

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE GURABO
AUDITORÍA 2009-2010
30 DE JUNIO DE 2010**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

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MUNICIPALITY OF GURABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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PART I – FINANCIAL SECTION

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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, 2010, 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, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 41 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

San Juan, Puerto Rico
December 17, 2010

The stamp 2571480 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, 2010**. 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 **\$62,594,463** and **\$21,647,138** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$48,519,361 (78 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$40,947,325** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$31,345,712 (77 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$24,078,423** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2010**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes, sales tax and, licenses and permits were to **\$10,497,312 (44 percent of total revenues)** and **\$9,071,388 (38 percent of total revenues)**, respectively.
- The Municipality has reported a net change in net assets of expenditures over revenues amounting to **(\$5,307,938)** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **\$5,539,857** 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 **\$430,489**.
- The Municipality has reported a deficiency of revenues and other financing sources under expenditures and other financing uses amounting to **(\$8,860,507)** in the governmental funds. Such amount correspond to General Fund and Debt Service fund. As a significant fact, the Municipality's outlays for Loan and Bonds and Joint Resolution

during the year amounted **\$3,866,600** while to the disposable 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, 2010** 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, 2010**. 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 governmental-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, 2010**). 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, assets exceeded liabilities by **\$21,647,138** at **June 30, 2010**.

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, 2010</u>
Current assets	\$14,075,102
Capital assets	<u>48,519,361</u>
Total assets	<u>\$62,594,463</u>
Current liabilities	\$ 9,601,613
Non-current liabilities	<u>31,345,712</u>
Total liabilities	<u>\$40,947,325</u>
Net assets/(liabilities):	
Invested in capital assets, net of related debt	26,279,316
Restricted	7,365,471
Unrestricted	<u>(11,997,649)</u>
Total net assets	<u>\$21,647,138</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, 2010</u>
Revenues:	
Program revenues:	
Charges for services	\$ 670,437
Operating grants and contributions	1,644,310
Capital grants and contributions	505,119
General revenues:	
Property taxes	10,497,312
Municipal license taxes	6,492,567
Sales and use tax	1,906,184
Grants and contributions	2,151,565
Interest, fines and penalties	191,810
Miscellaneous	16,919
Total revenues	<u>24,076,223</u>
Expenses:	
General government	\$15,665,038
Public safety	1,823,341
Public works	4,990,978
Recreation	1,487,652
Health and welfare	3,714,355
Economic Development	414,339
Interest on long-term debt	1,288,458
Total expenses	<u>29,384,161</u>
Change in net assets	(5,307,938)
Loss on disposition of assets	(44,289)
Net assets – at beginning of year	<u>26,999,365</u>
Net assets – at end of year	<u>\$21,647,138</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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
STATEMENT OF NET ASSETS
JUNE 30, 2010**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 2)	\$ 4,598,305
Cash with fiscal agent (Note 2)	7,376,500
Certificates of deposits (Note 2)	206,366
Accounts receivables:	
Municipal license taxes (Note 6)	351,196
Rent, licences and permits	128,710
Due from other agencies (Note 8)	1,414,025
Capital assets, net (Note 10)	48,519,361
	<hr/>
Total assets	\$ 62,594,463
	<hr/> <hr/>
<u>Liabilities and Net Assets</u>	
Liabilities	
Account payable and accrued liabilities	\$ 3,949,373
Due to other agencies (Note 11)	1,041,010
Deferred revenues:	
Municipal license taxes (Note 12)	2,874,799
Federal government	29,755
Matured bonds payable	485,000
Matured interest payable	155,308
Noncurrent liabilities (Note 14):	
Due within one year	1,833,853
Due in more than one year	29,511,859
Accrued interest payable	1,066,368
Total liabilities	40,947,325
	<hr/>
Net Assets	
Investment in capital assets, net of related debt	26,279,316
Restricted for:	
Debt service	2,063,198
Capital projects	5,302,273
Unrestricted	(11,997,649)
	<hr/>
Total net assets	\$ 21,647,138
	<hr/> <hr/>

