of Gurabo**.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**9. DEBT SERVICE FUND**

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. Interest income is for the payment of interest or special obligation notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the following:

Property taxes	\$621,070
General Fund	<u>251,000</u>
	<u>\$872,070</u>

Expenditures for year 2003-2004 were as follows:

Principal	\$502,921
Interest	<u>369,149</u>
	<u>\$872,070</u>

**10. CAPITAL ASSETS**

**Government Wide Financial Statements**

<i>Capital Assets</i>	<i>Balances 6/30/03</i>	<i>Additions</i>	<i>Retirements, Dispositions and Transfers</i>	<i>Balances 6/30/04</i>
<b>Governmental Activities:</b>				
<i>Non-depreciable assets:</i>				
Land	\$ 8,644,742	5,635,810	-	14,280,552
Construction in progress	-	<u>1,900,053</u>	-	<u>1,900,053</u>
<b>Total Non-depreciable assets</b>	<u>\$ 8,644,742</u>	<u>7,535,863</u>	<u>-</u>	<u>16,180,605</u>
<i>Depreciable assets:</i>				
Buildings and improvements	\$ 8,384,354	436,022	-	8,820,376
Infrastructure	2,195,520	642,319	-	2,837,839
Vehicles, Equipment, Furniture & Fixture	<u>4,688,747</u>	<u>235,493</u>	-	<u>4,924,240</u>
Sub-totals	<u>15,268,621</u>	<u>1,313,834</u>	<u>-</u>	<u>16,582,455</u>
Less accumulated depreciation	<u>(4,949,276)</u>	<u>(865,869)</u>	<u>-</u>	<u>(5,815,145)</u>
<b>Depreciable assets, net</b>	<u>\$10,319,345</u>	<u>447,965</u>	<u>-</u>	<u>10,767,310</u>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**10. CAPITAL ASSETS (Continuation)**

Depreciation expense was charged to functions as follows:

General Government	\$640,743
Health	226
Capital Outlays	155,856
Public Works	38,782
Recreation and Sports	4,286
Public Safety	<u>25,976</u>
Total	<u>\$865,869</u>

**11. RETIREMENT SYSTEM**

**Plan Description**

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at G.P. O. Box 42003, San Juan, Puerto Rico 00940.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**11. RETIREMENT SYSTEM (Continuation)**

**Plan Description (Continuation)**

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

**OLD PLAN**

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 55 and 30 years of service	75% of average highest compensation during any 3 years of credited service
Under 55 and 30 years of service	65% of average highest compensation during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

**NEW PLAN**

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 65 with 10 years of service	1.5% of average compensation during the final 5 years of credited services multiplies by the numbers of years credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 11. RETIREMENT SYSTEM (Continuation)

#### Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The annual employer and employees contribution for the year ended June 30, 2004 amounted approximately \$232,900 and \$205,900 respectively. Members' contributions are 5.775% for gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600 and **the Municipality** is required to contribute 9.275% of gross salary.

#### Actuarial Valuation

The actuarial determined present value of benefits accrued as of June 30, 2003 (latest date available) for the System as whole, determined through an actuarial valuation performed at such date, amounted to \$11.1 billion. The net assets available for benefits at such date were \$1.9 billion, resulting in an excess of accrued benefits over net assets available (actuarial deficiency) of \$9.2 billion. This information is not available by each participant government agencies nor municipalities.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**11. RETIREMENT SYSTEM (Continuation)**

**Actuarial Valuation (Continuation)**

Net assets of the System consist principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

a) Interest rate	8.5% a year
b) Salary increases	5.0% a year
c) Mortality	GAM'83 Mortality Table set forward two years.
d) Termination	Medium Turnover Table commensurate with anticipated experience.
e) Disability	65% of Third Railroad Retirement Table Rates.
f) Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
g) Proportion of participants with spouses	80% of participants assumed to be married, with wives assumed to be four years younger than husbands.
h) Number of employees electing higher contributions	15% of retiring employees assumed to pay retroactive contributions at retirement.
i) Cost-of-living adjustment	3% every third year

