

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

MUNICIPIO DE GURABO
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

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DE ASESORIA MUNICIPAL
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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MUNICIPALITY OF GURABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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PART I - FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Municipal Legislature
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, as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund and the aggregate remaining fund information of the Municipality of Gurabo as of June 30, 2006, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
November 15, 2006

Ortiz, Rodriguez, Rivera & Co.

The stamp 2190960 was affixed
to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the *Municipality of Gurabo* of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2006**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's in the Governmental Activities has reported assets and net assets amounting to **\$31,668,578** and **\$16,652,579** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$20,444,268 (65 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$15,015,999** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$8,223,193 (55 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$21,936,484** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2006**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, licenses and permits were to **\$8,363,531 (38 percent of total revenues)** and **\$5,593,206 (26 percent of total revenues)**, respectively.
- The Municipality has reported a net change in net assets of revenues over expenditures amounting to **\$341,531** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **\$4,259,706** which represent the fund balances of the general fund, Joint Resolutions and Debt Service fund combined (all known as the Municipality's major funds).
- The Municipality has reported a fund balance for the general fund amounting to **94,321**.
- The Municipality has reported a deficiency of revenues and other financing sources over expenditures and other financing uses amounting to **(\$738,229)** in the

governmental funds. As a significant fact, the Municipality's outlays for Loan and Bonds and Joint Resolution during the year amounted \$1,861,126 while to the disponsible funds provine of the fund balance available at beginning of the fiscal year. Such outlays over financing sources and reducing the expected income for the incongruence on the State economy were the principal reasons of the deficiency in the governmental funds.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (**collectively known as the basic financial statements**).

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended **June 30, 2006** even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net assets and (2) the statement of activities.

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (**equity**). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2006**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (**such as uncollected taxes and earned but unused vacation leave**). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (**such as federal grants**). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: **(1)** the balance sheet – governmental funds and **(2)** the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)** debt service fund, **(3)** special revenue funds and **(4)** capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. 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, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (**June 30, 2006**). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: **(1)** the general fund **(2)** the debt service fund **(3)** the Housing and Urban Development Programs and **(4)** Other Governmental Funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Government-wide Financial Statements Summary

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, liabilities exceeded assets by **\$16,652,579** at **June 30, 2006**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (**e.g., land, buildings, machinery, equipment and all other property**), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following is a

condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements:

Condensed Statement of Net Assets:

	<u>June 30, 2006</u>
Current assets	\$11,224,310
Capital assets	<u>\$20,444,268</u>
Total assets	<u>\$31,668,578</u>
Current liabilities	\$ 6,792,806
Non-current liabilities	<u>\$ 8,223,193</u>
Total liabilities	<u>\$15,015,999</u>
Net assets/(liabilities):	
Invested in capital assets, net of related debt	\$14,642,144
Restricted	\$ 4,595,222
Unrestricted	<u>\$(2,584,787)</u>
Total net assets	<u>\$16,652,579</u>

An additional portion of the Municipality's net assets (**3 percent**) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

Condensed Statement of Activities:

	<u>June 30, 2006</u>
Revenues:	
Program revenues:	
Charges for services	\$ 1,614,879
Operating grants and contributions	\$ 1,994,494
Capital grants and contributions	\$ 254,844
General revenues:	
Property taxes	\$ 8,363,531
Municipal license taxes	\$ 3,988,030
Grants and contributions	\$ 2,374,796
Interest, fines and penalties	\$ 374,850
Miscellaneous	<u>\$ 2,567,114</u>
Total revenues	<u>\$21,532,538</u>
Expenses:	
General government	\$ 5,606,196
Public safety	\$ 1,608,872
Public works	\$ 7,614,992