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, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
General government	\$ 15,665,038	\$ 670,437	\$ -	\$ -	\$ (14,994,601)
Public safety	1,823,341				(1,823,341)
Public works	4,990,978		720,336	505,119	(3,765,523)
Recreation	1,487,652				(1,487,652)
Health and welfare	3,714,355		923,974		(2,790,381)
Economic development	414,339				(414,339)
Interest on long-term debt	1,288,458				(1,288,458)
Total	<u>\$ 29,384,161</u>	<u>\$ 670,437</u>	<u>\$ 1,644,310</u>	<u>\$ 505,119</u>	<u>(26,564,295)</u>
General revenues:					
Property taxes (Note 5)					10,497,312
Municipal license tax (Note 6)					6,492,567
Sales and use tax (Note 7)					1,906,184
Grants and contributions not restricted to specific programs					2,151,565
Interest, fines and penalties					191,810
Miscellaneous					16,919
Total general revenues					<u>21,256,357</u>
Change in net assets					<u>(5,307,938)</u>
Loss on disposition of assets					
Loss on disposition of assets					(44,289)
Net assets at beginning of year, as restated (Note 20)					26,999,365
Net assets at end of year					<u>\$ 21,647,138</u>

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, 2010

<u>Assets</u>	General	Housing and Urban Development Programs	Sales and Use Tax Fund	Debt Service	State Legislative Joint Resolutions	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 2)	\$ 2,829,193	\$ 529,995	\$ 443,236	\$ -	\$ 397,019	\$ -	\$ 398,862	\$ 4,598,305
Cash with fiscal agent (Note 2)	806,784			2,373,141	6,747	4,189,828		7,376,500
Certificates of deposits (Note 2)		206,366						206,366
Accounts receivables:								
Municipal license taxes (Note 6)	351,196							351,196
Rent, licences and permits	128,710							128,710
Due from other agencies (Note 8)	1,083,660			330,365				1,414,025
Due from other funds (Note 9)	1,971,674				1,388,332		138,891	3,498,897
Total assets	<u>\$ 7,171,217</u>	<u>\$ 736,361</u>	<u>\$ 443,236</u>	<u>\$ 2,703,506</u>	<u>\$ 1,792,098</u>	<u>\$ 4,189,828</u>	<u>\$ 537,753</u>	<u>\$ 17,573,999</u>

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, 2010**

<u>Liabilities and Fund Balance (Deficit)</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Sales and Use Tax</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	\$ 1,297,696							
Due to other agencies (Note 11)	1,041,010	\$ 13,362	\$ 2,638,315	\$ -	\$ -	\$ -	\$ -	\$ 3,949,373
General obligations:								
Bonds				485,000				485,000
Interest				155,308				155,308
Due to other funds (Note 9)	1,527,223	238,820	86,034			679,653	967,167	3,498,897
Deferred revenues municipal								
Municipal license tax (Note 12)	2,874,799							2,874,799
Federal government		29,755						29,755
Total liabilities	<u>6,740,728</u>	<u>281,937</u>	<u>2,724,349</u>	<u>640,308</u>	<u>-</u>	<u>679,653</u>	<u>967,167</u>	<u>12,034,142</u>
Commitments and Contingencies (Notes 17 and 18)								
Fund Balances (Deficit)								
Reserved for:								
Encumbrances	151,869							151,869
Debt service				2,063,198				2,063,198
Federal programs		454,424						454,424
Capital projects								
Unreserved fund balance (deficit)	278,620		(2,281,113)		1,792,098	3,510,175	(429,414)	5,302,273
Total fund balance (deficit)	<u>430,489</u>	<u>454,424</u>	<u>(2,281,113)</u>	<u>2,063,198</u>	<u>1,792,098</u>	<u>3,510,175</u>	<u>(429,414)</u>	<u>(2,431,907)</u>
Total liabilities and fund balance (deficit)	<u>\$ 7,171,217</u>	<u>\$ 736,361</u>	<u>\$ 443,236</u>	<u>\$ 2,703,506</u>	<u>\$ 1,792,098</u>	<u>\$ 4,189,828</u>	<u>\$ 537,753</u>	<u>\$ 17,573,999</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, 2010**