# ***MUNICIPALITY OF GURABO, PUERTO RICO***

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004**

### **12. RECENT AMENDMENTS TO ACT NO. 447**

In June and July 2003, the Governor of the Commonwealth signed six Acts that provided certain benefits to retirees as follows:

- Medicine bonus of \$100 initially paid in July 2003 and subsequently payable every July.
- Increase in Christmas bonus to \$400, initially paid in December 2003, payable every December.
- Increase in minimum in monthly pension payment to \$300, effective January 1, 2004.
- Increase in employer's contribution to medical plan to \$100, effective January 1, 2004.
- Triennial 3% increase in all pensions, effective January 1, 2004.
- Increase in widow and/or beneficiaries to 50% of the benefit received by the deceased pensioner, effective January 1, 2004.

All the benefits granted will be funded through budgetary assignments in the Commonwealth's general funds with respect to their retired employees, respectively.

The Board of Trustees of ERS approved, effective November 17, 2003, an increase in the amount granted on personal loans to participating employees from \$3,000 to \$5,000.

### **13. LONG TERM LIABILITIES**

#### **Compensated Absences**

Accounts for vacation and sick leave absences to be financed with governmental funds.

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**13. LONG TERM LIABILITIES (Continuation)**

**Compensated Absences (Continuation)**

The changes in Compensated absences for the year ended June 30, 2004 are as follows:

<u>Governmental activity</u>	<u>Due within One Year</u>	<u>Due after One Year</u>	<u>Total</u>
Vacations	\$644,232	163,431	807,663
Sick leave	<u>118,594</u>	<u>337,313</u>	<u>455,907</u>
	<u>\$762,826</u>	<u>500,744</u>	<u>1,263,570</u>

In addition, the liabilities for retirement obligations were recorded in the Government-Wide Financial Statements. The balance consists of unpaid, accumulated pension obligations. The current portion of the liability has been calculated using the vesting method, in which every employee with 58 years of age and at least 10 years of creditable service is entitled to an early retirement benefit. On the other hand, the long-term portion consist of those employees, which at the close of the fiscal year have not attained 58 years of age nor 10 years of creditable service.

**14. DEFERRED REVENUES-GENERAL FUND**

Deferred revenue of the general fund consists of the following at June 30, 2004:

	<u>Governmental Fund</u>	<u>Statement of Net Assets</u>
Gross Volume of Business	\$2,647,905	2,647,905
Property tax receivable from CRIM	125,000	-
Christmas bonus receivable	123,642	-
Puerto Rico Labor Department	100,892	-
Puerto Rico Family Department	<u>287,911</u>	<u>-</u>
Total	<u>\$3,285,350</u>	<u>2,647,905</u>

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 15. COMMITMENTS AND CONTINGENCIES

#### Commitments

##### Operating Leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lesser. Rental expenditures for the year ended June 30, 2004, amounted to \$114,000.

##### General Commitments

The Municipality has commitments to invest approximately \$2 millions to complete construction projects at several locations within the Municipality. Federal funds are expected to be used to satisfy all of these construction and improvements commitments.

#### Contingencies

##### Litigation

The Municipality is a defendant and co-defendant in various lawsuits amounting to approximately \$72,555,000 related with legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$184,245 in the general long-term debt account group for anticipated unfavorable judgments. In 2002, the Puerto Rico Supreme Court issued an unfavorable decision and ordered the Municipality to pay \$2,700,000 for employees dismissed for alleged political discrimination. Consequently, the Municipality obtained a \$2,715,000 operating loan to pay such sentence and the amount is recorded in Bonds and Notes Fund. However, the Municipality subsequently appealed the sentence before the United States First Circuit Federal Court and it revoked the Local Federal Supreme Court decision and ordered a new trial.

# *MUNICIPALITY OF GURABO, PUERTO RICO*

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### 15. COMMITMENTS AND CONTINGENCIES (Continuation)

#### Contingencies (Continuation)

##### Litigation (Continuation)

In addition, **the Municipality** is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. **The Municipality's** administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant.

#### Contingencies (Continuation)

##### CRIM

In December 2001, the CRIM refinanced an approximately \$70 millions long-term debt with a financial institution related with the Land Information Management System (LIMS) project. The loan includes the interests at 5.95% for a 10 years period ending in 2011 and it is collateralized proportionally with the total add-valorem personal and real property of all the municipalities.