Recreation	\$ 535,984
Health and welfare	\$ 4,043,809
Economic Development	\$ 339,724
Depreciation expense	\$ 1,073,685
Interest on long-term debt	\$ 367,745
Total expenses	<u>\$21,191,007</u>
Change in net assets	\$ 341,531
Loss on disposition of assets	(\$ 112,117)
Net assets – at beginning of year, as resatted	<u>\$16,423,265</u>
Net assets – at end of year	<u>\$16,652,679</u>

Fund Financial Statements Summary

As discussed 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 balance 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 fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet – Governmental funds:

	<u>June 30, 2006</u>
Total Assets – Major Funds	\$11,937,738
Total Assets – Nonmajor Funds	<u>\$ 408,757</u>
Total assets	<u>\$12,346,495</u>
Total Liabilities – Major Funds	\$ 7,245,515
Total Liabilities – Nonmajor Funds	<u>\$ 841,274</u>
Total liabilities	<u>\$ 8,086,789</u>
Fund Balances – Major Funds	\$ 4,692,223
Fund Balances – Nonmajor Funds	<u>(\$ 432,517)</u>
Total Fund Balance	<u>\$ 4,259,706</u>

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	\$20,450,455
Total Revenues – Nonmajor Funds	<u>\$ 1,596,428</u>
Total revenues	<u>\$22,046,883</u>
Total expenditures – Major Funds	\$20,098,619
Total expenditures – Nonmajor Funds	<u>\$ 2,686,493</u>
Total expenditures	<u>\$22,785,112</u>
Other financing sources (uses) Major	\$ -0-
Other financing sources (uses) Nonmajor	\$ -0-
Revenues Over Expenses – Major	\$ (738,229)
Revenues Over Expenses – Nonmajor	\$ -0-
Total Fund Balance	\$ (738,229)

Financial Contact

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
STATEMENT OF NET ASSETS
JUNE 30, 2006**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 2)	\$ 6,270,656
Cash with fiscal agent (Note 2)	3,369,388
Due from other agencies (Note 8)	1,574,986
Interest receivable	9,280
Capital assets, net (Note 10)	<u>20,444,268</u>
 Total assets	 <u>\$ 31,668,578</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Account payable and accrued liabilities	\$ 1,466,320
Due to other agencies (Note 11)	1,299,663
Deferred revenues - municipal license tax (Note 12)	3,789,450
Matured bonds payable	120,000
Matured interest payable	24,410
Noncurrent liabilities (Note 14):	
Due within one year	834,715
Due in more than one year	7,388,478
Accrued interest payable	92,963
Total liabilities	<u>15,015,999</u>
Net Assets	
Investment in capital assets, net of related debt	14,642,144
Restricted for:	
Debt service	2,808,917
Capital projects	1,786,305
Unrestricted	<u>(2,584,787)</u>
 Total net assets	 <u>\$ 16,652,579</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 5,606,196	\$ 1,614,879	\$ -	\$ -	\$ (3,991,317)
Public safety	1,608,872				(1,608,872)
Public works	7,614,992			254,844	(7,360,148)
Recreation	535,984				(535,984)
Health and welfare	4,043,809		1,994,494		(2,049,315)
Economic development	339,724				(339,724)
Depreciation	1,073,685				(1,073,685)
Interest on long-term debt	367,745				(367,745)
Total	\$ 21,191,007	\$ 1,614,879	\$ 1,994,494	\$ 254,844	(17,326,790)
General revenues:					
Property taxes					8,363,531
Municipal license tax					3,988,030
Grants and contributions not restricted to specific programs					2,374,796
Interest, fines and penalties					374,850
Miscellaneous					2,567,114
Total general revenues					17,668,321
Change in net assets					341,531
Loss on disposition of assets					(112,117)
Net assets at beginning of year, as restated (Note 19)					16,423,265
Net assets at end of year					\$ 16,652,679