Total fund balances - governmental funds \$ 5,539,857

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 48,519,361
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (32,412,080)

Net assets of governmental activities \$ 21,647,138

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, 2010

	General	Housing and Urban Development Programs	Sales and Use Tax Fund	Debt Service	Joint Resolutions	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property taxes (Note 5)	\$ 7,802,751	\$ -	\$ -	\$ 2,694,561	\$ -	\$ -	\$ -	\$ 10,497,312
Municipal license taxes (Note 6)	6,492,567	-	-	-	-	-	-	6,492,567
Sales and use tax (Note 7)	300,000	-	1,205,404	400,780	-	-	-	1,906,184
Licenses and permits	668,117	-	-	-	-	-	-	668,117
Charges for service and rents	4,520	-	-	-	-	-	-	4,520
Intergovernmental revenues (Note 13)								
Federal grants and contributions	1,094,576	1,644,310	-	-	505,119	-	1,056,989	2,701,299
State contributions	186,238	-	-	5,572	-	-	-	1,599,695
Interest, fines, and penalties	16,919	-	-	-	-	-	-	191,810
Other revenues	16,565,688	1,644,310	1,205,404	3,100,913	505,119	-	1,056,989	16,919
Total revenues								24,078,423
EXPENDITURES								
Current								
General government	15,338,676	-	-	-	-	-	-	15,338,676
Public safety	1,726,477	-	-	-	-	-	-	1,726,477
Public works	3,135,014	595,593	1,270,647	-	-	-	-	5,001,254
Recreation	739,197	-	-	-	-	-	-	739,197
Health and welfare	1,319,545	852,246	-	-	-	-	1,060,585	3,232,376
Economic development	393,336	-	-	-	-	-	-	393,336
Capital outlays	-	-	-	-	-	3,518,921	-	3,518,921
Debt service	-	-	-	-	347,679	-	-	347,679
Principal retirement	-	-	-	-	-	-	-	-
Interest and other	-	-	-	1,610,414	-	-	-	1,610,414
Total expenditures	22,652,245	1,447,839	1,270,647	2,641,014	347,679	3,518,921	1,060,585	32,938,930
Excess (deficiency) of revenues over (under) expenditures	(6,086,557)	196,471	(65,243)	459,899	157,440	(3,518,921)	(3,596)	(6,860,507)
OTHER FINANCING SOURCES (USES)								
Bond issuance	4,350,000	-	-	-	-	-	-	4,350,000
Transfers in	4,952,975	-	2,070,000	1,017,861	-	-	-	8,040,836
Transfers out	(3,087,861)	-	-	(4,952,975)	-	-	-	(8,040,836)
Total other financing sources (uses)	6,215,114	-	2,070,000	(3,935,114)	-	-	-	4,350,000
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	128,557	196,471	2,004,757	(3,475,215)	157,440	(3,518,921)	(3,596)	(4,510,507)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	301,932	257,953	(4,285,870)	5,536,413	1,634,658	7,029,096	(425,818)	10,050,364
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 430,489	\$ 454,424	\$ (2,281,113)	\$ 2,063,198	\$ 1,792,098	\$ 3,510,175	\$ (429,414)	\$ 5,539,857

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

J. Rivera
2/10/2011

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

**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, 2010**

Net change in fund balances - total governmental funds	\$ (4,510,507)
Amounts reported for governmental activities in the statement of activities are different because:	
<ul style="list-style-type: none"> • 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. 	4,547,456
<ul style="list-style-type: none"> • 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. 	(1,763,855)
<ul style="list-style-type: none"> • Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. 	(4,350,000)
<ul style="list-style-type: none"> • 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. 	1,610,414
<ul style="list-style-type: none"> • Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 	(2,200)
<ul style="list-style-type: none"> • Change in accrued interest expense which does not require the use of current financial resources. 	(257,858)
<ul style="list-style-type: none"> • 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. 	<u>(581,388)</u>
Changes in net assets of governmental activities	<u>\$ (5,307,938)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

b. 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, as amended by Statement No. 39, Determining whether Certain Organizations are Component Units" - an amendment of GASB 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 appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: the primary government can impose its will on the other entity or the potential exists 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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.

c. Government-Wide and Fund Financial Statements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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*. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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) Sales and Use Tax Fund

This fund account for revenue sources proceeding from the imposition of the sales and use tax corresponding to the one percent to be collected by the Municipality that should be used for solid waste collection and recycling programs, the construction of capital works and improvements, health, and security.