##### Federal Financial Assistance

**The Municipality** receives financial assistance from the federal government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies, which could result in request for reimbursement by the grantor agencies for expenditures, which are disallowed under the terms of the grants. **The Municipality's** administration believes that future disallowance, if any, would not be significant.

### 16. HEALTHCARE COSTS

During the year ended June 30, 2000, the Governor of the Commonwealth of Puerto Rico required from the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by **the Municipality** amounted to \$708,892 for the fiscal year ended June 30, 2004.

***MUNICIPALITY OF GURABO, PUERTO RICO***

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**ADDITIONAL REPORTS REQUIRED UNDER THE  
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**

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

To the Gurabo's Honorable Mayor and  
Members of the Municipality's Assembly  
Gurabo, Puerto Rico

We have audited the financial statements of the **Municipality of Gurabo** as of and for the year ended June 30, 2004, and have issued a qualified report thereon dated January 21, 2005. Except for the balance of general fixed assets account group, 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 of America.

**Compliance**

As part on obtaining reasonable assurance about whether the **Municipality of Gurabo's** financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of material noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Gurabo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial statements and not to provide assurance on the internal control over financial reporting and its operation that we consider to be reportable conditions.

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

(Continuation)

**Internal Control Over Financial Reporting** (Continuation)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality of Gurabo's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 04-II-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above, is not a material weakness.

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

January 21, 2005  
San Juan, Puerto Rico

*Nieves Velázquez & Co., P.S.C.*

CPA Stamp #1981607 was affixed  
to the record copy of this report.





***INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133***

To the Gurabo's Honorable Mayor and  
Members of the Municipality's Assembly  
Gurabo, Puerto Rico

**Compliance**

We have audited the compliance of the **Municipality of Gurabo** with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The **Municipality of Gurabo's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Gurabo's** management. Our responsibility is to express an opinion on the compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; 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 the **Municipality of Gurabo's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Gurabo's** compliance with those requirements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

(Continuation)

**Compliance** (Continuation)

In our opinion, the **Municipality of Gurabo** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 04-III-1 through 04-III-3.

**Internal Control Over Compliance**

The management of the **Municipality of Gurabo** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **the Municipality's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 04-III-1 through 04-III-3.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

(Continuation)

**Internal Control Over Compliance** (Continuation)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe that none of the findings is a material weakness.

**Schedule of Expenditures of Federal Awards**

We have audited the general-purpose financial statements of the **Municipality of Gurabo** as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated January 21, 2005. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

February 11, 2005  
San Juan, Puerto Rico

CPA Stamp #1981608 was affixed  
to the record copy of this report.

*Nieves Velázquez & Co., P.S.C.*



**MUNICIPALITY OF GURABO, PUERTO RICO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>U. S. Department of Housing and Urban Development</b>				
<u>Major Programs:</u>				
Pass-through the Office of the Commissioner of Municipal Affairs	Community Development State Block Grant Program	14.228	2001-000030	\$ 828,184
Direct Programs	Section 8 Housing Choice Vouchers	14.871	RQ41V0	724,365
<b>Department of Health and Human Services</b>				
<u>Non-Major Program:</u>				
Pass-through Department of Family of Puerto Rico	Child Care and Development Block Grant (SENDEC)	93.575	123-2000-00612	605,627
<b>U.S. Department of Agriculture</b>				
<u>Non-Major Program:</u>				
Direct Program	Water and Waste Disposal Systems for Rural Communities	10.760	N/A	157,189
<b>Department of Education</b>				
<u>Non-Major Program:</u>				
Pass-through Department of Education	Child and Adult Care Food Program	10.558	N/A	10,870
<b>U.S. Department of Justice Office (Office of Community Oriented Policing Services)</b>				
<u>Non-Major Programs:</u>				
Pass-through the Office for the Affairs of the Youth	Office for the Affairs of the Youth Program (OAJ)-Prevention for Delinquency	16.592	2000-LB-VX-1085	53,293
Pass-through Commonwealth of Puerto Rico Office of the Governor of Puerto Rico	Community Oriented Policing Services	16.710	1999-SH-WX-0670	<u>9,472</u>
<b>Total Expenditures</b>				<b><u>\$2,389,000</u></b>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2004**

**1. GENERAL**

The accompanying Schedule of Federal Financial Awards presents the expenditures of all Federal financial awards programs of the **Municipality of Gurabo**, Puerto Rico. The **Municipality of Gurabo** reporting entity is defined in Note 1-A to the general-purpose financial statements. Federal financial awards received directly from Federal agencies as well as Federal financial awards passed through other government agencies are included in the schedule.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1-C to the basic financial statements.