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2006**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>State Legislative Joint Resolutions</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 3,897,510	\$ 288,944	\$ -	\$ 1,675,445	\$ -	\$ 408,757	\$ 6,270,656
Cash with fiscal agent (Note 2)			2,794,532		574,856		3,369,388
Due from other agencies (Note 8)	1,425,471		149,515				1,574,986
Due from other funds (Note 9)	1,122,185						1,122,185
Interest receivable			9,280				9,280
Total assets	\$ 6,445,166	\$ 288,944	\$ 2,953,327	\$ 1,675,445	\$ 574,856	\$ 408,757	\$ 12,346,495

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2006**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>State Legislative Joint Resolutions</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Account payable and accrued liabilities	\$ 1,261,732	\$ 64,717	\$ -	\$ 82,151	\$ 312,715	\$ 9,766	\$ 1,731,081
Due to other agencies (Note 11)	1,299,663						1,299,663
Due to other funds (Note 9)		221,547		45,130	24,000	831,508	1,122,185
Deferred revenues municipal license tax (Note 12)	3,789,450						3,789,450
Matured bonds payable			120,000				120,000
Matured interest payable			24,410				24,410
Total liabilities	<u>6,350,845</u>	<u>286,264</u>	<u>144,410</u>	<u>127,281</u>	<u>336,715</u>	<u>841,274</u>	<u>8,086,789</u>
Commitments and Contingencies (Notes 17 and 18)							
Fund Balances							
Reserved for:							
Encumbrances	91,968						91,968
Debt service			2,808,917				2,808,917
Capital projects				1,548,164			1,548,164
Other specific purposes		2,680			238,141		240,821
Unreserved fund balance	2,353					(432,517)	(430,164)
Total fund balance	<u>94,321</u>	<u>2,680</u>	<u>2,808,917</u>	<u>1,548,164</u>	<u>238,141</u>	<u>(432,517)</u>	<u>4,259,706</u>
Total liabilities and fund balance	<u>\$ 6,445,166</u>	<u>\$ 288,944</u>	<u>\$ 2,953,327</u>	<u>\$ 1,675,445</u>	<u>\$ 574,856</u>	<u>\$ 408,757</u>	<u>\$ 12,346,495</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2006**

Total fund balances - governmental funds \$ 4,259,706

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 20,444,268

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 4)** (8,051,395)

Net assets of governmental activities \$ 16,652,579

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General	Housing and Urban Development Programs	Debt Service	Joint Resolutions	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 6,917,623	\$ -	\$ 1,445,908	\$ -	\$ -	\$ -	\$ 8,363,531
Municipal license taxes (Note 7)	3,988,030						3,988,030
Licenses and permits	1,605,176						1,605,176
Charges for service and rents	9,703						9,703
Intergovernmental revenues (Note 13):							
Federal grants and contributions		1,994,494				1,366,302	3,360,796
State contributions	1,292,713			254,844		230,126	1,777,683
Interest, fines, and penalties	293,299		81,551				374,850
Other revenues	2,567,114						2,567,114
Total revenues	<u>16,673,658</u>	<u>1,994,494</u>	<u>1,527,459</u>	<u>254,844</u>	<u>-</u>	<u>1,596,428</u>	<u>22,046,883</u>
EXPENDITURES							
Current:							
General government	5,712,441				312,715	761,915	6,787,071
Public safety	1,608,872						1,608,872
Public works	5,379,827	1,494,917					6,874,744
Recreation	535,984						535,984
Health and welfare	1,198,272	920,959				1,924,578	4,043,809
Economic development	339,724						339,724
Capital outlays				993,551	867,575		1,861,126
Debt service:							
Principal retirement			459,000				459,000
Interest and other			274,782				274,782
Total expenditures	<u>14,775,120</u>	<u>2,415,876</u>	<u>733,782</u>	<u>993,551</u>	<u>1,180,290</u>	<u>2,686,493</u>	<u>22,785,112</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,898,538</u>	<u>(421,382)</u>	<u>793,677</u>	<u>(738,707)</u>	<u>(1,180,290)</u>	<u>(1,090,065)</u>	<u>(738,229)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	115,055		262,577				377,632
Transfers out	<u>(262,577)</u>		<u>(65,276)</u>			<u>(49,777)</u>	<u>(377,632)</u>
Total other financing sources (uses)	<u>(147,522)</u>		<u>197,299</u>			<u>(49,777)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>1,751,016</u>	<u>(421,382)</u>	<u>990,976</u>	<u>(738,707)</u>	<u>(1,180,290)</u>	<u>(1,139,842)</u>	<u>(738,229)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 19)	<u>(1,656,695)</u>	<u>424,062</u>	<u>1,817,941</u>	<u>2,286,871</u>	<u>1,418,431</u>	<u>707,325</u>	<u>4,997,935</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 94,321</u>	<u>\$ 2,680</u>	<u>\$ 2,808,917</u>	<u>\$ 1,548,164</u>	<u>\$ 238,111</u>	<u>\$ (432,517)</u>	<u>\$ 4,259,706</u>