4) 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.

5) 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.

6) 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010 amounted to approximately \$276,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$244,000 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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>
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11
57	OPEB Measurement by Agent Employees and Agent Multi-Employers Plans	2011-12
59	Financial Instrument Omnibus	2010-11
60	Accounting and Financial Reporting for Service Concession Arrangements	2012-13
61	The Financial Reporting Entity: Omnibus- An amendment of GASB Statements No. 14 and 34	2012-13

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

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

3. 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 \$32.4 million difference is as follows:

Bonds payable	\$26,590,045
Compensated absences	2,682,955
Notes payable	1,447,000
Interest payable	1,066,368
Due to Puerto Rico Health Insurance Administration	424,515
Note payable – CRIM LIMS	118,515
Claims and judgements	<u>82,682</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$32,412,080</u>

4. 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 \$4.6 million in the governmental activities were fully collateralized at June 30, 2010. The deposits at GDB of approximately \$4.2 million that are restricted principally for capital projects, and the \$2.3 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

5. PROPERTY TAXES

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

The rates are 8.83% for real property and 6.83% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property – state	1.03%	1.03%
Additional special property – municipal	2.00%	2.00%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>8.83%</u>	<u>6.83%</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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year 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 2009-10, 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, 2010, the amount collected from taxpayers and charges by CRIM exceeded the amount received in advances from CRIM, for the same period by approximately \$4,000. Such amount is presented as due to CRIM in the accompanying financial statements. (See Note 8)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

6. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represents taxes which are due and uncollected at June 30, 2010. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Gurabo, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of 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 \$2.9 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAX

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

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

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

c. 1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 933,000
Municipal Revenues Collection Center (Debt Service Fund)	330,365
Puerto Rico Treasury Department	146,369
Municipal Revenues Collection Center (General Fund)	<u>4,291</u>
 Total	 <u>\$1,414,025</u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Joint Resolutions	General Fund	\$1,388,332
General Fund	Other Governmental Funds	967,167
General Fund	Loans and Bonds Fund	679,653
General Fund	HUD Programs	238,820
Other Governmental Funds	General Fund	138,891
General Fund	Sales and Use Tax Fund	<u>86,034</u>
		 <u>\$3,498,897</u>

The balance of \$679,653 due from the Loans and Bonds fund represents disbursements made by the General Fund to cover various construction projects that will be reimbursed by the Government Development Bank for Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The balance of \$1,388,332 due from the General Fund mainly represents advances made by the Joint Resolutions Fund to cover cash flows needs, which will be reimbursed by 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, 2010 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 4,952,975
Sales and Use Tax Fund	General Fund	2,070,000
Debt Service	General	<u>1,017,861</u>
Total		\$ <u>8,040,836</u>

The transfer from the Debt Service Fund to the General Fund of approximately \$4.9 million represents excess of property tax collections.

The transfer from the general fund to the debt service fund of \$1,017,861 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, 2010**