**3. RECONCILIATION WITH GENERAL PURPOSE FINANCIAL STATEMENTS**

Expenditure amounts included in the accompanying schedule agree with the amounts included in the general-purpose financial statements as follows:

<u>Fund</u>	<u>Federal Assistance</u>	<u>Municipal Assistance</u>	<u>Total per Financial Statements</u>
Other Governmental Funds	<u>\$2,389,000</u>	<u>2,029,286</u>	<u>4,418,286</u>



**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 & SBGP	04-II-1	<p><b>Accounting Records</b></p> <p><u>Criteria</u></p> <p>Section 20 of OMB Circular 102, Common Rule requires that adequate accounting records should be maintained for Section 8 and SGBP federal programs.</p> <p><u>Condition</u></p> <p>The only accounting records maintained are the cash receipts, and disbursements and obligations. The programs do not maintain a complete accounting records to account for assets, liabilities and fund balance.</p> <p><u>Cause</u></p> <p>The Municipality has not established a complete accounting system and the accountants of the programs have not been trained to implement it.</p> <p><u>Effect</u></p> <p>The programs are not preparing monthly complete financial statements and accounting error may result for lack of complete accounting.</p> <p><u>Recommendation</u></p> <p>We recommend the establishment of complete accounting records for the Section 8 and SGBP federal programs to comply with requirements of OMB-Circular 102.</p>	—

**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 & SBGP	04-III-1	<p><b>Cash Management</b></p> <p><u>Criteria</u></p> <p>The OMB Circular A-133 (Revised) compliance C, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and program disbursement.</p> <p><u>Condition</u></p> <p>Cash averaged a monthly outstanding balance of \$42,500 and \$171,700 for the Section 8-Voucher and SGBP federal programs, respectively which are in excess of cash needs. Also, the Section 8 existing cash balance was about the same (\$57,900) during the whole year and its is questioned. This program was terminated by HUD.</p> <p><u>Cause</u></p> <p>Municipality officials are not monitoring cash needs to maintain the balances low.</p>	\$57,900

**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8 & SBGP	04-III-1	<p><b>Cash Management</b> (Continuation)</p> <p><u>Effect</u></p> <p>The program is maintaining cash balances in excess of its needs and, therefore, is not complying with program regulations.</p> <p><u>Recommendations</u></p> <p>The Administrative personnel of Section 8 and SGBP federal programs shall develop efficient procedures to minimize the time elapsing between the transfer of funds and programs disbursement. The (\$57,900) cash balance of the Section 8 existing program should be transferred to the Section 8 Voucher program or returned to HUD.</p>	

**MUNICIPALITY OF GURABO, PUERTO RICO**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	04-III-2	<p><b>Davis Bacon Act</b></p> <p><u>Criteria</u></p> <p>The OMB Circular A-133 (Revised) compliance D, requires that on construction contracts over \$2,000 contractor and subcontractor must comply with Davis Bacon Act.</p> <p><u>Condition</u></p> <p>Based on our examination, contract 2004-000353 did not include a clause requiring that contractors or subcontractors comply with Davis Bacon Act and DOL regulations. Also, for contract 2004-000062-B copy of the payrolls were not requested to ascertain compliance with the Act and DOL regulations. (29 CFR, "Labor Standards Provisions Applicable to contracts Governing Federally financed and assisted construction.")</p> <p><u>Cause</u></p> <p>Omission of Davis Bacon clauses during contract preparation. Inadequate review by administrative personnel of contracts governing federally financed and assisted construction.</p>	