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

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15/03/2007

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds \$ (738,229)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 1,120,878
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,073,685)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 459,000
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (514,345)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 1,087,912

Changes in net assets of governmental activities \$ 341,531

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 6,571,300	\$ 6,571,300	\$ 6,846,857	\$ 275,557	\$ 763,519	\$ 763,519	\$ 1,445,908	\$ 682,389
Municipal license taxes	4,900,000	4,900,000	3,988,811	(911,189)				
Licenses and permits	1,551,000	1,551,000	1,605,176	54,176				
Charges for services and rent	17,000	17,000	9,703	(7,297)				
Intergovernmental revenues:								
State contributions	1,204,142	1,204,142	1,292,713	88,571				
Interest, fines, and penalties	236,506	236,506	293,299	56,793			81,551	81,551
Other revenues	542,000	1,145,800	1,126,541	(19,259)				
Total revenues	<u>15,021,948</u>	<u>15,625,748</u>	<u>15,163,100</u>	<u>(462,648)</u>	<u>763,519</u>	<u>763,519</u>	<u>1,527,459</u>	<u>763,940</u>
EXPENDITURES								
Current:								
General government	6,766,940	6,814,916	6,799,357	15,559				
Public safety	1,761,190	1,608,875	1,608,875	-				
Public works	4,171,225	5,131,826	5,130,290	1,536				
Recreation	555,605	535,983	535,983	-				
Health and welfare	1,298,387	1,198,273	1,198,273	-				
Economic development	468,601	335,875	335,875	-				
Debt service:								
Principal					580,650	580,650	459,000	(121,650)
Interest					182,869	182,869	274,782	91,913
Total expenditures	<u>15,021,948</u>	<u>15,625,748</u>	<u>15,608,653</u>	<u>17,095</u>	<u>763,519</u>	<u>763,519</u>	<u>733,782</u>	<u>(29,737)</u>
Excess of revenues (expenditures) over (under) revenues (expenditures)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (445,553)</u>	<u>\$ (445,553)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 793,677</u>	<u>\$ 793,677</u>

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

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. ORGANIZATION

The Municipality of Gurabo, Puerto Rico (Municipality) was founded in 1815. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

4) State Legislative Joint Resolutions

The State Legislative Joint Resolutions fund is used to account for certain operations grants awarded by the Legislative of the Commonwealth of Puerto Rico to subsidy certain operations and administrative activities of the Municipality.

5) Loans and Bonds

The Loans and Bonds 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.