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance July 1, 2009 (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 10,728,554	\$ 2,122,903	\$ 28,199	\$ 12,823,258
Construction in process	10,746,142		9,238,196	1,507,946
Total capital assets, not being depreciated	<u>21,474,696</u>	<u>2,122,903</u>	<u>9,266,395</u>	<u>14,331,204</u>
Capital assets, being depreciated:				
Buildings and building improvements	22,136,168	11,185,106	97,372	33,223,902
Furniture, fixtures and equipment	2,979,608	376,274		3,355,882
Vehicles	6,379,712	129,568		6,509,280
Infrastructure	10,820,011			10,820,011
Total capital assets, being depreciated	<u>42,315,499</u>	<u>11,690,948</u>	<u>97,372</u>	<u>53,909,075</u>
Less accumulated depreciation for:				
Buildings and building improvements	5,738,833	830,598	53,083	6,516,348
Furniture, fixtures and equipment	2,834,404	267,814		3,102,218
Vehicles	6,009,163	394,943		6,404,106
Infrastructure	3,427,746	270,500		3,698,246
Total accumulated depreciation	<u>18,010,146</u>	<u>1,763,855</u>	<u>53,083</u>	<u>19,720,918</u>
Total capital assets, being depreciated, net	<u>24,305,353</u>	<u>9,927,093</u>	<u>44,289</u>	<u>34,188,157</u>
Governmental activities capital assets, net	<u>\$ 45,780,049</u>	<u>\$ 12,049,996</u>	<u>\$ 9,310,684</u>	<u>\$ 48,519,361</u>

Depreciation expense was charged to functions/programs of the Municipality as follows:

General government	\$ 169,489
Public safety	96,864
Public works	670,580
Recreation	748,455
Health and welfare	57,464
Economic development	<u>21,003</u>
Total depreciation expense – governmental activities	<u>\$1,763,855</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2010 are as follows:

Puerto Rico Electric Power Authority	\$ 933,000
Puerto Rico Water and Sewer Authority	49,560
Retirement System Administration	37,343
State Insurance Fund Corporation	13,022
General Services Administration	7,695
Puerto Rico Labor Department	<u>390</u>
 Total	 <u>\$ 1,041,010</u>

12. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of approximately \$2.9 million in the general fund related to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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, 2010 are as follows:

Bonds

\$615,000 series of 1992, payable in annual installments of \$27,000 to \$44,000 until 2015 with interest at 5.0%.	\$198,000
\$1,967,000 series of 1994, payable in annual installments of \$88,000 to \$159,000 until 2015 with interest at 6%.	705,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$325,000 series of 1997, payable in annual installments of \$11,000 to \$44,000 until 2015 with interest at 5%.	\$ 187,000
\$704,000 series of 2000, payable in annual installments of \$20,000 to \$47,045 until 2024 with interest at 4.5%.	497,045
\$665,000 series of 2002, payable in annual installments of \$15,000 to \$55,000 until 2026 with interest ranging from 2.7% to 5.6%.	540,000
\$2,715,000 series of 2002, payable in annual installments of \$50,000 to \$215,000 until 2027 with interest ranging from 1.53% to 6.5%.	2,255,000
\$375,000 series of 2002, payable in annual installments of \$12,000 to \$29,000 until 2027 with interest at 4.50%.	338,000
\$940,000 series of 2007, payable in annual installments of \$100,000 to \$165,000 until 2013 with interest ranging from 1.53% to 7.5%.	465,000
\$7,595,000 series of 2007, payable in annual installments of \$110,000 to \$635,000 until 2031 with interest ranging from 1.53% to 7.5%.	7,095,000
\$1,010,000 series of 2007, payable in annual installments of \$10,000 to \$85,000 until 2032 with interest ranging from 1.53% to 7.5%.	975,000
\$225,000 series of 2008, payable in annual installments of \$5,000 to \$20,000 until 2032 with interest ranging from 1.53% to 7.5%.	210,000
\$780,000 series of 2008, payable in annual installments of \$10,000 to \$70,000 until 2032 with interest ranging from 1.53% to 7.5%.	745,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

\$7,470,000 series of 2008, payable in annual installments of \$115,000 to \$615,000 until 2032 with interest ranging from 1.53% to 7.5%.	\$ 7,105,000
\$1,210,000 series of 2008, payable in annual installments of \$20,000 to \$100,000 until 2032 with interest ranging from 1.53% to 7.5%.	1,150,000
\$280,000 series of 2008, payable in annual installments of \$5,000 to \$30,000 until 2033 with interest ranging from 1.53% to 7.5%	270,000
\$4,350,000 series of 2010, payable in annual installments of \$495,000 to \$70,000 until 2016 with interest ranging from 4.75% to 7.5%	<u>3,855,000</u>
Total bonds	\$ <u>26,590,045</u>