**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	04-III-2	<p><b>Davis Bacon Act</b></p> <p><u>Effect</u></p> <p>Contracts are not in total compliance with program regulations.</p> <p><u>Recommendations</u></p> <p>We recommend the inclusion of Davis Bacon clauses in construction contracts. Also, Municipality officials should request copy of payrolls of all SBGP construction contracts to ascertain compliance with the Act requirement. Also, more supervision and technical training to municipal officials should be exercised to ensure compliance with program regulations.</p>	

**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	04-III-3	<p><b>Procurement, Suspension and Department</b></p> <p><u>Criteria</u></p> <p>OMB Circular A-110 and the A-102 Common Rule require that non-federal entities do not enter into contracts with parties that are suspended or debarred. Thus, contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.</p> <p><u>Condition</u></p> <p>Based on our examination, the suspension and debarment clauses were not included in contracts 2004-000062-B and 2004-000353.</p> <p><u>Cause</u></p> <p>Omission of suspension and debarment clauses during contract preparation. Inadequate review by administrative personnel of contracts governing federally financed and assisted construction.</p>	

**MUNICIPALITY OF GURABO, PUERTO RICO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b><u>Program</u></b>	<b><u>Finding Number</u></b>	<b><u>Finding/Non-Compliance</u></b>	<b><u>Questioned Costs</u></b>
<b>SBGP</b>	<b>04-III-3</b>	<b>Procurement, Suspension and Department</b>  <b><u>Effect</u></b>  Contracts are not in total compliance with program regulations.  <b><u>Recommendations</u></b>  We recommend the inclusion of suspension and debarment clauses in every contract funded with federal assistance.	

**MUNICIPALITY OF GURABO, PUERTO RICO**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2003	03-II-1	The Municipality has not maintained adequate accounting records to account for the real and personal property of all the Municipality funds, federal and non federal.	The Municipality implemented GASB 34 and the real and personal property (capital assets) accounting records were updated.
June 30, 2002	2002-1	a) The general ledger fund and cash account balances as of June 30, 2002, as per OCAM System were misstated. b) Cash at June 30, 2002, per general ledger control accounts were not in agreement with their corresponding bank reconciliation by \$3,559,317.	The corrective action of this finding is outside the Municipality's scope jurisdiction.
	2002-2	a) The accounting of special revenue and capital project funds are combined together in four funds: 02 and 70 (special revenue funds) and 20 and 21 (capital project funds). b) The Municipality does not account in the OCAM System the transactions related with the debt service fund. c) The Municipality does not update in the OCAM System the trial balances of the General Fixed Asset and General Long-Term Debt account groups. d) The Municipality did not record in the OCAM System the audit adjustments proposed for the Single Audit corresponding to fiscal year ended June 30, 2001.	For a, c and d, the corrective action of this finding is outside the Municipality's scope jurisdiction. For b, we'll correct this situation during fiscal year 2003-2004. It was not corrected.
	2002-4	Federal grants and other non-general fund's non-exchange transactions were recorded as revenue when the resources were received instead of when the resources were available (susceptible to accrual) and measurable.	We'll correct this situation during fiscal year 2003-2004. It was not corrected.

***MUNICIPALITY OF GURABO, PUERTO RICO***  
**PRIOR YEARS FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2004**

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2002	2002-6	<p>a) The total vouchers payable as of June 30, 2002 had misleading balances.</p> <p>b) The detail of outstanding encumbrances for all funds was not reconciled with fund balance reserved for encumbrance control accounts.</p> <p>c) The deferred volume of business tax revenue at June 30, 2002 was materially misstated by \$3,649,030.</p>	For a, b and c, the corrective action of this finding is outside the Municipality's scope jurisdiction.
	2002-7	<p>The following situations were observed regarding the human resource structure and functions in the Municipality:</p> <p>a) The Finance Director does not have a password to access the OCAM Accounting System. Only one employee has unique access to the OCAM System, which is the same person that originates the general journal entries.</p> <p>c) Control and subsidiary accounts are not reconciled regularly and discrepancies are not reported to appropriate personnel.</p>	<p>We'll correct this situation during fiscal year 2003-2004. It was not corrected.</p> <p>We'll correct this situation during fiscal year 2003-2004. It was not corrected.</p>
June 30, 2001	2001-1	<p>a) The general ledger fund and cash account balances as of June 30, 2001, as per OCAM System were misstated.</p> <p>b) Cash at June 30, 2001, per general ledger control accounts were not in agreement with their corresponding bank reconciliations by \$9,006,233.</p>	For a and b, the corrective action of this finding is outside the Municipality's scope jurisdiction.