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

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

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

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

d. Cash and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposits with banks qualified as a depository of public funds by

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the State Legislative Joint Resolution and Loans and Bonds funds consist of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

e. Interfund Receivables and Payables

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

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	40 years
Buildings and building improvements	30-40 years
Furniture and fixtures	5 years
Machinery and equipment	3-5 years
Motor vehicles	5 years

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

g. Reservation of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects

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

4) Other Specified Purposes

Represent financial resources set aside for use in federal and state grant programs.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2006 amounted to approximately \$236,000. The current insurance policies have not been cancelled or terminated. The CRIM also

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

deducted approximately \$261,000 for workers compensation insurance covering all municipal employees.

i. Compensated Absences

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

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2007-08
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

k. Use of Estimates

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2006 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	(\$ 555,972)	\$793,677
Entity differences:		
Non-budgeted revenues	2,037,758	-
Non-budgeted transfers	(197,299)	197,299
Basis of accounting differences:		
Net change in receivables	230,181	-
Net change in payables	177,880	-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General Fund	Debt Service Fund
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(\$ 33,500)	\$ -
Current year encumbrances recorded as expenditures for budgetary basis	<u>91,968</u>	<u>-</u>
Excess of revenues over expenditures - GAAP basis	<u>\$1,751,016</u>	<u>\$990,976</u>

c. Legal Compliance

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

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$8 million difference are as follows:

Bonds payable	\$5,802,124
Note payable	200,000
Compensated absences	1,461,112
Due to Puerto Rico Health Insurance Administration	448,242
Interest payable	92,963
Accounts payable	<u>46,954</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$8,051,395</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

5. DEPOSITS - CUSTODIAL CREDIT RISK

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

The Municipality's bank balances in commercial banks of approximately \$6.8 million in the governmental activities were fully collateralized at June 30, 2006. The deposits at GDB of approximately \$975,000 that are restricted principally for capital projects, and the \$2.8 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

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

6. PROPERTY TAXES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The rates are 7.83% for real property and 5.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	5.80%	3.80%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.20%	1.20%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>7.83%</u>	<u>5.83%</u>

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

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

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

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2005-06, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2006, the amount collected from taxpayers and charges by CRIM of approximately \$6.8 million, exceeded the amount received in advances from CRIM for the same period by approximately \$271,000. Such amount is presented as due from agencies in the accompanying financial statements. (See Note 8)

7. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2006. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Gurabo, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Gurabo, are as follows:

Financial, savings, and loans associations	= 1.50%
Other organizations	= .45%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$3.9 million, corresponding to the next fiscal year municipal license.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$1,004,142
Puerto Rico Treasury Department	150,253
Municipal Revenues Collection Center (General Fund)	271,076
Municipal Revenues Collection Center (Debt Service Fund)	<u>149,515</u>
 Total	 <u><u>\$1,574,986</u></u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2006, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	HUD Programs	\$ 221,547
General Fund	Joint Resolutions	45,130
General Fund	Loans and Bonds	24,000
General Fund	Other Governmental Funds	<u>831,508</u>
		<u><u>\$1,122,185</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The balance of \$221,547 due from HUD Programs and the \$831,508 mainly represents disbursements made by the general fund to cover payroll and related fringe benefits to HUD Programs and Other Governmental Funds, which will be reimbursed to the general fund within approximately 90 day period after year-end.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2006 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 65,278
Debt Service	General	262,577
General	Other Governmental Funds	<u>49,777</u>
Total		<u>\$377,632</u>

The transfer from the general fund to the debt service fund of \$262,577 represents monies transferred to cover debt service payments as become due.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005 (Restated)	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 3,624,667	\$ -	\$ -	\$ 3,624,667
Total capital assets, not being depreciated	3,624,667	-	-	3,624,667
Capital assets, being depreciated:				
Buildings and building improvements	9,757,002	28,000		9,785,002
Furniture and fixtures	365,727	34,055		399,782
Machinery and equipment	1,512,175	240,858	93,380	1,659,653
Vehicles	2,930,310	315,888	383,573	2,862,625
Arts work	97,270	224,839	39,000	283,109
Infrastructure	9,702,473	277,238		9,979,711
Total capital assets, being depreciated	24,364,957	1,120,878	515,953	24,969,882
Less accumulated depreciation for:				
Buildings and building improvements	2,222,431	244,275		2,466,706
Furniture and fixtures	308,155	22,622		330,777
Machinery and equipment	1,067,868	183,566	93,380	1,158,054
Vehicles	1,969,620	365,439	309,868	2,025,191
Arts work	26,512	11,756	488	37,780
Infrastructure	1,885,746	246,027		2,131,773
Total accumulated depreciation	7,480,332	1,073,685	403,736	8,150,281
Total capital assets, being depreciated, net	16,884,625	47,193	112,217	16,819,601
Governmental activities capital assets, net	\$ 20,509,292	\$ 47,193	\$ 112,217	\$ 20,444,268