Notes Payable

\$158,000 note payable, series of 2008, payable in annual installments of \$5,000 to \$15,000 until 2032, with interest ranging from 1.53% to 7.5%.	\$ 153,000
\$584,000 note payable, series of 2008, payable in annual installments of \$130,000 to \$165,000 until 2012, with interest ranging from 1.53% to 7.5%.	310,000
\$1,156,000 note payable, series of 2008, payable in annual installments of \$83,000 to \$217,000 until 2017, with interest ranging from 1.53% to 7.5%.	<u>984,000</u>
Total notes payable	\$ <u>1,447,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Note Payable to CRIM (LIMS)

On June 27, 2001, the Municipality entered into a financing agreement with the CRIM in the amount of \$624,492 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM or the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$41,879, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property taxes and amounts of municipal equalization fund send to the Municipality by the CRIM.

The annual requirements for the amortization of general long-terms at June 30, 2010, are as follows:

	<i>Bonds Payable</i>		<i>Notes Payable</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2011	\$ 1,346,000	\$ 1,209,656	\$ 249,000	\$ 78,802
2012	1,432,000	1,548,777	264,000	89,850
2013	1,524,000	1,490,540	112,000	70,048
2014	1,473,000	1,429,064	120,000	61,650
2015	1,573,000	1,378,270	162,000	52,650
2016-2020	4,822,000	6,070,565	431,000	93,750
2021-2025	5,515,045	4,327,695	38,000	35,398
2026-2030	6,490,000	2,320,670	48,000	19,648
2031-2035	2,415,000	248,270	23,000	2,700
	<u>\$ 26,590,045</u>	<u>\$ 20,023,507</u>	<u>\$1,447,000</u>	<u>\$ 504,496</u>

	<i>Note Payable- CRIM (LIMS)</i>	
	<i>Principal</i>	<i>Interest</i>
2011	\$ 77,853	\$ 5,911
2012	40,662	1,210
	<u>\$ 118,515</u>	<u>\$ 7,121</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

As described in Note 5, the Municipality levies an annual special tax of 2.0% 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.

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 23,494,045	\$ 4,350,000	\$ 1,254,000	\$ 26,590,045	\$ 1,346,000
Notes payable	1,730,000	-	283,000	1,447,000	249,000
Note payable - CRIM (LIMS)	191,929	-	73,414	118,515	77,853
Total long-term debt	<u>25,415,974</u>	<u>4,350,000</u>	<u>1,610,414</u>	<u>28,155,560</u>	<u>1,672,853</u>
Other Long-Term Liabilities:					
Due to CRIM	111,374	-	111,374	-	-
Due to Puerto Rico Health Insurance Administration	-	424,515	-	424,515	-
Claims and judgements	82,682	-	-	82,682	-
Compensated absences	2,414,708	414,934	146,687	2,682,955	161,000
Total other liabilities	<u>2,608,764</u>	<u>839,449</u>	<u>258,061</u>	<u>3,190,152</u>	<u>161,000</u>
Total noncurrent liabilities	<u>\$ 28,024,738</u>	<u>\$ 5,189,449</u>	<u>\$ 1,868,475</u>	<u>\$ 31,345,712</u>	<u>\$ 1,833,853</u>

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, 2010**

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

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

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

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, 2010**

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, 2010 was approximately \$443,000. The Municipality's payroll for employees covered by ERS was approximately \$4.8 million. The Municipality total payroll for all employees was approximately \$8.0 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2010, 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, 2010**

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, 2010. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Joint Resolution's fund and Loans and Bonds fund that amounted to approximately \$5.3 million.