***MUNICIPALITY OF GURABO, PUERTO RICO***

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

<b><u>Single Audit Report</u></b>	<b><u>Finding No.</u></b>	<b><u>Finding</u></b>	<b><u>Current Status informed by the Municipality</u></b>
June 30, 2001	2001-2	<p>a) The accounting of special revenue and capital project funds are combined together in four funds: 02 and 70 (special revenue funds) and 20 and 21 (capital project funds).</p> <p>b) The Municipality does not account in the OCAM System the transactions related with the debt service fund.</p> <p>c) The Municipality does not update in the OCAM System the trial balances of the General Fixed Asset and General Long-Term Debt account groups.</p>	The corrective action of this finding is outside the Municipality's scope jurisdiction.
	2001-4	Federal grants and other non-general fund's non-exchange transactions were recorded as revenue when the resources were received instead of when the resources were available (susceptible to accrual) and measurable.	We'll correct this situation during fiscal year 2003-2004. It was not corrected.
	2001-6	<p>a) The total vouchers' payable as of June 30, 2001 were materially misstated by \$1,811,085.</p> <p>b) The detail of outstanding encumbrances for all funds was not reconciled with fund balance reserved for encumbrance control accounts.</p> <p>c) The deferred volume of business tax revenue at June 30, 2001 was materially misstated by \$2,163,473.</p>	For a, b and c, the corrective action of this finding is outside the Municipality's scope jurisdiction.

***MUNICIPALITY OF GURABO, PUERTO RICO***

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	2001-7	<p>The following situations were observed regarding the human resource structure and functions in the Municipality:</p> <p>a) The Finance Director does not have a password to access the OCAM Accounting System. Only one employee has unique access to the OCAM System, which is the same person that originates the general journal entries.</p> <p>d) Control and subsidiary accounts are not reconciled regularly and discrepancies are not reported to appropriate personnel.</p>	<p>We'll correct this situation during fiscal year 2003-2004. It was not corrected.</p> <p>We'll correct this situation during fiscal year 2003-2004. It was not corrected.</p>
June 30, 2000	2000-1	<p>a) We noted that the Municipality of Gurabo is not keeping an accounting system as required by Generally Accepted Accounting Principles at present time. The general, capital project and special funds are kept on the cash basis of accounting. Also, the system used to record the purchase orders and contracts are not adequate; because does not provide for a segregation between the accounts payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.</p>	<p>The corrective action of this finding is outside the Municipality's scope jurisdiction.</p>

***MUNICIPALITY OF GURABO, PUERTO RICO***

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2003	Section 8	03-III-1	For Section 8, HAP payments for July 2002 were issued during August 2002.	During the last years, the situation has always occurred in Section 8 Program. The reason being that both Section 8 and Municipality have the same fiscal year at June 30.
June 30, 2003	SBGP	03-III-2	Base on our examination, contract 2002-2003-17 and contract 2001-2002-08 did not include a clause requiring that contractors or subcontractors comply with Davis Bacon Act and DOL regulation (29 CFR, "Labor Standards Provisions Applicable to contract Governing Federally financed and assisted construction.)	Management indicated that all Municipality potential contractors are informed that they should comply with the Davis Bacon Act and the Department of Labor regulations. The minute are an essential part of the auction decision ad if any contractor selected is afterward found not in compliance with said requirement, the Municipality could cancel the contract in effect.