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2006 are as follows:

Puerto Rico Electric Power Authority	\$1,167,613
Retirement System Administration	64,137
Puerto Rico Treasury Department	38,995
Puerto Rico Water and Sewer Authority	25,210
General Services Administration	<u>3,708</u>
 Total	 <u>\$1,299,663</u>

12. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of approximately \$3.8 million in the general fund related to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

14. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2006 are as follows:

Bonds

\$397,000 series of 1984, payable in annual installments of \$25,000 until 2006 with interest at 5.0%.	\$ 25,000
\$615,000 series of 1992, payable in annual installments of \$27,000 to \$44,000 until 2015 with interest at 5.0%.	324,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

\$1,967,000 series of 1994, payable in annual installments of \$88,000 to \$159,000 until 2015 with interest at 6%.	\$1,138,000
\$325,000 series of 1997, payable in annual installments of \$11,000 to \$44,000 until 2015 with interest at 5%.	239,000
\$704,000 series of 2000, payable in annual installments of \$20,000 to \$47,045 until 2024 with interest at 4.5%.	591,045
\$665,000 series of 2002, payable in annual installments of \$15,000 to \$55,000 until 2026 with interest ranging from 2.9% to 5.6%.	620,000
\$755,000 series of 2002, payable in annual installments of \$100,000 to \$130,000 until 2029 with interest ranging from 2.9% to 4.1%.	470,000
\$2,715,000 series of 2002, payable in annual installments of \$50,000 to \$215,000 until 2027 with interest at 6.5%.	<u>\$2,515,000</u>
Total bonds	<u>\$5,922,045</u>

Note Payable

\$1,000,000 note payable, series of 1990, payable in annual installments of \$50,000 until 2010, with interest at 8%.	<u>\$200,000</u>
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Other Long-Term Debts

Due to Puerto Rico Health Insurance Administration related to the Health Care Reform corresponding from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.	<u>\$448,242</u>
--	------------------

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The annual requirements for the amortization of general long-terms at June 30, 2006, are as follows:

	<u><i>Bonds Payable</i></u>		<u><i>Note Payable</i></u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 367,000	\$ 353,380	\$ 50,000	\$ 14,365
2008	367,000	316,286	50,000	7,500
2009	380,000	297,606	50,000	5,000
2010	406,000	277,400	50,000	2,500
2011	297,000	259,242		
2012-2016	1,548,000	985,056		
2017-2021	1,063,000	603,150		
2022-2026	1,224,045	293,902		
2027-2031	270,000	15,515		
	<u>\$ 5,922,045</u>	<u>\$ 3,401,537</u>	<u>\$ 200,000</u>	<u>\$ 29,365</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

As described in Note 6, the Municipality levies an annual special tax of 1.20% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

Primary Government	Beginning Balance (As restated)	Additions	Payments	Ending Balance	Due within One Year
Governmental Activities:					
Bonds payable	\$ 6,211,124	\$ -	\$ (409,000)	\$ 5,802,124	\$ 367,000
Note payable	250,000		(50,000)	200,000	50,000
Total long-term debt	<u>6,461,124</u>	<u>-</u>	<u>(459,000)</u>	<u>6,002,124</u>	<u>417,000</u>
Other Long-Term Liabilities:					
Due to PR Health Insurance Adm.	448,242			448,242	-
Claims and judgements	1,125,429		(812,714)	312,715	312,715
Compensated absences	1,515,558	57,721	(113,167)	1,460,112	105,000
Total other liabilities	<u>3,089,229</u>	<u>57,721</u>	<u>(925,881)</u>	<u>2,221,069</u>	<u>417,715</u>
Total noncurrent liabilities	<u>\$ 9,550,353</u>	<u>\$ 57,721</u>	<u>\$(1,384,881)</u>	<u>\$ 8,223,193</u>	<u>\$ 834,715</u>

The beginning balance of long-term debt has been restated to include a liability to the Puerto Rico Health Insurance Administration.