19. SUBSEQUENT EVENT

During July 2010, the Municipality issued a general obligation bond of \$1,890,000 for the acquisition of a parcel of land. The bond will be due in annual installment through July 2035 and will bear interest at 7.5%.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget- Positive (Negative)</u>
			<u>(See Note 1)</u>	
REVENUES				
Property taxes	\$ 5,857,233	\$ 5,857,233	\$ 6,552,328	\$ 695,095
Municipal license taxes	7,296,894	7,296,894	6,425,142	(871,752)
Licences and permits	2,365,000	2,365,000	652,771	(1,712,229)
Charges for services and rent	5,000	5,000	4,520	(480)
Intergovernmental revenues:				
State contributions	2,436,423	2,436,423	2,383,414	(53,009)
Interest, fines and penalties	664,000	664,000	166,780	(497,220)
Other revenues	150,000	150,000	12,087	(137,913)
Total revenues	<u>18,774,550</u>	<u>18,774,550</u>	<u>16,197,042</u>	<u>(2,577,508)</u>
EXPENDITURES				
Current:				
General government	9,878,766	11,372,734	10,313,212	1,059,522
Public safety	2,363,723	1,991,043	1,726,476	264,567
Public works	3,783,947	3,423,288	3,135,014	288,274
Culture	837,090	882,670	739,198	143,472
Recreation	1,485,577	1,494,263	1,319,545	174,718
Health and welfare	425,447	429,167	393,336	35,831
Total expenditures	<u>18,774,550</u>	<u>19,593,165</u>	<u>17,626,781</u>	<u>1,966,384</u>
OTHER FINANCING SOURCES				
Reprogramming funds	-	818,615	818,615	-
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (611,124)</u>	<u>\$ (611,124)</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,197,042
Differences - budget to GAAP:				
Non-budgeted funds				<u>368,646</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 16,565,688</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 17,626,781
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				141,189
Non-budgeted funds				5,066,627
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(151,689)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 22,682,908</u>

The accompanying notes to budgetary comparison schedule are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. Stewardship, Compliance, and Accountability

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, 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 certain appropriations within the budget known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2010 representing the original budget. There was one supplemental appropriation for the fiscal year ended June 30, 2010.

PART III – SINGLE AUDIT SECTION

ORTIZ, RIVERA, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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 Program:		
Section 8 Housing Choice Vouchers	14.871	\$ 553,921
Pass-through Department of Family Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257	159,393
Emergency Shelter Grant Program	14.231	28,163
Pass-through Commissioner Office of Municipal Affairs State Block Grant Program - SBGP	14.228	595,593
Subtotal U.S. Department of HUD		<u>1,337,070</u>
U.S. Department of Agriculture		
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558	28,659
Subtotal U.S. Department of Agriculture		<u>28,659</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	627,675
ARRA Child Care and Development Block Grant	93.713	22,550
Pass-through Oficina de la Procuradora de las Personas de Edad Avanzada: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	106,100
Subtotal U.S. Department of HHS		<u>756,325</u>
U.S. Department of Energy		
Energy Efficiency and Conservation Block Grant Program	81.128	98,004
Subtotal U.S. Department of Energy		<u>98,004</u>
U.S. Department of Labor		
Pass-through the Human Resources and Occupational Development Council Workforce Investment Act Cluster Workforce Investment Act - Adult	17.258	130,016
Subtotal U.S. Department of Labor		<u>130,016</u>
U.S. Department of Homeland Security		
Pass-through the Puerto Rico Department of Justice Office for the Domestic Preparedness Fiscal Year 2005 Homeland Security Grant Program	97.067	40,760
Subtotal U.S. Department of Homeland Security		<u>40,760</u>
TOTAL		<u>\$ 2,390,834</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, 2010**

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	\$ 1,447,839
Federal expenditures included within the other nonmajor governmental funds	<u>1,053,764</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$ 2,501,603</u>

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

To the Honorable Mayor and
Municipal Legislature
Municipality of 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, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 17, 2010. 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 a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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

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

Compliance

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 other matters that we reported to management of the Municipality of Gurabo in a separate letter dated December 17, 2010.

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

San Juan, Puerto Rico
December 17, 2010

The stamp 2571481 was affixed
to the original of this report.



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

To the Honorable Mayor
and Municipal Legislature
Municipality of 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, 2010. 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 an 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of non compliance with those requirements, which are required

to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 10-1 and 10-2.