**MUNICIPALITY OF GURABO, PUERTO RICO**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2003	SBGP	03-III-3	During the fiscal year ended June 30, 2003, a physical inventory of equipment was made; however reconciliation to the equipment acquire with federal funds did not show the acquisition date. Prior to fiscal year 2002-2003 all equipment acquired was labeled "FP". This heading means "Federal Programs". Therefore, proper segregation of equipment pertaining to each federal program was not made. As of June 30, 2003, the Municipality had not corrected this situation.	The Municipality contracted an outside consultant to implement GASB 34 and a physical inventory was performed. The capital assets records was also completed.
June 30, 2003	SBGP	03-III-4	Base on our examination, the suspension and debarment clauses were not included in contracts 2002-2003-17 and 2001-2002-08.	Finding still prevails. See current year finding.
June 30, 2003	Section 8	03-III-5	During the examination we found that the Municipality did not comply with the annual inspection of 10 cases and required by the federal program.	In April 2003, the Municipality hired an Inspector Officer and inspections have been made since then.
June 30, 2002	Section 8 Rentals Program SBGP	2002-8	a) During our review of the Municipality's property register in the OCAM System we noted that the Municipality does not segregate the list of properties purchased with Section 8 Rental Program and State Block Grant Program funds to determine the Municipality's compliance with each program's equipment and real property management.	This situation is presently being work upon in order to maintain adequate controls. We expect to complete our work by August, 2004.

***MUNICIPALITY OF GURABO, PUERTO RICO***  
**PRIOR YEARS FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	UDAG	2001-8	a) During fiscal year ended June 30, 2001, the Municipality disbursed two payments amounting to \$49,684 of the UDAG program to cover costs of professional services for the preparation of proposals to receive federal financial assistance from the Community Development Block Grant (CDBG) and Community Policing Services (COPS) Programs.	These disbursement were made by the prior administration. Our Administration referred in writing these questioned costs to the FBI but we have not received any response from said agency.
	Section-8 Rental Program, SBGP and UDAG	2001-9	a) During our review of the Municipality's property register we noted that the Municipality does not segregate the list of properties purchased with Section 8 Rental Program, State Block Grant Program and Urban Development Action Grant Program funds for us to determine the Municipality's compliance with each program's equipment and real property management.	This situation is presently being work upon in order to maintain adequate controls. We expect to complete our work by August, 2004.

***MUNICIPALITY OF GURABO, PUERTO RICO***

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<b><i><u>Single Audit Report</u></i></b>	<b><i><u>Program</u></i></b>	<b><i><u>Finding No.</u></i></b>	<b><i><u>Finding</u></i></b>	<b><i><u>Current Status informed by the Municipality</u></i></b>
June 30, 2001	UDAG	2001-10	<p>a) During August 2000, the Municipality exempted to a contractor from the payment of accrued interest amounting to \$347,740 on a loan receivable that involved funds of the Urban Development Action Grant Program (UDAG) without notification of said transaction to the United States Housing and Urban Development Agency (HUD.)</p> <p>b) During September 2000, the Municipality disbursed \$58,470 (Check No.20712) of UDAG funds to Consulting &amp; Management Group for the financial advisory services contracted in the evaluation of the transaction of the loan receivable mentioned above and which was the basis to authorize the transaction mentioned in the condition stated just above. This activity was not allowed under the provisions of the Title I of the Housing Community Development Act of 1974.</p>	<p>These disbursements were made by the prior administration.</p> <p>This disbursement was made on August, 2000 by prior Municipality's management.</p>

**MUNICIPALITY OF GURABO, PUERTO RICO**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS**

**For the year ended June 30, 2004**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	UDAG	2001-11	During the year ended June 30, 2001, the Municipality disbursed monies for \$177,372 of the UDAG program for which no evidence was provided to us that the Municipality required the contractors the submission of the construction workers' payrolls.	These disbursements were made by the prior administration.
June 30, 2000	Section 8 Rental Programs	2000-2	During our voucher test vouchers for \$107,183 were not available for examination.	At present time these vouchers were destroyed due to record retention policies.