15. RETIREMENT PLAN

a. Plan Description

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

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

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2006 was approximately \$343,000. The Municipality's payroll for employees covered by ERS was approximately \$5.9 million. The Municipality total payroll for all employees was approximately \$6.6 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2006, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

16. RISK MANAGEMENT

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

17. CONTINGENCIES

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

18. COMMITMENTS

The Municipality of Gurabo had several outstanding or planned construction projects as of June 30, 2006. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Joint Resolution's fund that amounted to approximately \$1.6 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

19. RESTATEMENT

a. Net Assets

The beginning balance of net assets as of July 1, 2005 has been restated as follows:

Net assets at beginning of year as previously reported	\$22,477,097
Overstatement of accounts payable	102,324
Inclusion of long-term debt to the Puerto Rico Health Insurance Administration (Refer to Note 14)	(448,242)
Overstatement of capital additions	(<u>5,707,914</u>)
Net assets at beginning of year as restated	<u>\$16,423,265</u>

b. Fund Balance

The beginning fund balance of other governmental funds has been restated to correct accounting errors due to overstatement of accounts payable by \$102,324.

20. SUBSEQUENT EVENTS

Effective on November 15, 2006, the Municipality imposed a sales tax of 1.50% to be applicable over all direct sales to consumers, including services as approved by the Municipal Legislature.

Section 6189 of the Puerto Rico Internal Revenue code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Sales Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

PART II - SINGLE AUDIT SECTION

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ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Housing Choice Vouchers	14.871	\$ 920,959
Pass-through Commissioner Office of Municipal Affairs - Community Development		
State Block Grant Program - SBGP	14.228	1,494,917
Subtotal U.S. Department of HUD		<u>2,415,876</u>
U.S. Department of Agriculture		
Pass-through Puerto Rico Department of Education		
Child and Adult Care Food Program	10.558	23,951
Subtotal U.S. Department of Agriculture		<u>23,951</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Puerto Rico Department of Family		
Child Care and Development Block Grant	93.575	1,089,929
Community Services Block Grant	95.569	30,000
Subtotal U.S. Department of HHS		<u>1,119,929</u>
U.S. Department of Justice		
Pass-through the Office of Affairs of the Youth		
Prevention for Delinquency	16.592	138,881
Subtotal U.S. Department of Justice		<u>138,881</u>
U.S. Department of Homeland Security		
Pass-through the Puerto Rico Department of Justice		
Hazard Mitigation Grant	97.039	4,530
Subtotal U.S. Department of Homeland Security		<u>4,530</u>
TOTAL		<u>\$ 3,703,167</u>

See notes to schedule of expenditures of federal awards.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Expenditures as per basic financial statements:	
Housing and Urban Development programs fund	\$2,415,876
Federal expenditures included within the other nonmajor governmental funds	<u>1,287,291</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$3,703,167</u>

See notes to schedule of expenditures of federal awards.

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

CPA Oriando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Gurabo, as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of 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 reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

We noted certain immaterial instances of noncompliance which we have reported to management of the Municipality of Gurabo in a separate letter dated November 15, 2006.

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

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
November 15, 2006

The stamp 2190961 was affixed
to the original of this report.





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

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**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 Honorable Mayor
and Municipal Legislature
Municipality of Gurabo
Gurabo, Puerto Rico

Compliance

We have audited the compliance of 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, 2006. Municipality of Gurabo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Gurabo's management. Our responsibility is to express and opinion on Municipality of Gurabo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of 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 Municipality of Gurabo's compliance with those requirements.