Internal Control over Compliance

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

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

Municipality of Gurabo's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Municipality of Gurabo's response and, accordingly, we express no opinion on it.

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

San Juan, Puerto Rico
December 17, 2010

The stamp 2571482 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, 2010**

1. SUMMARY OF AUDIT RESULTS

- a. The auditor's report expresses an unqualified opinion on the basic financial statements of the Municipality of Gurabo.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Municipality of Gurabo were disclosed during the audit.
- d. There were no significant deficiencies 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 related to the major federal award programs for Municipality of Gurabo are reported in number 3 of this schedule.
- g. The programs tested as major program are:
 - Section 8 Housing Choice Voucher – CFDA No. 14.871
 - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) – CFDA No. 14.257
 - Child Care and Development Block Grant – CFDA No. 93.575
 - ARRA Child Care and Development Block Grant – CFDA No. 93.713
- 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, 2010**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
<p>Child Care and Development Block Grant Program – CFDA No. 93.575</p>	<p>Condition 10-1</p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>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.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>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.</p> <p><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs or 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.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>									
Child Care and Development Block Grant Program – CFDA No. 93.575	<p>Condition 10-2</p> <p>The Municipality did not comply with the requirement of preparing and filing its Accrued Expenditures reports on a timely basis. During our examination of the Accrued Expenditures Report, we noted that the Municipality did not send on time the quarterly report for the following period ended.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Quarter Ended</u></th> <th style="text-align: center;"><u>Due Date</u></th> <th style="text-align: center;"><u>Date Submitted</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">12-31-2009</td> <td style="text-align: center;">1-10-2010</td> <td style="text-align: center;">1-13-2010</td> </tr> <tr> <td style="text-align: center;">3-31-2010</td> <td style="text-align: center;">4-10-2010</td> <td style="text-align: center;">5-13-2010</td> </tr> </tbody> </table> <p><u>Criteria</u></p> <p>The Municipality is not in compliance with 45 CFR74.52 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.</p> <p><u>Cause</u></p> <p>The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program</p> <p><u>Effect</u></p> <p>The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment with holdings.</p>	<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>	12-31-2009	1-10-2010	1-13-2010	3-31-2010	4-10-2010	5-13-2010	<p>\$ -0-</p>
<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>									
12-31-2009	1-10-2010	1-13-2010									
3-31-2010	4-10-2010	5-13-2010									

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Program	Finding/Noncompliance	Questioned Cost
	<u>Recommendation</u>	
	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.	

**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, 2010**

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>State Block Grant Program CFDA No. 14.228</p>	<p>Condition 09-1</p> <p>The Municipality internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.</p>	<p>Condition still prevails.</p>
<p>State Block Grant Program CFDA No. 14.228</p>	<p>Condition 09-2</p> <p>The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis.</p>	<p>Condition still prevails.</p>

Exhibit I

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



CORRECTIVE ACTION PLAN

December 17, 2010

Cognizant or Oversight Agency for Audit:

Municipality of Gurabo respectfully submits the following corrective action plan for the year ended June 30, 2010.

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

Audit period: Fiscal year ended June 30, 2010

The findings from the June 30, 2010 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

Finding 10-1: Child Care and Development Block Grant Program – CFDA No. 93.573

Reportable Condition: See Condition 10-1

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.

Action Taken

The program operates thru the ACUDEN program, where our functions are followed thru their regulations. The request of funds is submitted and is processed by three months advanced, reason why we cannot disburse immediately within (5) five business days.

Finding 10-2: Child Care and Development Block Grant Program – CFDA No. 93.573

Reportable Condition: See Condition 10-2

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.

Action Taken

The Municipality will verify and become familiar with all administrative requirements applicable to each federal financing assistance program especially with new grants and received. This will be achieved by obtaining the information applicable to the program from the pass-thru grantor, or the Catalog of Federal Domestic Assistance (CFDA).

It is important to clarify that although we receive federal funds, our Municipality has to follow state regulations such as the Administration Care and Integrated Childhood Development (ACUDEN) Child Care Program.

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

Cordially,



Nannette Arzuaga
Director
Child Care