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**Oficina del  
Auditor Interno**

# Fax

<b>To:</b> Sr. Martínez, Auditor	<b>From:</b> Félix Montañez Rosa
<b>Fax:</b> (787) 294-1166	<b>Pages:</b> 4 (Incluyendo la portada)
<b>Phone:</b>	<b>Date:</b> 8 de febrero de 2006
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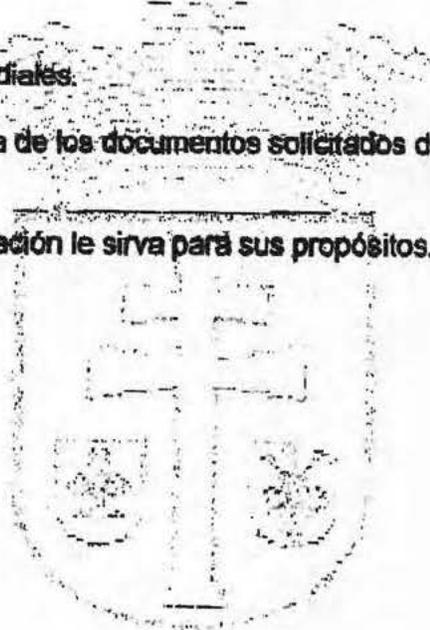
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Reciba mis saludos cordiales.

Le estoy enviando copia de los documentos solicitados del "Single Audit" al 30 Jun/2004.

Espero que esta información le sirva para sus propósitos.

Félix Montañez Rosa  
Auditor Interno



GURABO

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 E INTERVENCIÓN

## MUNICIPALITY OF GURABO, PUERTO RICO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

	Major Funds					Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Loans & Bonds Fund	Debt Service Fund	Other Governmental Funds	
<b>REVENUES</b>						
Property taxes	\$ 6,004,197	-	-	926,583	-	6,927,780
Volume of business tax	2,918,309	-	-	-	-	2,918,309
Licenses, permits, fines and forfeits	1,797,850	-	-	-	-	1,797,850
Intergovernmental grants and others	1,182,784	1,019,768	-	-	1,931,831	4,134,383
Interests	273,004	-	-	-	331	273,335
Federal grants	-	-	-	-	2,316,668	2,316,668
Miscellaneous	1,038,550	-	-	-	-	1,038,550
<b>Total revenues</b>	<b>13,211,694</b>	<b>1,019,768</b>	<b>-</b>	<b>926,583</b>	<b>4,248,830</b>	<b>19,406,874</b>

(Continues)

## MUNICIPALITY OF GURABO, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004  
 (CONTINUATION)

	Major Funds					Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Loans & Bonds Fund	Debt Service Fund	Other Governmental Funds	
<b>EXPENDITURES</b>						
General government	6,493,056	-	-	-	1,149,843	7,642,899
Public safety and security	1,408,474	-	-	-	108,689	1,517,163
Sanitation	1,778,470	-	-	-	-	1,778,470
Health	325,471	-	-	-	1,328,786	1,654,257
Recreation and sports	1,151,814	-	-	-	-	1,151,814
Public works	1,752,356	-	-	-	-	1,752,356
Capital outlays	838,528	405,685	1,138,474	-	1,830,968	4,213,655
Bonds & notes:						
Principal	-	-	-	502,921	-	502,921
Interest	-	-	-	369,149	-	369,149
<b>Total expenditures</b>	<b>13,748,239</b>	<b>405,685</b>	<b>1,138,474</b>	<b>872,070</b>	<b>4,418,286</b>	<b>20,582,754</b>

(Continues)

## MUNICIPALITY OF GURABO, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004  
 (CONTINUATION)

	Major Funds					Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Special Revenue Fund	Loans & Bonds Fund	Debt Service Fund	Other Governmental Funds	
Excess / (deficiency) of revenues over / (under) expenditures before other financing sources / (uses)	(536,545)	614,083	(1,138,474)	54,513	(169,456)	(1,175,880)
<b>OTHER FINANCING SOURCES / (USES)</b>						
Operating transfers - in	-	-	-	251,000	-	251,000
Operating transfers - out	(251,000)	-	-	-	-	(251,000)
Total other financing sources (uses)	(251,000)	-	-	251,000	-	-
Net change in fund balance	(787,545)	614,083	(1,138,474)	305,513	(169,456)	(1,175,880)
Fund balance at beginning of year	1,939,400	1,969,721	1,129,011	1,310,586	1,640,054	10,958,772
Fund balance at end of year	\$ 1,121,855	2,583,803	2,990,537	1,616,099	1,470,598	9,782,892

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