In our opinion, the Municipality of Gurabo complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as items 06-1 to 06-3.

Internal Control over Compliance

The management of Municipality of Gurabo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Gurabo'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

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

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
November 15, 2006

The stamp 2190962 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Municipality of Gurabo.
- b. There were no reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Gurabo were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Gurabo express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Gurabo are reported in number 3 of this schedule.
- g. The program tested as major program is Child Care and Development Block Grant Program - CFDA No. 93.575.
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Gurabo was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

a. Child Care and Development Block Grant Program - CFDA No. 93.575

● **Condition 06-1**

The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 45CFR 74.22(a) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect

The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Questioned Costs

\$ -0-

● **Condition 06-2**

The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Municipality does not perform a reconciliation of the physical inventory with the accounting records. In addition, equipment acquired during the year is not properly labeled and identified. ②

Criteria

As per CFR 45, Part 74.34 (4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

Cause

The Municipality does not maintain accurate records for acquisitions and dispositions for property acquired with federal awards.

Effect

The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Recommendation

The Municipalities' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up on inventory discrepancies. In addition, the Municipality's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

no

Questioned Costs

\$ -0-

● **Condition 06-3**

The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we noted that the Municipality did not send on time the quarterly report for the following period ended:

3

<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>
09-30-05	10-31-05	12-14-05

Criteria

The Municipality is not in compliance with 45 CFR 74.52 which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management should prepare accurate and timely federal financial reports.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Cause

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

Effect

The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially when new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government. P

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8, SBGP	Condition 05-II-1 The only accounting records maintained are the cash receipts, and disbursements and obligation. The program do not maintain a complete accounting records to account for assets, liabilities and fund balance.	Condition was not observed. ④ Si
All Programs Funds	Condition 05-II-2 The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.	Condition was not corrected. ⑤ NO
SBGP	Condition 05-III-1 The Municipality has an average time elapsed between draw down and disbursement of 15 days.	Condition was not corrected. ⑥ NO

EXHIBIT I

CORRECTIVE ACTION PLAN





CORRECTIVE ACTION PLAN

November 15, 2006

Cognizant or Oversight Agency for Audit:

Municipality of Gurabo respectfully submits the following corrective action plan for the year ended June 30, 2006

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

Audit period: Fiscal year ended June 30, 2006

The findings from the June 30, 2006 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 06-1: Child Care and Development Block Grant Program - CFDA 93.575

Reportable Condition: See Condition 06-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

The personnel of our accounting office is fulfilling the disbursement vouchers immediately after receipt the invoices. At the same time we request the funds to OCAM, because OCAM spend much time to disburse it. We disburse the funds immediately after receive the funds, or within three business days. The auditor has to verify that the check date is within the three days and it will be after the disbursement voucher date. This applies only to the SBGP (CDBG) funds, because Child Care has another requirement.

Finding 06-2: Child Care and Development Block Grant Program - CFDA 93.575

Reportable Condition: See Condition 06-2

Recommendation

The Municipality's management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up an inventory discrepancies. In addition, the Municipality's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Action Taken

We did an initial periodic inventory. Then, with the information available about the purchases dates and the equipment costs, we depreciated the equipment as corresponded at August 1st, 2006. We did the entry to recognize the equipment, the depreciation expense, the accumulated depreciation and the capitalization. The inventory value will be revised annually.

Finding 06-3: Child Care and Development Block Grant Program - CFDA 93.575

Reportable Condition: See Condition 06-3

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially with new grant and received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Action Taken



The personnel of our accounting office, study and analyze all requirements applicable to each federal financial assistance program. Then, we proceed in accordance with each program proposal. When we understand it is necessary, we request assistance from the OCAM personnel.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Héctor Caraballo at (787) 737-8411.

Cordially,


Noemí Vélez Santiago
Director
Federal Programs Accounting Office

